TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS

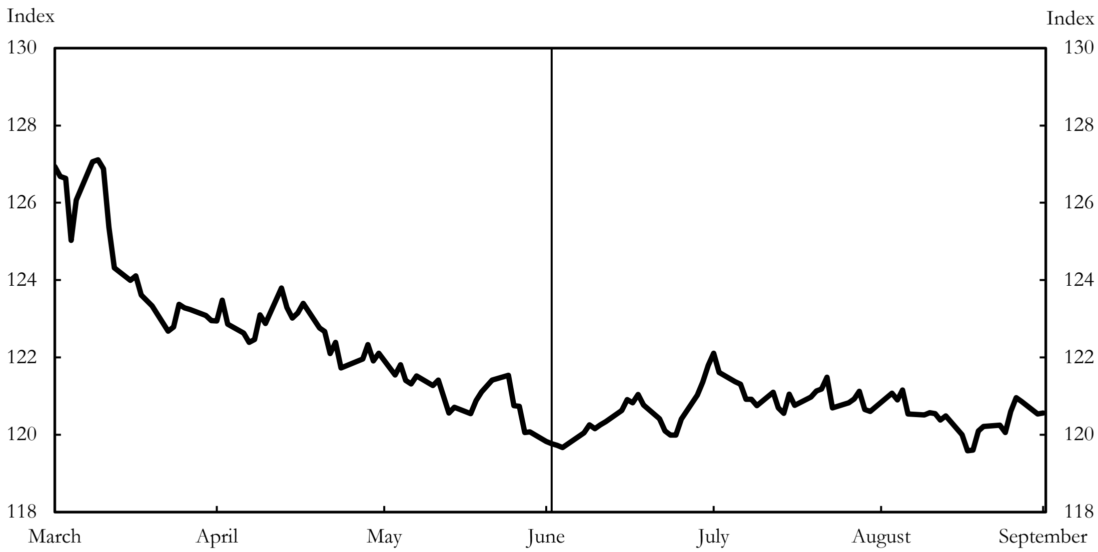
July – September 2025

During the third quarter of 2025, the U.S. dollar, as measured by the Federal Reserve Board's broad trade-weighted dollar index, appreciated 0.6 percent on net, following a cumulative depreciation of 7.5 percent in the first half of the year. The U.S. dollar's move was driven primarily by appreciation against advanced economy currencies, with emerging market currencies little changed against the dollar. The dollar's modest appreciation in the third quarter reflected an improvement in U.S. growth expectations driven by resilient economic data. Contacts also attributed the dollar's appreciation to a reduction in uncertainty, which had previously been cited as driving increases in foreign investors' foreign exchange hedge ratios on U.S. dollar assets, creating depreciatory pressure, all else equal. On a bilateral basis, the dollar appreciated 2.7 percent against the Japanese yen and 0.5 percent against the euro. 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 July through September 2025. David Tam was primarily responsible for preparation of the report

