

What is the “Carry trade”?

The carry trade refers to an investment strategy in which an investor borrows in a certain currency with a relatively low interest rate and uses the funds to purchase a different currency yielding a higher interest rate. A trader using this strategy attempts to capture the difference between the rates - which can often be substantial, depending on the amount of leverage the investor chooses to use. For example speculators selling lower-yielding currencies such as the Yen at low costs and reinvesting in higher-return currencies and assets, such as the Australian and New Zealand dollars, or the British pound.