TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS

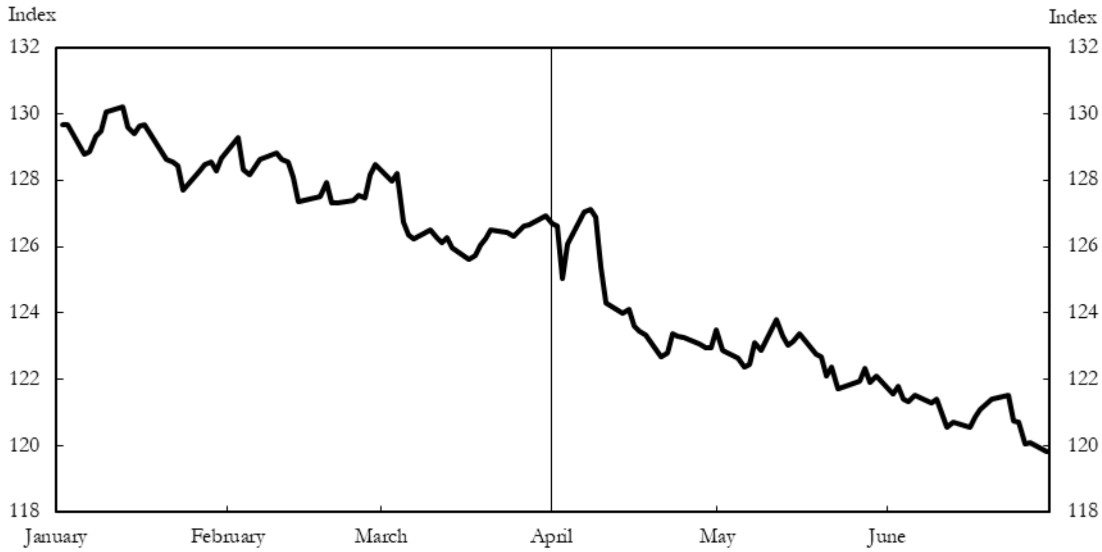
April – June 2025

During the second quarter of 2025, the U.S. dollar, as measured by the Federal Reserve Board's broad trade-weighted dollar index, depreciated 5.6 percent on net, with a cumulative depreciation of 7.5 percent since the beginning of the year. The dollar depreciated against all advanced-economy and most emerging-market currencies in the second quarter. Market contacts reported that the dollar's depreciation was in part driven by downward revisions to the U.S. growth outlook relative to the rest of the world following the announcement of reciprocal tariffs on U.S. trading partners. Market participants also cited generally heightened uncertainty as driving increases in foreign investors' FX hedge ratios on U.S. dollar assets from historically low levels, contributing to the broad depreciation of the dollar. On a bilateral basis, the dollar depreciated 8.2 percent against the euro and 4 percent against the Japanese yen. The Federal Reserve and U.S. Treasury did not intervene in foreign exchange markets during the quarter.

This report, presented by Roberto Perli, Federal Reserve Bank of New York System Open Market Account Manager, describes the foreign exchange operations of the U.S. Department of the Treasury and the Federal Reserve System for the period from April through June 2025. Thomas Campbell was primarily responsible for preparation of the report.

