TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS

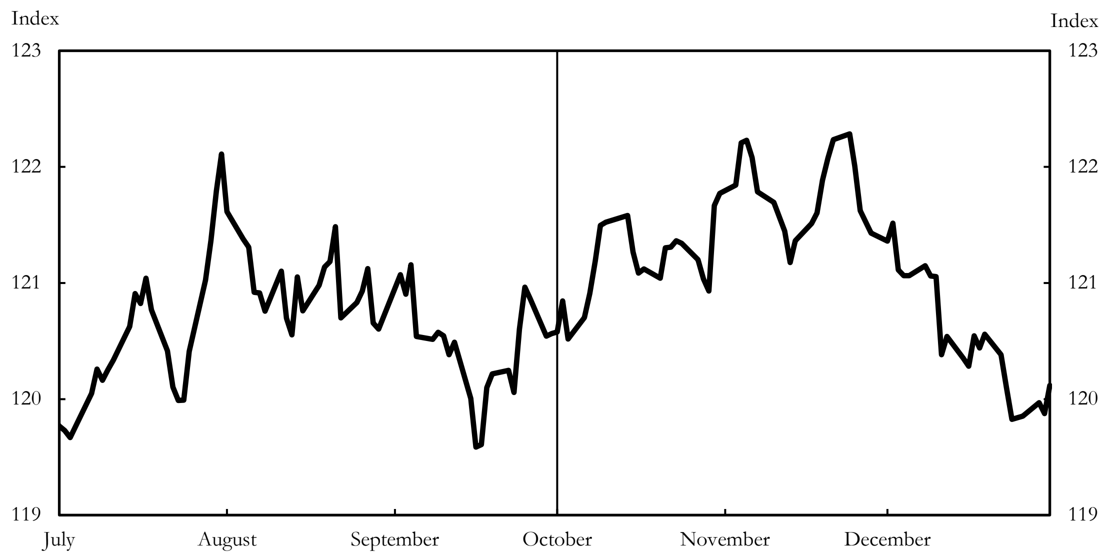
October – December 2025

During the fourth quarter of 2025, the U.S. dollar, as measured by the Federal Reserve Board's broad trade-weighted dollar index, depreciated 0.4 percent on net, bringing cumulative dollar depreciation in 2025 to 7.2 percent. The U.S. dollar's move in the fourth quarter was driven primarily by depreciation against emerging market currencies, with advanced economy currencies little changed against the dollar, with the exception of the Japanese yen. The dollar's modest depreciation occurred amid a slight narrowing in interest rate differentials between the U.S. and the rest of the world and evolving expectations for the near-term path of Federal Reserve policy as communications were seen as indicating a shift toward greater focus on the labor market. On a bilateral basis, the Mexican peso and Chinese renminbi contributed the most to the trade-weighted dollar's depreciation, while the dollar appreciated significantly against the Japanese yen. The U.S. Treasury intervened in foreign exchange markets over the period. The Federal Reserve did not intervene in foreign exchange markets over the period.

This report, presented by Roberto Perli, Federal Reserve Bank of New York System Open Market Account Manager, describes the foreign exchange operations of the New York Fed for the period from October through December 2025. The New York Fed conducts foreign exchange transactions for the System Open Market Account (SOMA), as directed by the Federal Open Market Committee (FOMC), and, as directed by the U.S. Treasury, in its capacity as fiscal agent of the United States. David Tam was primarily responsible for preparation of the report.

