

Forex Carry Trade

Over the last several years the currency markets have provided both traders and investors with a number of different opportunities to be able to make money off of the short to long term irregularities in the currency markets. One way that this is accomplished is through what is known as the Forex carry trade. This is when you are selling a currency short in one country that has low interest rates and purchasing another currency long in the country that has high interest rates. The idea is to make money off of the difference in interest rates between the two currencies and to have a way to take advantage of the volatile moves that take place in the currency markets. Since the financial press has been relatively quiet many are wondering if the Forex carry trade is still being used. To determine this requires that you examine how the Forex carry trade can be applied to various currencies around the world and past strategies that have been used to quietly make profits off this opportunity that the markets present.

When you look closer at the Forex carry trade it is obvious that this type of trading strategy can be used in a variety of different market conditions to help increase your overall profits. What happens is in many different parts of the world interest rates will vary depending upon the overall physical debt of the country, its creditworthiness in financial markets and spending policies. Over time this can force the central bank to raise interest rates to prevent the financial situation from spinning out of control. This is when you can profit from the differences in price irregularities. To accomplish this task you could see what the interest rates are for various developing countries around the world. You would then compare this number to what the interest rates are in the developed countries. A strategy that many traders often engage in is playing a major currency against the ones in the developing countries with a fair amount of success. This is because when you are engaging in different Forex carry trades these irregularities can exist for months and last as long as several years.

A past strategy that has often been used as a part of the Forex carry trade has been to play the interest rates of developed countries against one another. With this particular strategy many traders like to only trade those currencies that are the most liquid, in many cases there are discrepancies that take place in the markets that allow them to profit from the volatility in interest rates. A good example of this was the classic yen carry trade, in this particular situation traders would sell short the Japanese yen and then buy the euro or U.S. dollar. This trade worked well for over 15 years until it the Federal Reserve began cutting interest rates which caused traders to begin quickly unwinding their positions.

Clearly the Forex carry trade is still continuing to be used by traders to this very day. This can be seen with traders from all walks of life taking advantage of the different interest rate moves in the developed and developing countries to increase their overall profits. It is through examining the Forex carry trade in this light that will help you decide if this something that makes the most sense for you.