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Global Macro Risks in Currency Excess Returns

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Abstract

We study the cross-sectional variation of carry-trade-generated currency excess returns in terms of their exposure to global macroeconomic fundamental risk. The risk factor is the cross-country high-minus-low conditional skewness of the unemployment rate gap. It gives a measure of global macroeconomic uncertainty and is robustly priced in currency excess returns. A widening of the high-minus-low skewness of the unemployment rate gap signifies increasing divergence, disparity, and inequality of economic performance across countries.

Keywords: Currency excess returns, beta-risk, carry trade, global macro risk, uncertainty

JEL: F3, F4, G1

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