Chart 1

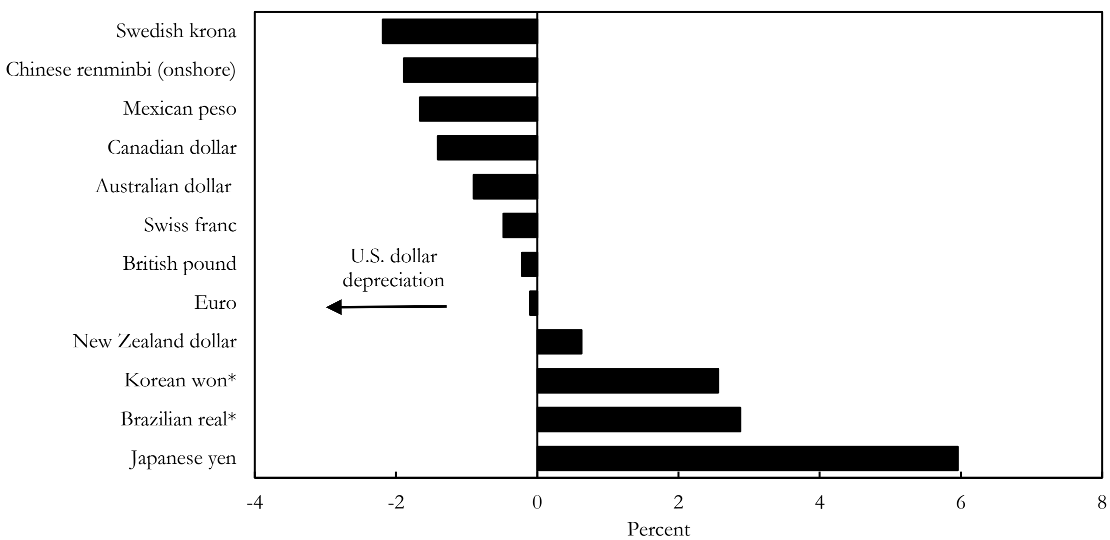
BROAD TRADE-WEIGHTED U.S. DOLLAR INDEX



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 FOURTH QUARTER



* The Korean won and Brazilian real did not trade on December 31, so the chart reflects December 30 levels.
Source: Bloomberg L.P.

U.S. DOLLAR MODESTLY DEPRECIATES AMID NARROWING INTEREST RATE DIFFERENTIALS

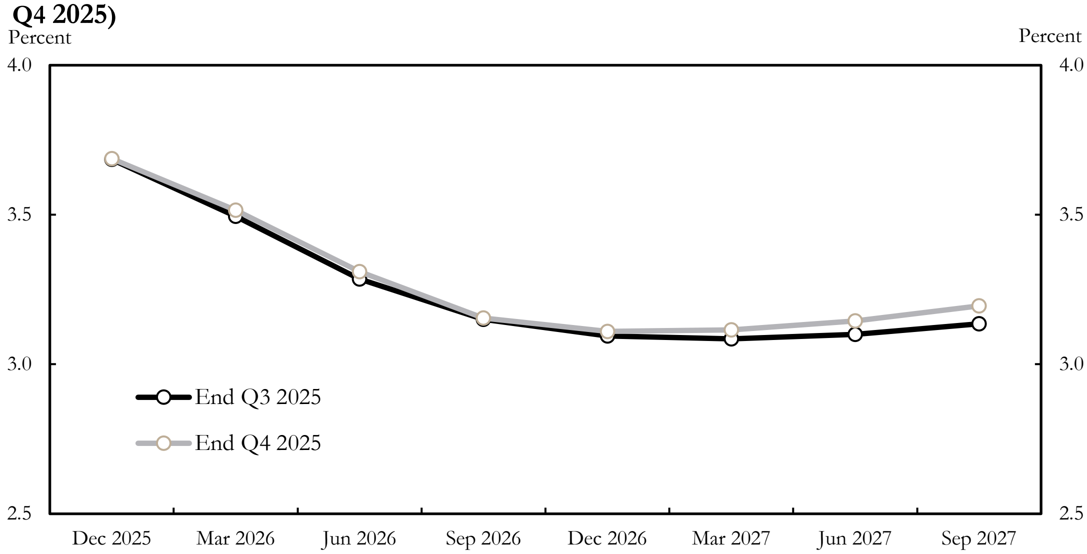
During the fourth quarter of 2025, the U.S. dollar, as measured by the Federal Reserve Board's broad trade-weighted dollar index, depreciated 0.4 percent on net, driven primarily by depreciation against emerging market currencies. The dollar was little changed against advanced economy currencies over the quarter, barring the Japanese yen. The dollar's modest depreciation came amid a narrowing in interest rate differentials between the United States and the rest of the world, with nominal two-year Treasury yields declining by 16 basis points over the quarter, and evolving expectations for the near-term path of Federal Reserve policy in light of Federal Reserve communications over the quarter that shifted to more significantly consider weakness in the labor market. U.S. domestic data painted a mixed picture of the U.S. economy. Data early in the quarter saw ADP employment data print at -32,000 against an expectation for +52,000 in September. This generally reversed later in the quarter, however, as data suggested more resilience to the economy, with September headline CPI printing below expectations while ADP employment for October and November outperformed expectations. The limited data[1] and the dollar's rangebound trading pattern over the quarter were also cited in the context of a continued decline in foreign exchange implied volatility, a trend observed since April.