Chart 1

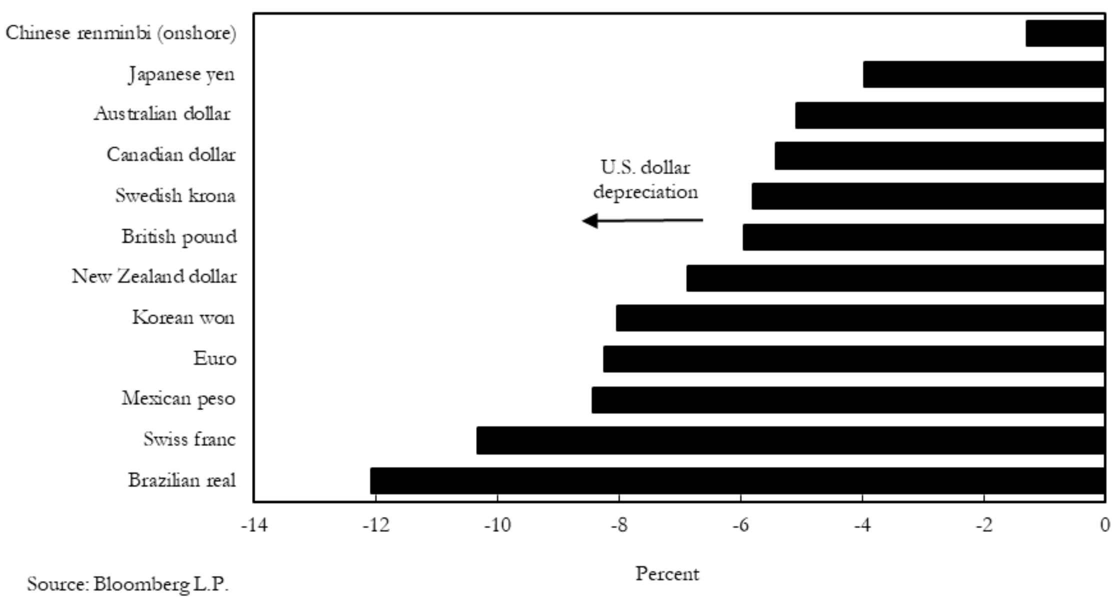
BROAD TRADE-WEIGHTED U.S. DOLLAR INDEX



Sources: Board of Governors of the Federal Reserve System; Bloomberg L.P.

Chart 2

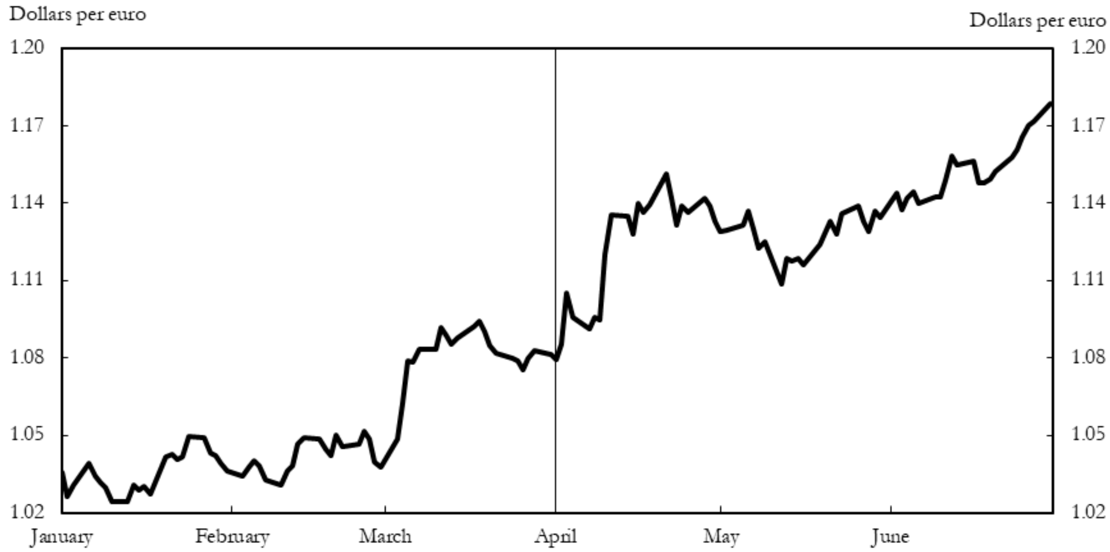
U.S. DOLLAR PERFORMANCE AGAINST ADVANCED ECONOMY AND EMERGING MARKET CURRENCIES DURING THE SECOND QUARTER



Source: Bloomberg L.P.

Chart 3

EURO–U.S. DOLLAR EXCHANGE RATE



Source: Bloomberg L.P.

Chart 4

U.S. DOLLAR–YEN EXCHANGE RATE

Source: Bloomberg L.P.