Chart 1

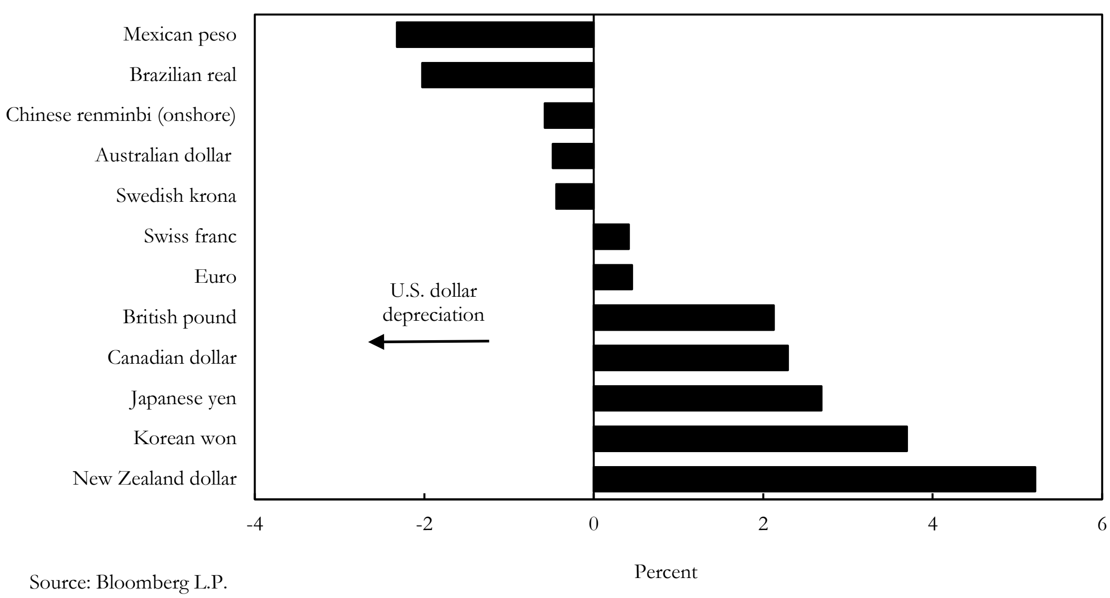
BROAD TRADE-WEIGHTED U.S. DOLLAR INDEX



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

Chart 2

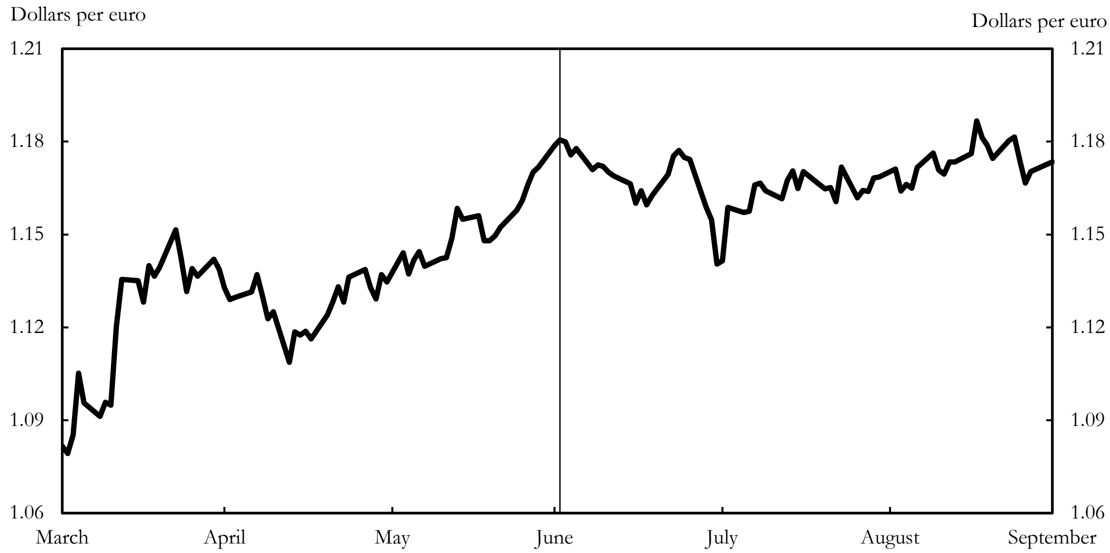
U.S. DOLLAR PERFORMANCE AGAINST ADVANCED ECONOMY AND EMERGING MARKET CURRENCIES DURING THE THIRD QUARTER



Source: Bloomberg L.P.