Against this backdrop, the Federal Open Market Committee (FOMC) lowered its policy rate by 25 basis points at both the October and December meetings to a target range of 3.50 to 3.75 percent, in line with market expectations. While comments at the October FOMC meeting were viewed as less accommodative than expected, FOMC communications were perceived as shifting incrementally toward a greater focus on the employment side of the mandate over the quarter, with the slowing labor market increasingly viewed as a first-order concern for the Committee, even with the risks of continued inflation still present. Consistent with this shift in communications, market-implied pricing for the December meeting declined late in the quarter coincident with modest dollar weakness. That said, the year-end 2026 median federal funds rate in the Summary of Economic Projections (SEP) released at the December meeting was unchanged from the September SEP, continuing to reflect one additional 25 basis point rate cut. Market pricing was consistent with SEP projections as implied yields from federal funds futures for June 2026 were little changed over the quarter.

[1] Domestic data were limited during the quarter due to a government shutdown.

Chart 3

SOFR FUTURES-IMPLIED PATH OF FOMC POLICY (Q3 2025 VERSUS Q4 2025)



Source: Bloomberg L.P.

U.S. DOLLAR APPRECIATES AGAINST JAPANESE YEN AMID POLITICAL UNCERTAINTY, LOW YEN VOLATILITY, AND EXPECTATIONS FOR CONTINUED WIDE INTEREST RATE DIFFERENTIALS

Despite a narrowing in U.S.–Japanese interest rate differentials, the dollar appreciated 6 percent against the Japanese yen during the fourth quarter amid heightened political uncertainty in Japan following the election of Prime Minister Takaichi, expectations for continued wide interest rate differentials, and low yen implied volatility. The dollar's appreciation against the yen also occurred against a backdrop of continued accommodative policy from the Bank of Japan (BOJ) amid a perceived lack of clear guidance on the timing or conditions needed for future rate hikes. Additionally, low implied volatility of the yen associated with a shift in positioning closer to neutral over the quarter was seen as supporting the popularity of the yen as a funding currency for carry trades,[2] which further contributed to yen depreciation.

Market participants were attentive to the election of Prime Minister Takaichi as the leader of Japan's ruling political party in October, which was seen as weighing on the yen given speculation that the new

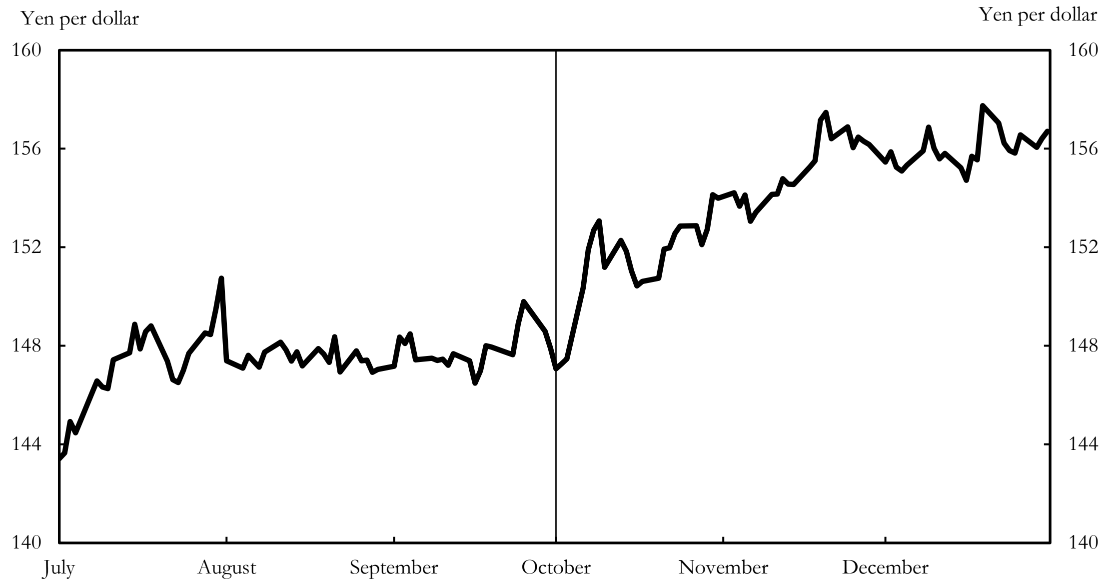
[2] A carry trade is a speculative yield-seeking strategy that involves borrowing in lower-yielding currencies (known as funding currencies) to invest in higher-yielding (target) currencies.

