

# Carry Trade and Momentum in Currency Markets

Craig Burnside (/search?value1=Craig+Burnside&option1=author&noRedirect=true&sortField=prism\_publicationDate&sortDescending=true)<sup>1,2</sup>, Martin Eichenbaum (/search?value1=Martin+Eichenbaum&option1=author&noRedirect=true&sortField=prism\_publicationDate&sortDescending=true)<sup>2,3,4</sup> and Sergio Rebelo (/search?value1=Sergio+Rebelo&option1=author&noRedirect=true&sortField=prism\_publicationDate&sortDescending=true)<sup>2,3,5</sup>

 View Affiliations and Author Notes

Vol. 3:511-535 (Volume publication date December 2011)

First published as a Review in Advance on September 09, 2011

© Annual Reviews

 View Citation

## Abstract

We examine the empirical properties of the payoffs to two popular currency speculation strategies: the carry trade and momentum. We review three possible explanations for the apparent profitability of these strategies. The first is that speculators are being compensated for bearing risk. The second is that these strategies are vulnerable to rare disasters or peso problems. The third is that there is price pressure in currency markets.

**Keyword(s):** [currency speculation \(/search?value1=%22currency+speculation%22&option1=pub\\_keyword\)](/search?value1=%22currency+speculation%22&option1=pub_keyword), [exchange rates \(/search?value1=%22exchange+rate%22&option1=pub\\_keyword\)](/search?value1=%22exchange+rate%22&option1=pub_keyword), [peso problem \(/search?value1=%22peso+problem%22&option1=pub\\_keyword\)](/search?value1=%22peso+problem%22&option1=pub_keyword), [price pressure \(/search?value1=%22price+pressure%22&option1=pub\\_keyword\)](/search?value1=%22price+pressure%22&option1=pub_keyword), [rare disaster \(/search?value1=%22rare+disaster%22&option1=pub\\_keyword\)](/search?value1=%22rare+disaster%22&option1=pub_keyword), [uncovered interest parity \(/search?value1=%22uncovered+interest+parity%22&option1=pub\\_keyword\)](/search?value1=%22uncovered+interest+parity%22&option1=pub_keyword).

## Most Read This Month

### Climate Finance (/content/journals/10.1146/annurev-financial-102620-103311)

Stefano Giglio, Bryan Kelly and Johannes Stroebel  
pp. 15–36 (22)

### Long-Run Asset Returns (/content/journals/10.1146/annurev-financial-082123-105515)

David Chambers, Elroy Dimson, Antti Ilmanen and Paul Rintamäki  
pp. 435–458 (24)

### Retail and Institutional Investor Trading Behaviors: Evidence from China (/content/journals/10.1146/annurev-financial-082123-110132)

Lin Tan, Xiaoyan Zhang and Xinran Zhang  
pp. 459–483 (25)

### Retail CBDC: Implications for Banking and Financial Stability (/content/journals/10.1146/annurev-financial-082123-105958)

Sebastian Infante, Kyungmin Kim, Anna Orlik, André F. Silva and Robert Tetlow  
pp. 207–232 (26)

### Corporate Culture (/content/journals/10.1146/annurev-financial-092321-124541)

Gary B. Gorton, Jillian Grennan and Alexander K. Zentefis  
pp. 535–561 (27)

 More

## Most Cited

 (/rss/content/journals/financial/mostcitedarticles?fmt=rss)

### The Real Effects of Financial Markets (/content/journals/10.1146/annurev-financial-110311-101826)

Philip Bond (/search?value1=Philip+Bond&option1=author&noRedirect=true&sortField=prism\_publicationDate&sortDescending=true), Alex Edmans (/search?value1=Alex+Edmans&option1=author&noRedirect=true&sortField=prism\_publicationDate&sortDescending=true) and Itay Goldstein (/search?