Chart 3

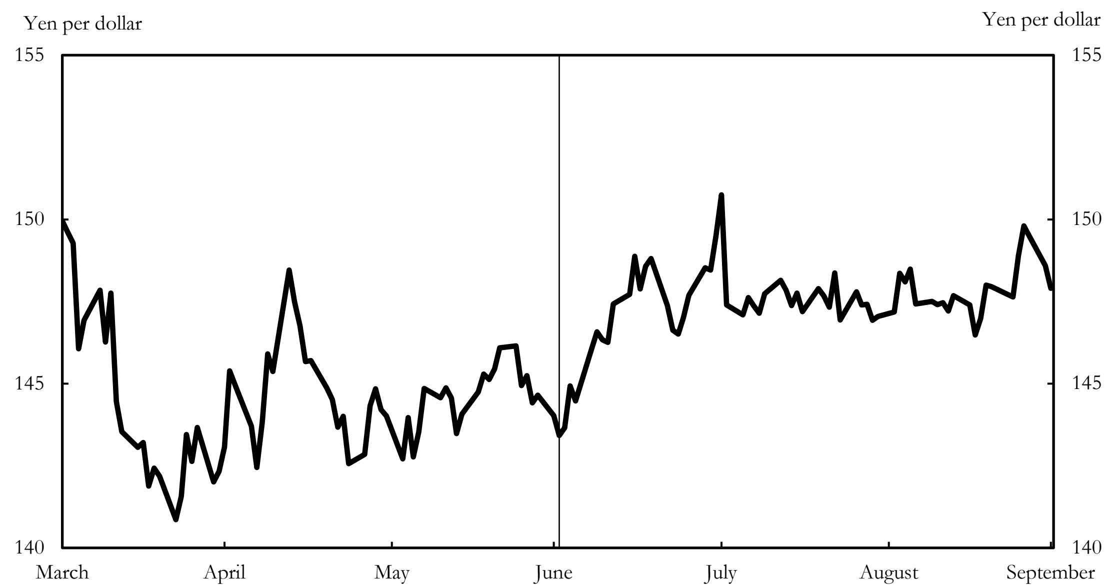
EURO–U.S. DOLLAR EXCHANGE RATE



Source: Bloomberg L.P.

Chart 4

U.S. DOLLAR–YEN EXCHANGE RATE



Source: Bloomberg L.P.

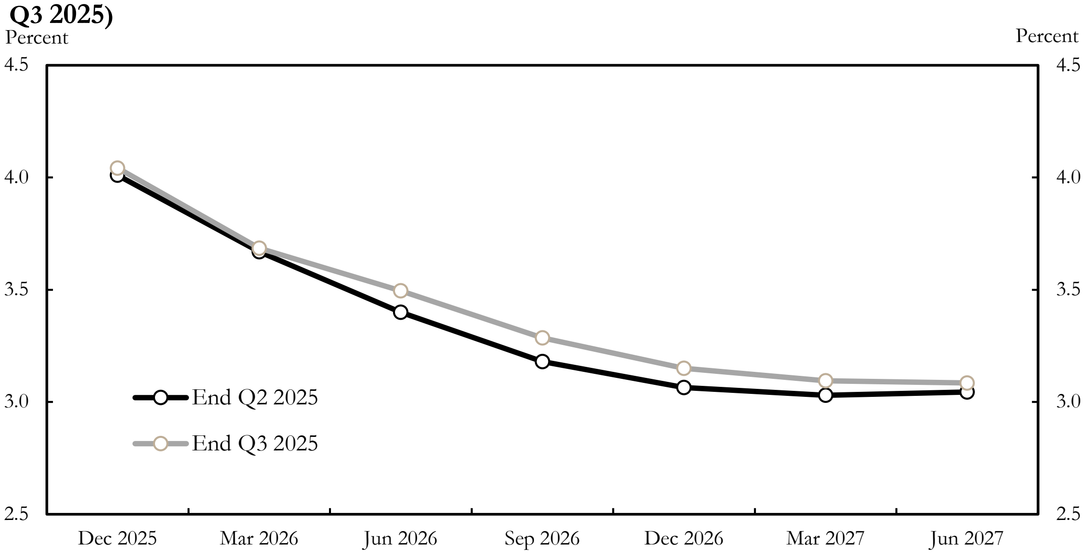
U.S. DOLLAR APPRECIATES MODESTLY AMID IMPROVED U.S. GROWTH OUTLOOK AND REDUCED UNCERTAINTY

Following two quarters of notable depreciation, the U.S. dollar, as measured by the Federal Reserve Board's broad trade-weighted dollar index, appreciated 0.6 percent over the third quarter of 2025. The U.S. dollar's move was driven primarily by appreciation against advanced economy currencies, with emerging market currencies little changed against the dollar. The dollar's modest appreciation reflected an improvement in U.S. growth expectations amid resilient economic data. In particular, market participants were attentive to the above-expectations second quarter GDP print, which was perceived as signaling stronger U.S. activity. Some market participants also noted a reduction in trade policy uncertainty following several trade deals with U.S. trading partners as supporting the broad dollar. This marks a shift from the previous quarter when uncertainty was cited by market participants as driving increases in foreign investors' foreign exchange hedge ratios on U.S. dollar assets from historically low levels, which reportedly drove dollar depreciation. However, contacts noted that the degree of dollar appreciation was limited by below-expectations labor market data later in the quarter, particularly the nonfarm payrolls data for both July and August, which drove a modest downward repricing of the Federal Reserve's expected policy path.