administration may favor less fiscal restraint at a time of elevated Japanese government debt to GDP levels, as well as a more gradual approach to monetary policy tightening.

During the quarter, the Bank of Japan held its policy rate unchanged at its October meeting before increasing its policy rate by 25 basis points at its December meeting. While the BOJ unanimously voted to hike policy rates 25 basis points and the accompanying communications suggested continued forthcoming gradual monetary policy tightening, market participants viewed signals on the path of policy as mixed, with contacts noting that Governor Ueda provided little specificity regarding the timing or conditions needed to prompt the next policy rate adjustment.

Chart 4

U.S. DOLLAR−YEN EXCHANGE RATE



Source: Bloomberg L.P.

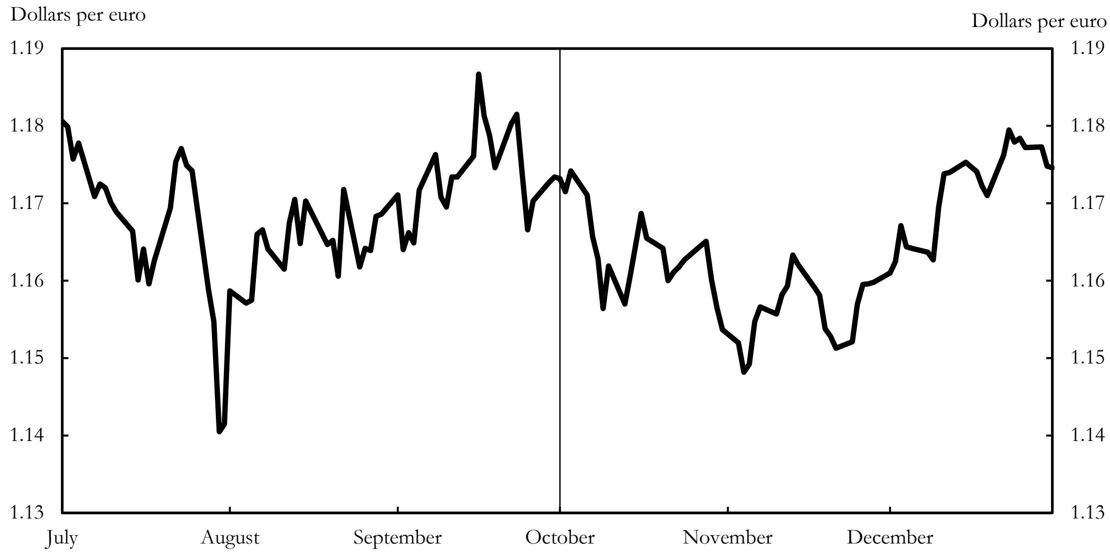
U.S. DOLLAR LITTLE CHANGED AGAINST THE EURO AMID MIXED ECONOMIC DATA AND EXPECTATIONS FOR THE ECB TO HOLD

The dollar was little changed against the euro in the fourth quarter, after depreciating by more than 10 percent in the first three quarters of 2025, against a backdrop of mixed economic data in Europe, and a modest narrowing in interest rate differentials. European economic releases were mixed over the quarter as eurozone third-quarter GDP exceeded expectations while November flash composite PMI underperformed.

As expected, the European Central Bank (ECB) held its policy rate unchanged at 2 percent at both its October and December meetings. The ECB's official communications continued to emphasize its data-dependent and meeting-by-meeting approach to future policy decisions while noting resilience in the euro area economy despite challenging global conditions. During both post-meeting press conferences, President Lagarde reaffirmed her view that policy is currently "in a good place," consistent with her messaging across the three most recent meetings. Market pricing continues to indicate expectations for the ECB to remain on hold through 2026.