U.S. DOLLAR DEPRECIATES ON MARKET EXPECTATIONS FOR RELATIVELY LOWER U.S. GROWTH AND HEIGHTENED UNCERTAINTY

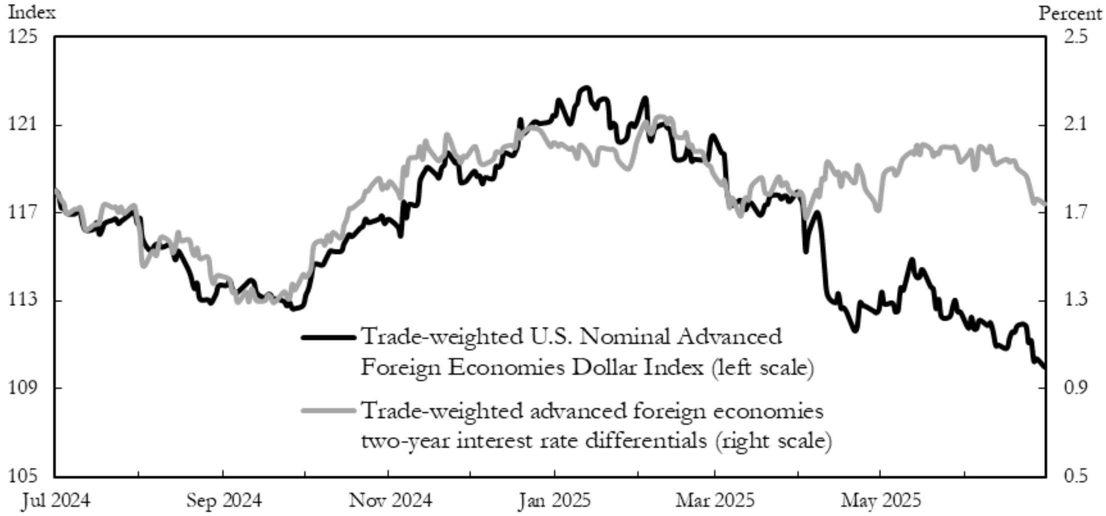
During the second quarter of 2025, the U.S. dollar, as measured by the Federal Reserve Board's broad trade-weighted dollar index, depreciated 5.6 percent on net. The dollar depreciated against all advanced-economy currencies and most emerging-market currencies, with advanced-economy currencies accounting for about 60 percent of the broad dollar move. Market participants reported that the dollar's depreciation was driven by downward revisions to U.S. growth expectations relative to the rest of the world following the announcement of reciprocal tariffs on U.S. trading partners in early April, which were larger than expected in terms of their breadth and magnitude. In U.S. economic data, market participants were particularly attentive to the GDP reading for the first quarter of 2025, which was weaker than expected and perceived as affirming a weaker U.S. growth outlook. Broader U.S. policy uncertainty was also cited by some market participants as weighing on the dollar.

Early in the second quarter following the announcement of reciprocal tariffs, the broad dollar index depreciated sharply despite a widening in interest rate differentials vis-à-vis other advanced economies in favor of the U.S. In options markets, premiums for protection against further dollar depreciation rose notably. This combination of asset price changes was interpreted by market participants as likely reflecting increases in foreign investors' FX hedge ratios on U.S. assets due to heightened uncertainty, which had reportedly been at historically low levels given that dollar strength over recent years had boosted portfolio returns. Commodity Futures Trading Commission data showed a shift from neutral dollar positioning to modestly short dollar positioning over the quarter, with the most notable changes in speculative short dollar positioning occurring against the euro and the yen. This likely reflected market participants' expectations for continued dollar weakness over the quarter.

The Federal Open Market Committee (FOMC) maintained its federal funds target range at 4.25 to 4.50 percent at both the May and June meetings, in line with market expectations. Contacts interpreted Federal Reserve communications as suggesting that the FOMC would take a "wait-and-see" approach to further policy easing to assess the impact of trade policy on the broader economy. Implied yields from federal funds futures for year-end 2025 increased modestly over the second quarter, as market pricing reflected a cumulative 67 basis points of easing.

Chart 5

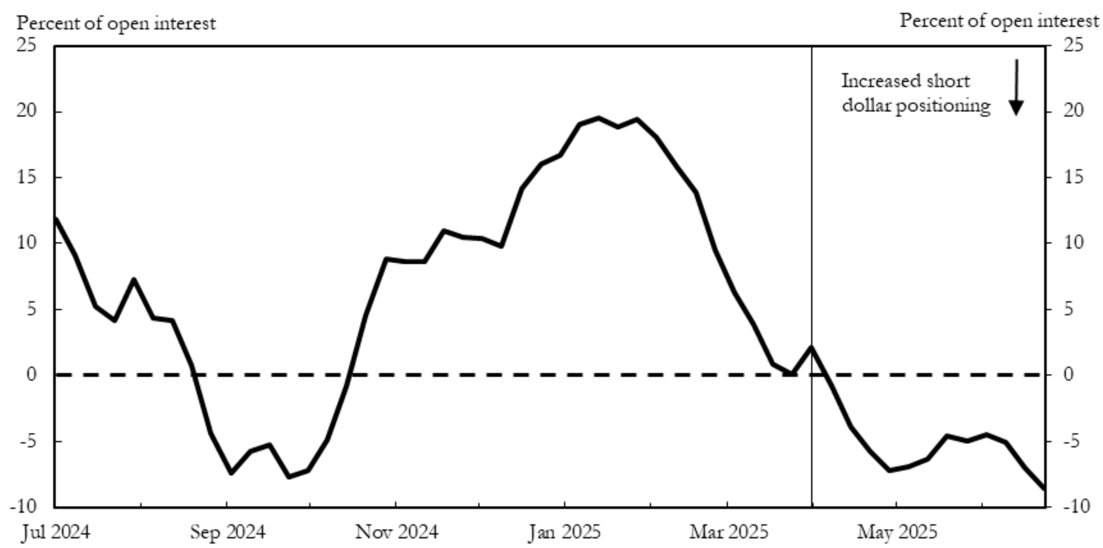
U.S TRADE-WEIGHTED ADVANCED FOREIGN ECONOMIES DOLLAR INDEX AND TWO-YEAR INTEREST RATE DIFFERENTIALS