The Federal Open Market Committee (FOMC) maintained its federal funds target range at the July meeting and subsequently cut by 25 basis points to a target range of 4.00 to 4.25 percent at the September meeting, in line with market expectations. Market participants interpreted FOMC communications over the quarter as signaling greater willingness to provide accommodation in response to weakening labor market conditions, though policymakers continued to emphasize their data-dependent approach. Consistent with these communications, the year-end 2025 median federal funds rate in the Summary of Economic Projections (SEP) released at the September meeting showed two 25 basis point rate cuts, one more cut than had been implied by the June SEP. Over the quarter, nominal two-year Treasury yields declined by 11 basis points, while implied yields from federal funds futures were little changed, with market pricing reflecting a cumulative 43 basis points of easing by year-end.

Chart 5

SOFR FUTURES-IMPLIED PATH OF FOMC POLICY (Q2 2025 VERSUS Q3 2025)



Source: Bloomberg L.P.

U.S. DOLLAR APPRECIATES MODESTLY AGAINST EURO WITH ECB SEEN AS BEING ON HOLD

The dollar appreciated 0.5 percent against the euro in the third quarter, after depreciating by about 12 percent against the euro in the first half of 2025. The modest appreciation of the dollar against the euro occurred amid more favorable U.S. growth prospects relative to the euro area based on data released in the period. On the margin, some market participants also noted the dollar's appreciation in the context of a reduction in uncertainty following the signing of a framework trade deal with the European Union.

Market participants interpreted euro area data releases in the third quarter as showing inflation at or near target, with growth characterized as resilient despite U.S. tariffs. Against this backdrop, and as was widely expected, the European Central Bank (ECB) held its policy rate unchanged at 2 percent at both its July and September meetings with growth risks being viewed as more balanced. President Lagarde's communications at both press conferences that monetary policy was "in a good place" were perceived by market participants as less accommodative than expected. Market pricing for the ECB's path of policy rose over the quarter by 23 basis points, suggesting a cumulative 1 basis point of easing by year-end 2025.

U.S. DOLLAR APPRECIATES AGAINST JAPANESE YEN AMID POLITICAL UNCERTAINTY AND ACCOMMODATIVE MONETARY POLICY

The dollar appreciated 2.7 percent against the Japanese yen during the third quarter amid heightened political uncertainty in Japan and against a backdrop of continued accommodative policy from the Bank of Japan (BOJ), which led to persistently wide interest rate differentials in favor of the U.S. Market participants were attentive to the outcome of domestic legislative elections in July and the subsequent resignation of Prime Minister Ishiba, which was seen as weighing on the yen given speculation that the next administration may favor less fiscal restraint at a time of elevated Japanese government debt to GDP levels. Contacts also highlighted the signing of a trade deal between the U.S. and Japan as an important development, though this was not seen as a primary driver of exchange rate movements over the period. Additionally, the BOJ maintained its policy rate steady at "around 0.5 percent" at both its July and September meetings as expected and refrained from signaling the timing of the next rate hike.

U.S. DOLLAR APPRECIATES AGAINST BRITISH POUND AMID MIXED U.K. ECONOMIC DATA

The dollar appreciated 2.1 percent against the British pound over the quarter amid mixed U.K. economic data. Contacts were attentive to stronger-than-expected preliminary GDP data for the second quarter of 2025, continued strength in wage growth despite a slight deceleration from the prior quarter’s prints, and mixed inflation data. Market participants also cited increased focus on the U.K. fiscal outlook as weighing on the pound at the margin. Consistent with this, Commodity Futures Trading Commission (CFTC) data showed a shift from long pound positioning against the dollar to neutral positioning over the quarter. The Bank of England (BoE) lowered its policy rate by 25 basis points at its August meeting and subsequently voted to leave its policy rate unchanged at its September meeting, as was widely expected. Market participants were attentive to the vote split at the August meeting, which was interpreted as less accommodative than expected given that a larger share of members voted to leave rates unchanged compared to median expectations. Statement language continued to signal that a "gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate." Market pricing for the BoE’s path of policy rose over the quarter by 26 basis points, suggesting a cumulative 5 basis points of easing by year-end 2025.

