Cross-sectional currency momentum and order flow

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This study investigates whether high buying pressure is associated with higher cross-sectional currency momentum returns. We employ order flows from the spot, forward, and swap markets, as well as the maturities of swap and forward contracts, to construct portfolios based on momentum and buying pressure. We find heterogeneous effects of order flows on cross-sectional currency momentum portfolios. High buying pressure in the short-term swap market leads to stronger momentum returns. This pattern is particularly significant using order flows from banks, suggesting that banks extract information through trading with other informed traders. In contrast, a combination of high buying pressure from funds and three-month momentum results in negative returns.