Sources: Bloomberg L.P.; New York Fed staff calculations.

Chart 6

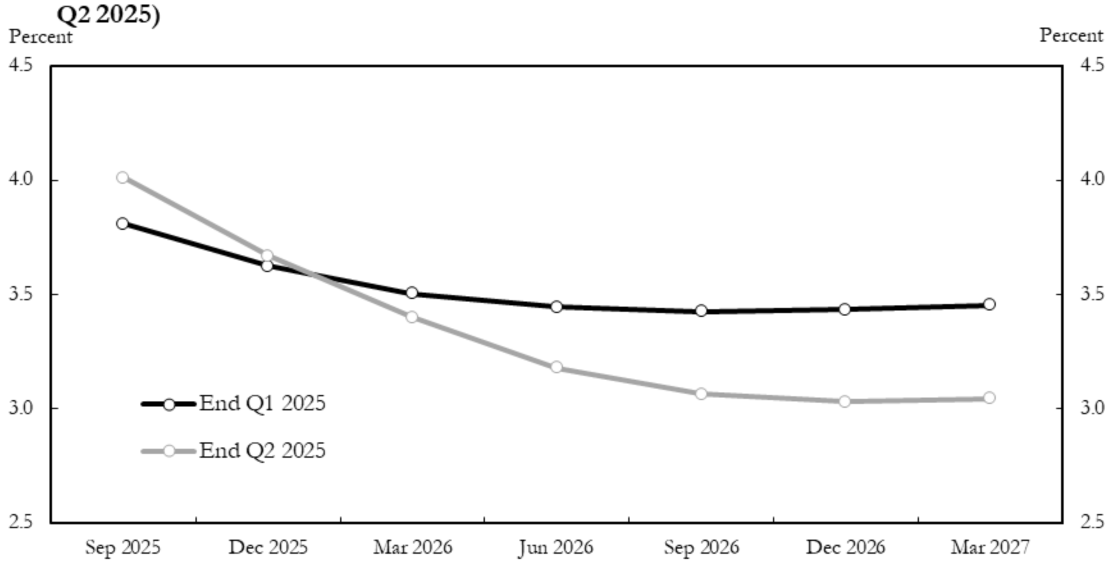
U.S. DOLLAR NET LONG POSITIONING AGAINST MAJOR CURRENCIES



Sources: Commodity Futures Trading Commission; Bloomberg L.P.

Chart 7

SOFR FUTURES-IMPLIED PATH OF FOMC POLICY (Q1 2025 VERSUS Q2 2025)



Source: Bloomberg L.P.

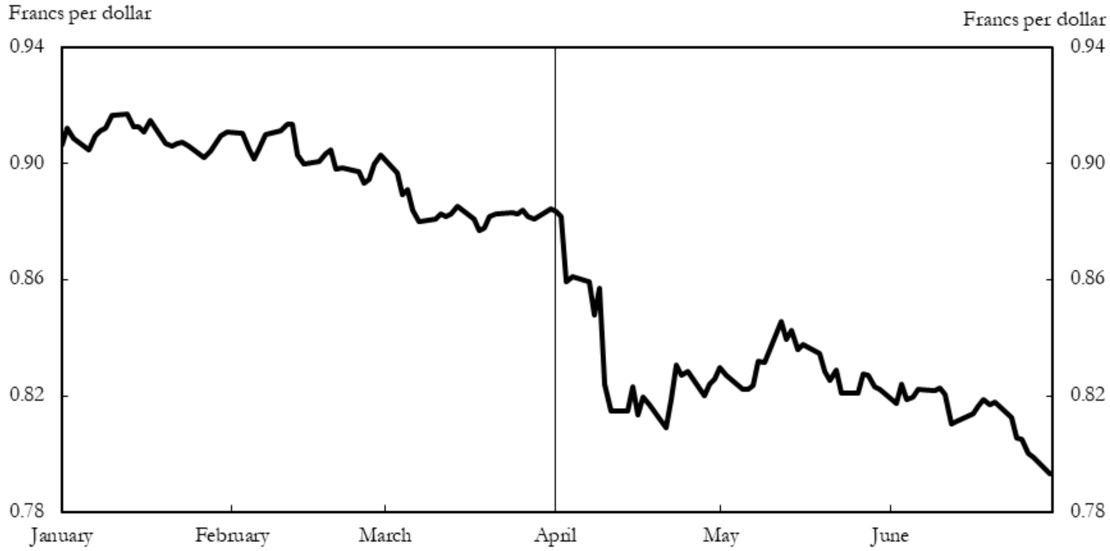
U.S DOLLAR DEPRECIATES AGAINST EURO AMID MARKET EXPECTATIONS FOR LIMITED ADDITIONAL ECB POLICY EASING AND INCREASED GOVERNMENT SPENDING