U.S. DOLLAR MIXED AGAINST EMERGING MARKET CURRENCIES AMID LOW FOREIGN EXCHANGE VOLATILITY

The dollar was little changed against emerging market currencies during the quarter, as measured by the Federal Reserve's trade-weighted Emerging Market Economies Dollar Index. Performance against individual currencies was mixed, with the dollar depreciating against several high-yielding currencies such as the Mexican peso and South African rand. Market contacts attributed this performance in part to low foreign exchange volatility over the quarter, which created favorable conditions for carry trade strategies.[1] Consistent with this, CFTC data showed a modest extension of existing long speculative positions in emerging market currencies against the dollar.

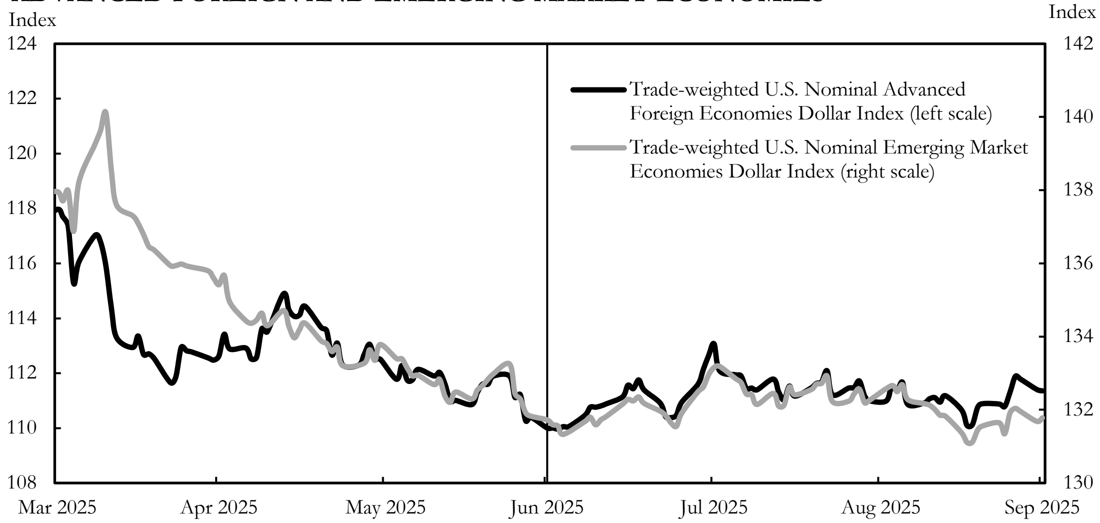
The dollar depreciated 0.6 percent and 0.4 percent against the onshore and offshore Chinese renminbi, respectively, during the period, which contacts viewed mainly as a function of the People's Bank of China's (PBOC) foreign exchange rate policy management in the third quarter in response to previous months' moves rather than new China-specific developments over the quarter. Given broad dollar depreciation in the previous months, contacts perceived the PBOC's actions as gradually guiding renminbi appreciation, given its consistent setting of strong daily reference rates for the CNY fixings.[2] Additionally, Chinese export performance remained robust during the quarter, as Chinese companies continued to diversify away from the U.S. and into other markets such as the EU and Southeast Asia, supporting China's expanding trade surplus and reinforcing ongoing appreciation pressures on the renminbi. There was relatively limited reaction in the onshore and offshore renminbi to trade headlines over the quarter, amid market participants' expectations for plans for continued U.S.–China trade talks and the U.S.'s ninety-day extension of the existing tariff truce.

[1] A carry trade is a speculative yield-seeking strategy that involves borrowing in lower-yielding currencies (known as funding currencies) to invest in higher-yielding (target) currencies.

[2] The U.S. dollar–Chinese renminbi fixing is an administered rate set by the PBOC, published daily, and represents the midpoint of the +/- 2 percent daily trading band within which the USD–CNY exchange rate is managed.