Chart 5

EURO−U.S. DOLLAR EXCHANGE RATE



Source: Bloomberg L.P.

U.S. DOLLAR LITTLE CHANGED AGAINST THE BRITISH POUND AMID MODEST NARROWING IN INTEREST RATE DIFFERENTIALS

The dollar was little changed against the British pound over the quarter amid mixed U.K. economic data and a modest narrowing in interest rate differentials in favor of the U.S. Economic data over the quarter was viewed as indicative of a continued softening in the labor market and moderating though still above-target inflation. Against this backdrop, the Bank of England (BoE) maintained its policy rate at its November meeting before lowering it by 25 basis points at the December meeting. Statement language following the December meeting noted that "judgements around further policy easing will become a closer call," though the statement also noted that the policy rate is likely to continue on a gradual downward path as the risk from greater inflation persistence had become somewhat less pronounced. Over the quarter, market pricing for the BoE's policy rate at year-end 2026 declined by 27 basis points.

Market participants were also attentive to the release of the U.K. autumn budget in late November, with the total proposed fiscal consolidation viewed as roughly in line with expectations, leading to modest pound appreciation. Commodity Futures Trading Commission (CFTC) data indicated a shift from neutral positioning of the pound against the dollar to net short positioning over the quarter.

U.S. DOLLAR DEPRECIATES AGAINST EMERGING MARKET CURRENCIES, PARTICULARLY COMMODITY-LINKED CURRENCIES AND CHINESE RENMINBI

The dollar depreciated 0.8 percent against emerging market currencies during the quarter, as measured by the Federal Reserve's trade-weighted Emerging Market Economies Dollar Index. The dollar was broadly weaker against commodity-linked emerging market currencies and also depreciated against several high-yielding currencies such as the Mexican peso and South African rand, which is consistent with a rise in carry-trade strategies amid the low-volatility environment. CFTC positioning data indicated a modest reduction in net long emerging market positions against the dollar over the quarter after an extension of speculative long positions in the third quarter.

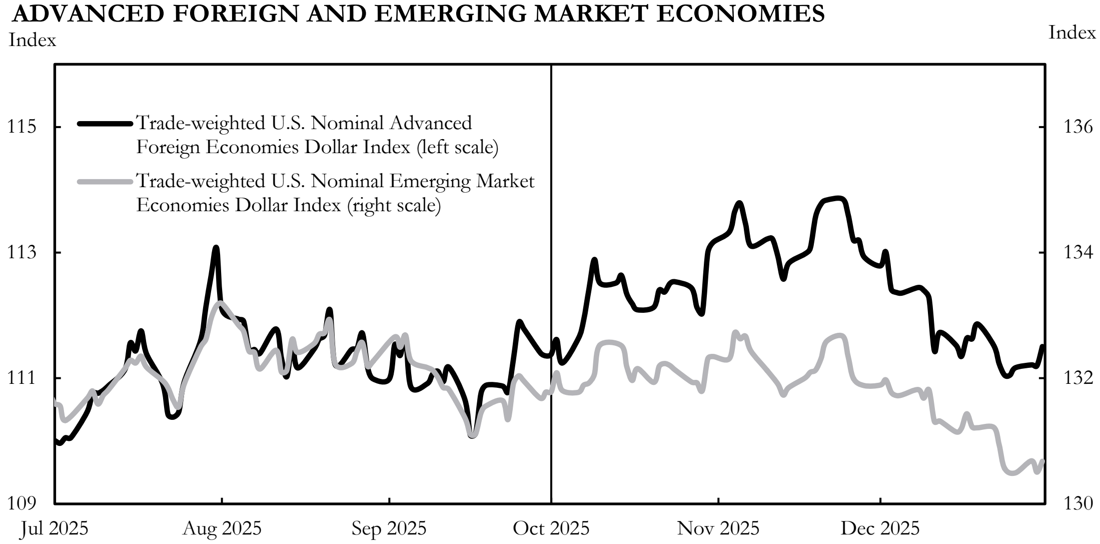
Significant volatility in Argentine financial markets, which began late in the third quarter of 2025, continued early in the fourth quarter, with the dollar–peso exchange rate reaching the weak side of its trading band and prices on Argentina's dollar-denominated sovereign bonds declining sharply. The proximate catalyst for the significant volatility was much weaker-than-expected results for the governing party in provincial elections, which led to market uncertainty over the path of the government's economic reform agenda. During the weeks following the local elections, Argentine financial markets faced acute, short-term pressure on both the exchange rate and financial stability. Against this backdrop and in order to stabilize Argentine markets and preserve exchange rate stability, in October 2025, the U.S. Treasury, acting through the Exchange Stabilization Fund (ESF), purchased Argentine pesos in the spot and Blue Chip Swap markets and entered into an exchange stabilization agreement (ESA) with the Central Bank of Argentina (BCRA) for $20 billion. Pursuant to the ESA, in October 2025 the U.S. Treasury, acting through the ESF, and the BCRA executed a swap transaction whereby the BCRA exchanged pesos for $2.5 billion. In December 2025, the BCRA fully repaid the $2.5 billion swap transaction when it matured and the swap transaction was closed. As of end-December 2025, no drawings were outstanding under this agreement and the ESF did not hold any pesos.