The dollar depreciated 8.2 percent against the euro over the second quarter, which market participants generally attributed to a diminished U.S. growth outlook relative to the euro area, expectations for limited additional European Central Bank (ECB) policy easing, and expectations for higher public sector spending from the European Union. Market participants also noted euro appreciation in the context of the economic impact of U.S. tariff policy, contributing to expectations for slower growth in the U.S vis-à-vis the euro area. The dollar's depreciation against the euro occurred even as interest rate differentials were little changed. Concurrent with the appreciation of the euro against the dollar, the Swiss franc appreciated 11.5 percent against the dollar amid heightened global trade uncertainty.

Euro-area economic data prints in the second quarter were suggestive of continued disinflation while market economists revised their euro-area growth expectations higher. Against this backdrop, and as was widely expected, the ECB reduced its policy rate by 25 basis points at both its April and June meetings. Of note, at its June meeting, the ECB signaled that the policy rate cut moved the policy stance toward "the end of a monetary policy cycle." Such communications were perceived as somewhat less accommodative than expected as some participants had anticipated additional cuts through the end of 2025. As such, market pricing for the ECB's path of policy at the end of the second quarter implied a pause in policy easing until the first quarter of 2026.

Chart 8

U.S. DOLLAR–SWISS FRANC EXCHANGE RATE



Source: Bloomberg L.P.

U.S. DOLLAR DEPRECIATES AGAINST JAPANESE YEN AMID MARKET EXPECTATIONS FOR FURTHER BOJ POLICY TIGHTENING

In the second quarter, the dollar depreciated 4 percent against the Japanese yen, which market participants generally attributed to expectations for the Bank of Japan (BOJ) to continue raising its policy rate and heightened trade uncertainty. The dollar's depreciation against the yen occurred amid an 8 basis point narrowing in the two-year U.S.–Japan yield differential over the quarter in favor of Japan. The BOJ held its target for its overnight policy rate at around 0.5 percent over the quarter. At the May BOJ meeting, contacts were attentive to the updated outlook report, which showed downward revisions to both inflation and growth forecasts. The report also stated that the risks to economic activity and prices were skewed to the downside for fiscal years 2025 and 2026, though it maintained language indicating that the central bank "will continue to raise the policy interest rate" at an undetermined time in the future. Economic data in Japan generally reflected slowing growth and rising inflation, though neither was perceived as materially affecting the BOJ's path of policy. Expectations for the BOJ's terminal rate decreased by around 20 basis points to around 0.9 percent during the quarter.

U.S. DOLLAR DEPRECIATES AGAINST BRITISH POUND AMID DIMINISHED U.S. GROWTH OUTLOOK

The dollar depreciated 5.9 percent against the British pound over the second quarter, amid broad dollar weakness and downward revisions to the U.S. growth outlook compared to modest upward revisions to the U.K. growth outlook. Contacts were attentive to stronger-than-expected U.K. GDP for the first quarter of 2025, continued strength in wage growth despite a modest deceleration from the prior quarter's prints, and mixed inflation data. The Bank of England lowered its policy rate by 25 basis points at its May meeting and subsequently voted to leave policy rates unchanged at its June meeting, as was widely expected. Market participants were attentive to statement language at the two meetings, which continued to signal that a "gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate." The dollar's depreciation against the pound occurred despite a 22 basis point narrowing in the two-year U.K.–U.S. yield differential over the quarter, as the decline in gilt yields outpaced the decrease in Treasury yields.