Chart 6

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

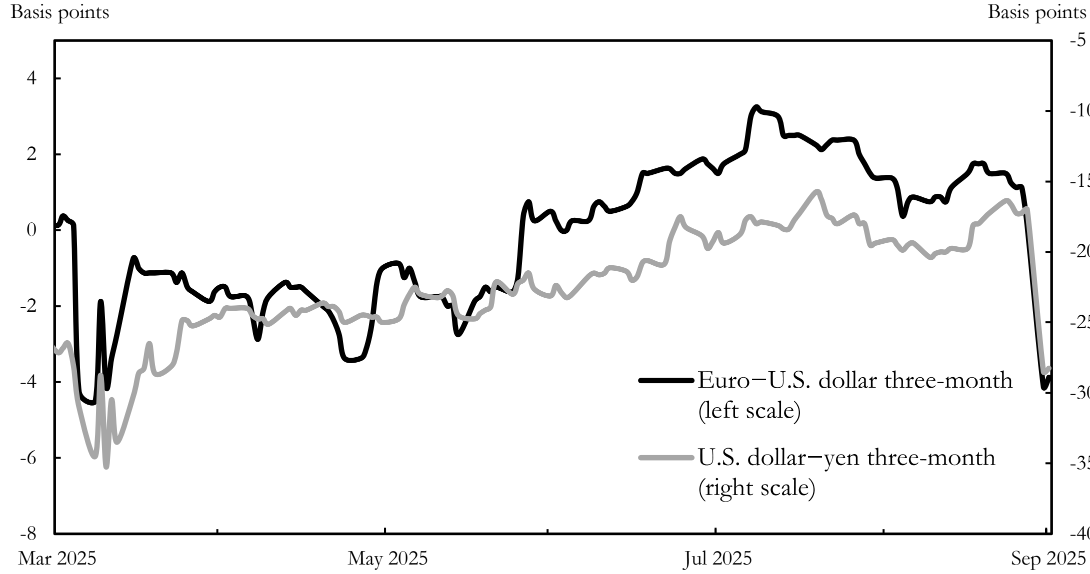
Global offshore dollar funding conditions in the foreign exchange swap market were generally stable over the third quarter. Foreign exchange swap-implied U.S. dollar borrowing premiums in major currency pairs remained generally low, with three-month foreign exchange swap basis spreads in the euro–dollar and dollar–yen pairs averaging around 0 and 20 basis points, respectively. Three-month spreads widened at the end of the quarter due to year-end effects, but the widening was of a lesser magnitude than was observed over the same period in prior years.

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 were relatively steady at $40 million as of the end of the third quarter, compared to $37 million at the end of the second quarter. Usage over the third quarter remained generally lower than levels observed in recent years as offshore dollar funding markets remained stable throughout the period. All outstanding central bank liquidity swaps at the end of September 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 7

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 September 30, the value of the Federal Reserve System Open Market Account (SOMA) foreign-currency-denominated assets totaled $19.6 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 $19.6 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) utilizes 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 utilizes an investment approach designed to meet those objectives to maximize return subject to maintaining sufficient liquidity and a high degree of safety.[3]

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 September 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 $26.5 billion on June 30, 2025, and the U.S. dollar value of yen-denominated deposits and government securities decreased to $12.7 billion from $13.0 billion on June 30, 2025. Changes in the dollar value of the portfolios reflect the net effect of foreign exchange translation effects and local currency returns.

[3] 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, June 30, 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, September 30, 2025[a]
Federal Reserve System Open Market Account (SOMA)						
Euro	13,245	0	64	0	(39)	13,270
Japanese yen	6,501	0	9	0	(167)	6,343
Total	19,746	0	73	0	(206)	19,613

		Changes in Balances by Source				
	Carrying Value, June 30, 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, September 30, 2025[a]
U.S. Treasury Exchange Stabilization Fund (ESF)						
Euro	13,224	0	64	0	(39)	13,249
Japanese yen	6,501	0	9	0	(167)	6,343
Total	19,725	0	73	0	(206)	19,592

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 September 30, 2025

	U.S. Treasury Exchange Stabilization Fund (ESF)[a]	**Federal Reserve System Open Market Account (SOMA)**[b]
Euro-denominated assets	**13,248.7**	**13,269.7**
Cash held on deposit at official institutions	10,601.8	10,622.8
Marketable securities held under repurchase agreementsb	0.0	0.0
Marketable securities held outright	2,646.9	2,646.9
German government securities	379.9	379.9
French government securities	1,764.7	1,764.7
Dutch government securities	502.3	502.3
Yen-denominated assets	**6,343.1**	**6,343.1**
Cash held on deposit at official institutions	3,611.2	3,611.2
Marketable securities held outright	2,731.9	2,731.9

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

[a] As of September 30, the SOMA and the ESF euro portfolios had Macaulay durations of 3.52 and 3.53 months, respectively; the SOMA and the ESF yen portfolios had Macaulay durations of 5.62 and 5.62 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 September 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	40
Swiss National Bank	Unlimited	0
Bank of Japan	Unlimited	0
Bank of Canada	Unlimited	0
Bank of England	Unlimited	0
		40
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