UNIVERSITI TEKNOLOGI MARA

FACTORS OF CARRY TRADE RETURN: YEN CURRENCY AGAINST AUSTRALIAN DOLLAR

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AUTHOR'S DECLARATION

I declare that the work in this final year project paper was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Undergraduate, Universiti Teknologi MARA, regulating the conduct of my study and research.
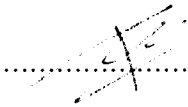
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ABSTRACT

Carry trade is a one of strategy that is popular in the currency market used by the traders and investors to obtain a higher profit by borrowing in a low interest rate currency and later investing it in a high interest rate currency whereas the profit can be obtained from the interest differential if the exchange rate between those two currencies does not change. The currency pairs or the exchange rate that is popular in the game is Australian dollar/Japanese yen and New Zealand dollar/Japanese yen because these two has a larger spreads of interest rate. Which currency offers a high interest rates and which one offers low interest rate is the first step of the carry trade strategy. Many studies before had conducted by previous researchers on factors that could affect the possible positive and negative affect on carry trade return. Thus, in this study it had focused on the factors that affecting the factors affecting the carry trade return. Qualitative methods and econometric model are used to provide the evidence of this the relationship behind dependent variable and independent variables. The carry trade return will be the dependent variable whereas exchange rate and interest rate differential will be the independent variables. This study will be using the time series data for 6 years starting from January 2012 until December 2017 as a sample. All sample will be tested using Unit Root Test, Regression Analysis, Descriptive Analysis, Correlation Analysis, and Heteroskedasticity test. Eviews 10 will be used to interpret the data from to do the tests.

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