The dollar depreciated 1.9 percent and 2.1 percent against the onshore and offshore Chinese renminbi, respectively, driven primarily by trade-related factors, specifically increased foreign exchange conversion by exporters and reduced foreign exchange demand from domestic Chinese entities, alongside improving trade relations with the U.S. Despite renewed tariff threats in early October, trade tensions generally subsided over the quarter following meetings and subsequent communications between Presidents Trump and Xi, which resulted in announcements of reduced tariffs on soybeans.

Throughout the period, the People's Bank of China (PBoC) fixed the onshore renminbi consistently stronger, with the fixing[3] breaking through the closely watched 7.10 threshold in mid-October before continuing to strengthen further during the period. Also contributing to renminbi strength was China's trade surplus, which exceeded $1 trillion for the first time in history during the fourth quarter.

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

Offshore dollar funding conditions in the foreign exchange swap market were stable during the fourth quarter amid abundant dollar funding liquidity. In the weeks leading up to the year-end turn, short-term foreign exchange swap basis spreads for the euro–U.S. dollar and U.S. dollar–Japanese yen pairs remained at or below levels observed in similar periods in most recent years, and spreads narrowed in the final days of the year. Market participants indicated that foreign exchange swap market conditions

[3] 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.

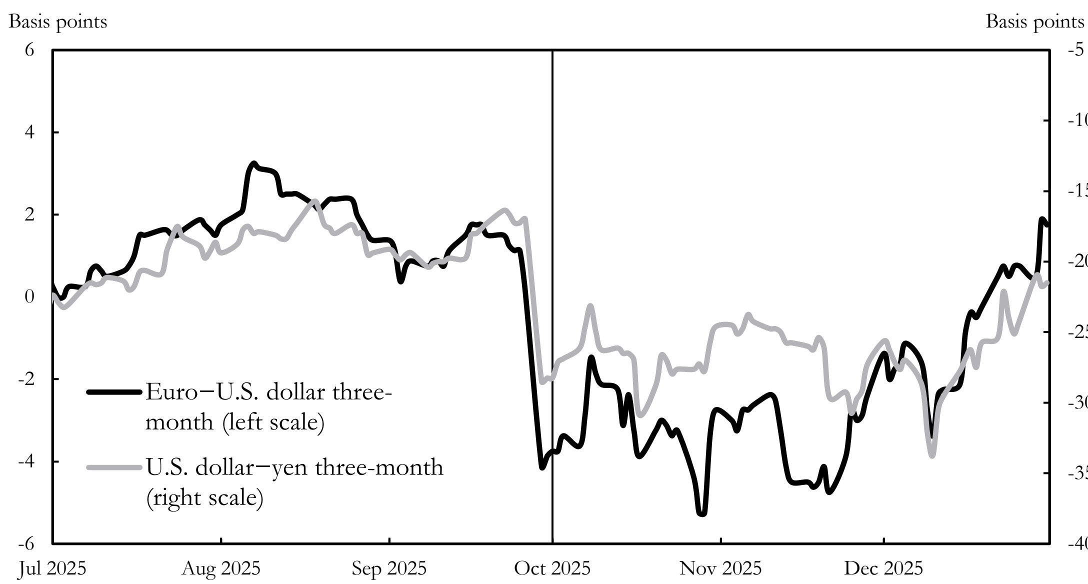
were orderly over the year-end turn and suggest that pre-funding activity was an added factor leading to relatively benign year-end conditions.