U.S. DOLLAR DEPRECIATES AGAINST MOST EMERGING MARKET CURRENCIES AMID BROAD DOLLAR WEAKNESS

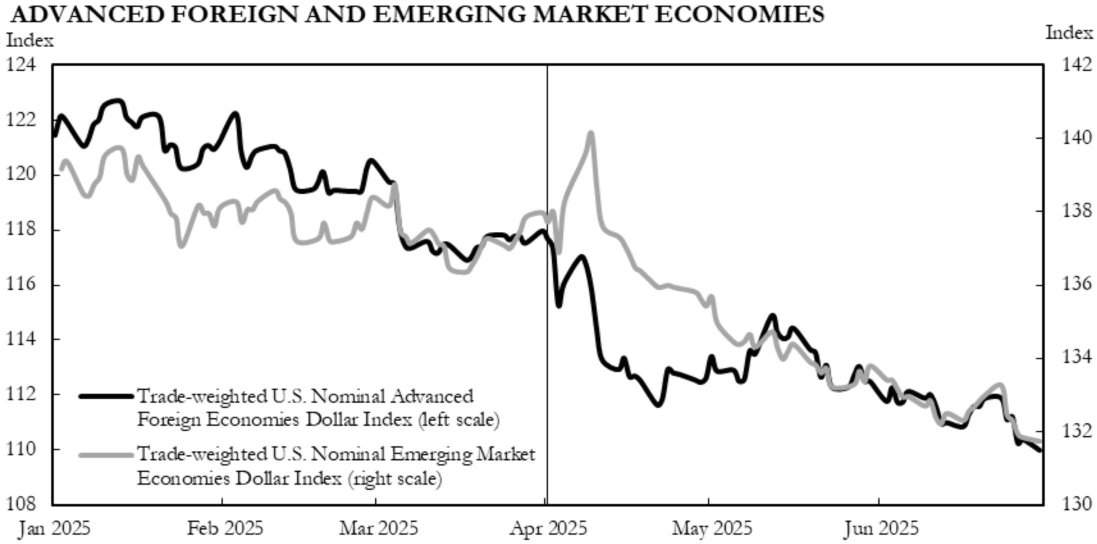
The dollar depreciated 4.5 percent against emerging market currencies during the second quarter, as measured by the Federal Reserve's trade-weighted Emerging Market Economies Dollar Index. Market contacts reported that the dollar's depreciation was primarily driven by a diminished U.S. growth outlook relative to the rest of the world and increased global trade tensions.

The dollar depreciated against most Latin American and Asian currencies over the period, including by 8.4 percent against the Mexican peso and 8.1 percent against the Korean won. Market contacts were also attentive to the dollar's 10.9 percent depreciation against the Taiwanese dollar, which was reportedly driven by strong foreign inflows into Taiwan's equity market in early May and exporters repatriating funds due to expectations for the local currency to strengthen. Market contacts also noted that the U.S. dollar depreciation against the Taiwanese dollar was potentially exacerbated by increased FX hedging of institutional investors' U.S. dollar-denominated assets.

The dollar depreciated 1.5 percent against the Chinese renminbi, amid heightened uncertainty related to trade negotiations between the U.S. and China, which affected market risk sentiment throughout the second quarter. The renminbi was further supported by robust Chinese growth and exports. Notably, Chinese exports remained relatively resilient, with the sharp drop in exports to the U.S. partly offset by export growth to other countries. Over the quarter, the renminbi went from trading near the weaker edge of its trading band to trading closer to the middle. Market contacts were also attentive to the announcement of a broad set of policy easing measures from the People's Bank of China (PBoC) and other Chinese authorities. The announcements were perceived as coming earlier than expected given prior forecasts that Chinese authorities would wait until the implications of U.S. trade policy on the Chinese macroeconomic outlook became clearer. However, the magnitude of the measures was perceived by market participants as in line with announcements made during the April Politburo meeting, though potentially less effective in stimulating domestic demand than the easing measures announced by the PBoC last September.

Chart 9

U.S. TRADE-WEIGHTED DOLLAR PERFORMANCE VERSUS ADVANCED FOREIGN AND EMERGING MARKET ECONOMIES



Sources: Board of Governors of the Federal Reserve System; Bloomberg L.P.