[value1=Itay+Goldstein&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true](#)), Vol. 4 (2012), pp. 339–360

**Climate Finance (/content/journals/10.1146/annurev-financial-102620-103311)**

[Stefano Giglio \(/search?value1=Stefano+Giglio&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true\)](#), [Bryan Kelly \(/search?value1=Bryan+Kelly&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true\)](#), and [Johannes Stroebe \(/search?value1=Johannes+Stroebe&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true\)](#).  
Vol. 13 (2021), pp. 15–36

**Financialization of Commodity Markets (/content/journals/10.1146/annurev-financial-110613-034432)**

[Ing-Haw Cheng \(/search?value1=Ing-Haw+Cheng&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true\)](#) and [Wei Xiong \(/search?value1=Wei+Xiong&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true\)](#).  
Vol. 6 (2014), pp. 419–441

**A Survey of Systemic Risk Analytics (/content/journals/10.1146/annurev-financial-110311-101754)**

[Dimitrios Bisias \(/search?value1=Dimitrios+Bisias&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true\)](#), [Mark Flood \(/search?value1=Mark+Flood&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true\)](#), [Andrew W. Lo \(/search?value1=Andrew+W.+Lo&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true\)](#), and [Stavros Valavanis \(/search?value1=Stavros+Valavanis&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true\)](#).  
Vol. 4 (2012), pp. 255–296

**CEO Compensation (/content/journals/10.1146/annurev-financial-120209-133958)**

[Carola Frydman \(/search?value1=Carola+Frydman&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true\)](#) and [Dirk Jenter \(/search?value1=Dirk+Jenter&option1=author&noRedirect=true&sortField=prism\\_publicationDate&sortDescending=true\)](#).  
Vol. 2 (2010), pp. 75–102

[+ More](#)

About Annual Reviews:	Discover Content:	Libraries and Institutions:	Author Resources:
<a href="#">What We Do (/about/what-we-do)</a>	<a href="#">Journals A-Z (/content/publications)</a>	<a href="#">Subscribe to Open (S2O) (/S2O)</a>	<a href="#">Article Preparation and Submission (/page/authors/general-information)</a>
<a href="#">Press and News (/about/press-center)</a>	<a href="#">Impact Factor Rankings (/about/impact-factors)</a>	<a href="#">Librarian Resource Center (/page/librarians/librarian-resource-page)</a>	<a href="#">Editorial Principles and Policies (/page/authors/editorial-policies)</a>
<a href="#">Careers (/page/about/careers-at-annual-reviews)</a>	<a href="#">Publication Dates (/journal/pubdates)</a>	<a href="#">Institutional Account Administration (https://www.annualreviews.org/registration/signin-or-register.action?signInTarget=%2Fadmin)</a>	<a href="#">Contact Us (/page/authors/contact-us)</a>
<a href="#">Contact Us (/page/about/contact-us)</a>	<a href="#">Online Events (/page/events)</a>	<a href="#">Institutional Pricing (/page/subscriptions/instchoice)</a>	<a href="#">Copyright and Permissions (/page/about/copyright-and-permissions)</a>
<a href="#">FAQ (/page/about/faq)</a>	<a href="#">Article Collections (/page/collectionarchive)</a>	<a href="#">Usage Statistics (/action/showInstitutionUsageReport)</a>	<a href="#">Article Proposals (/page/authors/author-instructions/unsolicited-authors)</a>
<a href="#">Help (/help/main)</a>	<a href="#">Knowable Magazine (https://knowablemagazine.org/)</a>	<a href="#">Charleston Hub (https://www.charleston-hub.com/)</a>	
	<a href="#">Katina Magazine (https://katinamagazine.org/)</a>	<a href="#">Katina   Librarianship Elevated (https://katinamagazine.org/)</a>	
	<a href="#">Against the Grain (https://www.charleston-hub.com/about/about-against-the-grain/)</a>	<a href="#">Charleston Advisor (Archive) (https://annurev.publisher.ingentaconnect.com/content/annurev/tca/)</a>	
		<a href="#">Against the Grain (https://www.charleston-hub.com/about/about-against-the-grain/)</a>	