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 increased to $481 million at the end of the fourth quarter from $40 million at the end of the third quarter, reflecting typical year-end-related increases in take-up. The aggregate amount of swaps outstanding at the end of the year was below the prior year-end outstanding totals of $1.1 billion and $1.4 billion in 2024 and 2023, respectively. Usage for most of the 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 December were with the ECB. The Bank of Japan, 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 U.S. Treasury intervened in foreign exchange markets over the period. The Federal Reserve did not intervene in foreign exchange markets over the period. As of December 31, the value of the Federal Reserve System Open Market Account (SOMA) foreign-currency-denominated assets totaled $19.3 billion, comprised of euro- and yen-denominated holdings. The value of the ESF's foreign-currency-denominated assets also totaled $19.3 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.[4]

The SOMA and the ESF foreign currency reserves are managed comparably so that their risk and return characteristics match as closely as possible. To the extent practicable, investments are split proportionately between the SOMA and ESF holdings. See Table 2 for the breakdown of foreign reserves assets held.

As of December 31, 2025, the U.S. dollar value of euro-denominated deposits and government securities held by the SOMA and the ESF increased to $26.7 billion from $26.5 billion on September 30, 2025, and the U.S. dollar value of yen-denominated deposits and government securities decreased to $12.0 billion from $12.7 billion on September 30, 2025. Changes in the dollar value of the portfolios reflect the net effect of foreign exchange translation effects and local currency returns.

[4] 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

	Carrying Value, September 30, 2025[a]	Changes in Balances by Source: Net Purchases and Sales[b]	Investment Earnings[c]	Realized Gains / Losses on Sales[d]	Unrealized Gains/Losses on Foreign Currency Revaluation[e]	Carrying Value, December 31, 2025[a]
Federal Reserve System Open Market Account (SOMA)						
Euro	13,270	0	65	0	1	13,336
Japanese yen	6,343	0	9	0	(357)	5,995
Total	19,613	0	74	0	(356)	19,331

	Carrying Value, September 30, 2025[a]	Changes in Balances by Source: Net Purchases and Sales[b]	Investment Earnings[c]	Realized Gains / Losses on Sales[d]	Unrealized Gains/Losses on Foreign Currency Revaluation[e]	Carrying Value, December 31, 2025[a]
U.S. Treasury Exchange Stabilization Fund (ESF)						
Euro	13,249	0	65	0	1	13,315
Japanese yen	6,343	0	9	0	(357)	5,995
Total	19,592	(2)	193	0	(472)	19,310

Note: Figures may not sum to totals because of rounding.
As discussed above, there were no Argentine peso positions on September 30, 2025 or December 31, 2025.

[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 December 31, 2025

	U.S. Treasury Exchange Stabilization Fund (ESF)[a]	Federal Reserve System Open Market Account (SOMA)[b]
Euro-denominated assets	**13,315.0**	**13,336.1**
Cash held on deposit at official institutions	5,772.3	5,793.4
Marketable securities held under repurchase agreementsb	0.0	0.0
Marketable securities held outright	7,542.7	7,542.7
German government securities	682.2	682.2
French government securities	6,358.8	6,358.8
Dutch government securities	501.7	501.7
Yen-denominated assets	**5,994.8**	**5,994.7**
Cash held on deposit at official institutions	3,043.6	3,043.5
Marketable securities held outright	2,951.2	2,951.2

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

[a] As of December 31, the SOMA and the ESF euro portfolios had Macaulay durations of 23.09 and 23.13 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 December 31, 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	481
Swiss National Bank	Unlimited	0
Bank of Japan	Unlimited	0
Bank of Canada	Unlimited	0
Bank of England	Unlimited	0
		481
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
Banco Central de la República Argentina	20,000	0
	29,000	0