OFFSHORE U.S. DOLLAR FUNDING CONDITIONS REMAIN STABLE

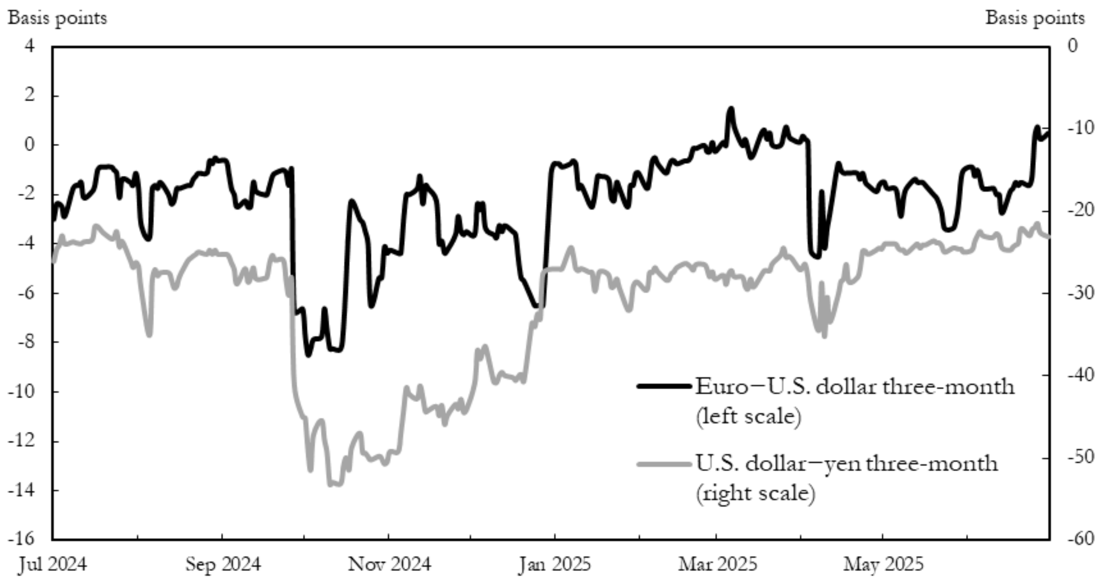
Global offshore dollar funding conditions, particularly in the foreign exchange swap market, were stable during the second quarter amid abundant dollar funding liquidity. Foreign exchange swap-implied U.S. dollar borrowing premiums in major currency pairs remained generally low, with three-month foreign exchange swap basis spreads in the euro–dollar and dollar–yen pairs trading at historically tight levels of around 0 and 20 basis points, respectively. Over the quarter-end turn, short-dated foreign exchange swap basis spreads for some currency pairs, including the dollar–yen, increased modestly. These increases reversed following the quarter turn and were generally characterized as typical of quarter-end trading conditions.

U.S. DOLLAR LIQUIDITY SWAP ARRANGEMENTS WITH FOREIGN CENTRAL BANKS

Aggregate swaps outstanding of the U.S. dollar liquidity swap arrangements with foreign central banks declined from $95 million at the end of the first quarter of 2025 to $37 million at the end of the second quarter of 2025. Usage over the quarter was generally lower than levels observed in prior quarters as offshore dollar funding markets remained stable throughout the period. All outstanding central bank liquidity swaps at the end of June were with the ECB, while the BOJ, Bank of England, Swiss National Bank, and Bank of Canada had no U.S. dollar swaps outstanding.

Chart 10

FOREIGN EXCHANGE THREE-MONTH SWAP-IMPLIED BASIS SPREADS



Source: Bloomberg L.P.

TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE HOLDINGS

The Federal Reserve and U.S. Treasury did not undertake any foreign exchange intervention operations during the quarter. As of June 30, the value of the Federal Reserve System Open Market Account (SOMA) foreign-currency-denominated assets totaled $19.7 billion, comprised of euro- and yen-denominated holdings. The value of the U.S. Treasury's Exchange Stabilization Fund (ESF) foreign-currency-denominated assets also totaled $19.7 billion, comprised of euro and yen holdings.

Foreign Exchange Reserve Holdings

The Federal Reserve and U.S. Treasury invest their foreign currency reserves, which are held in the SOMA and the ESF, in a variety of instruments that yield market rates of return in their respective currencies and have a high degree of liquidity and credit quality. The Authorization for Foreign Currency Operations defines the permitted investments for the SOMA foreign currency portfolio. The Open Market Trading Desk of the Federal Reserve Bank of New York (the Desk) uses an investment framework for the management of the foreign currency assets. The framework involves a routine affirmation of objectives and constraints from policymakers. The Desk then uses an investment approach designed to meet those objectives to maximize return subject to maintaining sufficient liquidity and a high degree of safety.[1]

In terms of investment eligibility, the Federal Reserve and U.S. Treasury's foreign exchange reserves can be invested in German, French, Dutch, and Japanese government obligations; purchases of obligations of European sovereign issuers eligible to be held outright under agreements for repurchase of such securities; and in instruments at official institutions, such as the Bank for International Settlements and foreign central banks. To the greatest extent practicable, the investments are split evenly between the SOMA and the ESF.

