

What Is Yen Carry Trade

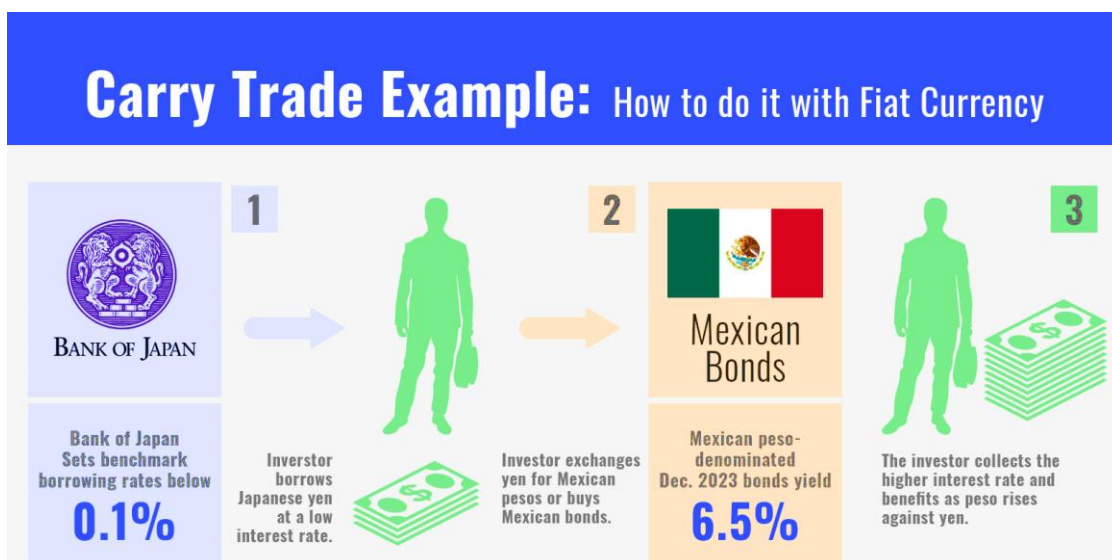
Why In News

- **Major stock markets** across the world experienced their sharpest decline in decades. While there was **no paucity of reasons** for jittery investor sentiment — for instance, the US economy is facing increasing odds of an economic recession or rising geopolitical tensions due to growing turmoil in West Asia — there was a new global trigger: **The unwinding of the yen carry trade.**



What Is Carry Trade

- **Global Carry trade** is a trading strategy that involves borrowing money at a low-interest cost and investing the same in other assets that provide higher returns.



- Carry trade is popular among forex trades wherein an investor borrows from a country with low interest rates and a weaker currency, and reinvests the money in another country for higher returns.



- **Due to the BoJ's ultra-loose policy** for 17 long years, and a weak yen, global investors preferred Japan's Yen for carry trade. The Japanese Yen has been considered as safe-haven and a favourite among carry-funding options by global investors given the low cost of borrowing.
- According to reports, analysts at Barclays believe that the Japanese currency was the most **overbought among G10 majors** and therefore "the bar for yet more outperformance in the near term appears high".

Why Are Investors Now Unwinding The Yen Carry Trade

- **Japanese Yen has appreciated by 10 per cent** over the last 3 weeks from levels of 161 on July 11 to 145 now. As the Yen appreciated against the US dollar, investors **had to rush and unwind their carry trade** in order to cut losses. This is said to be one of the reasons for the fall in the US equity market.



- **Higher interest rates** in Japan led to the yen gaining strength against the dollar and most other emerging economy currencies.



- Over the past week, **yen's exchange rate** — that is, how many dollars or rupees does one get for one yen — strengthened against currencies like dollar, real, rupee, peso etc.
- **The fear of unwinding of Yen-based carry forward trade**, however, has impacted global market sentiment. Markets across Asia were in a deep sea of red, with **Japan's Nikkei tumbling** almost 13 per cent on Monday. Kospi and Taiwan slumped over 8 per cent each.