

Carry Trades Regarding the Swiss Franc

Bachelor Thesis

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Abstract

This study analyzes CHF carry trades with AUD, CAD, EUR, GBP, SEK and USD on a monthly basis between 01/1975 and 11/2011. The aim of this empirical research project is to test the UIP condition in different ways, analyze the composition of carry trade returns, further the historical and future development of these returns, show their risk behavior, and try to find financial and economic variables which can explain the carry trade returns. Literature on carry trades has focused mainly on JPY carry trades. Hence, we also analyze JPY carry trades and compare the results derived from those previous analyses with CHF carry trades.

This study advances our understanding of how carry trade returns can be explained. Using an astoundingly huge and accurately prepared database of spot rates, interest rates, and macroeconomic variables, we collected data from Bloomberg, the online database of the IMF, and the databases of several national banks. Based on these data, we run a wealth of regressions testing the UIP, calculate risk figures and create a multiple regression model, which provides explanation for carry trade returns.

The findings from the research illustrate that the CHF carry trades are less risky and more profitable than JPY carry trades. We also show that the carry trade return is highly affected by spot-rate movements. Nevertheless, this study constitutes a multiple regression model, which can explain the CHF (JPY) carry trade returns mainly by means of the performance of the SMI (Nikkei), the oil price and the gold price.