As of June 30, 2025, the U.S. dollar value of euro-denominated deposits and government securities held by the SOMA and the ESF increased to $26.5 billion from $24.2 billion on March 31, 2025, and the U.S. dollar value of yen-denominated deposits and government securities increased to $13 billion from $12.5 billion on March 31, 2025. These changes were largely driven by foreign exchange translation effects.

[1] Consistent with the current Authorization for Foreign Currency Operations, the Desk conducts small-value exercises for the foreign currency reserves as a matter of prudent advance planning. No inference about policy should be drawn from these exercises.

Table 1

FOREIGN CURRENCY HOLDINGS OF U.S. MONETARY AUTHORITIES
BASED ON CURRENT EXCHANGE RATES

Millions of U.S. Dollars

		Changes in Balances by Source				
	Carrying Value, March 31, 2025[a]	Net Purchases and Sales[b]	Investment Earnings[c]	Realized Gains / Losses on Sales[d]	Unrealized Gains/Losses on Foreign Currency Revaluation[e]	Carrying Value, June 30, 2025[a]
Federal Reserve System Open Market Account (SOMA)						
Euro	12,085	0	67	0	1,092	13,245
Japanese yen	6,245	0	9	0	248	6,501
Total	18,330	0	76	0	1,340	19,746

		Changes in Balances by Source				
	Carrying Value, March 31, 2025[a]	Net Purchases and Sales[b]	Investment Earnings[c]	Realized Gains / Losses on Sales[d]	Unrealized Gains/Losses on Foreign Currency Revaluation[e]	Carrying Value, June 30, 2025[a]
U.S. Treasury Exchange Stabilization Fund (ESF)						
Euro	12,066	0	67	0	1,091	13,224
Japanese yen	6,245	0	9	0	248	6,501
Total	18,311	0	76	0	1,339	19,725

Note: Figures may not sum to totals because of rounding.

[a] Carrying value of the reserve asset position includes interest accrued on foreign currency, which is based on "day of" accrual method.

[b] Net purchases and sales include foreign currency purchases related to official activity, repayments, and warehousing.

[c] Investment earnings include accrued interest and amortization on outright holdings.

[d] Gains and losses on sales are calculated using average cost.

[e] Reserve asset balances are revalued daily at the noon buying rates.

Table 2

BREAKDOWN OF FOREIGN RESERVE ASSETS HELD

Carrying Value in Millions of U.S. Dollars, as of June 30, 2025

	U.S. Treasury Exchange Stabilization Fund (ESF)[a]	Federal Reserve System Open Market Account (SOMA)[b]
Euro-denominated assets	**13,223.8**	**13,244.8**
Cash held on deposit at official institutions	7,038.1	7,059.1
Marketable securities held under repurchase agreements	0.0	0.0
Marketable securities held outright	6,185.7	6,185.7
German government securities	1,352.2	1,352.2
French government securities	4,327.3	4,327.3
Dutch government securities	506.2	506.2
Yen-denominated assets	**6,501.3**	**6,501.3**
Cash held on deposit at official institutions	4,094.1	4,094.1
Marketable securities held outright	2,407.2	2,407.2

Note: Figures may not sum to totals because of rounding.

[a] As of June 30, both the SOMA and the ESF euro portfolios had Macaulay durations of 5.61 months; the SOMA and the ESF yen portfolios had Macaulay durations of 5.47 and 5.47 months, respectively.

[b] Debt obligations of the European sovereign issuers eligible to be held outright in the foreign currency reserves are eligible collateral for reverse repo transactions.

Table 3

RECIPROCAL CURRENCY ARRANGEMENTS

Millions of U.S. Dollars

Institution	Amount of Facility	Outstanding as of June 30, 2025
	Federal Reserve System Open Market Account (SOMA)	
Reciprocal currency arrangement		
Bank of Canada	2,000	0
Banco de México	3,000	0
Standing dollar liquidity swap arrangement		
European Central Bank	Unlimited	37
Swiss National Bank	Unlimited	0
Bank of Japan	Unlimited	0
Bank of Canada	Unlimited	0
Bank of England	Unlimited	0
		37
Standing foreign currency liquidity swap arrangement		
European Central Bank	Unlimited	0
Swiss National Bank	Unlimited	0
Bank of Japan	Unlimited	0
Bank of Canada	Unlimited	0
Bank of England	Unlimited	0
		0
	U.S. Treasury Exchange Stabilization Fund (ESF)	
Banco de México	9,000	0
	9,000	0