
TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS

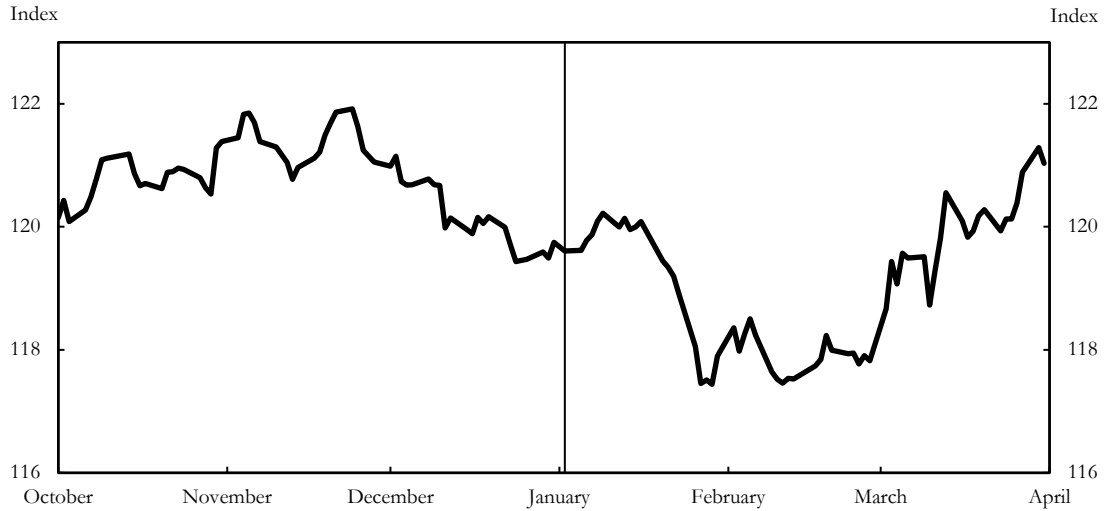
January-March 2026

During the first quarter of 2026, the U.S. dollar, as measured by the Federal Reserve Board's broad [trade-weighted dollar index](#), appreciated 1.1 percent on net, following a cumulative depreciation of 7.4 percent in 2025. The U.S. dollar's move in the first quarter was driven primarily by appreciation against advanced economy currencies. Dollar appreciation was seen as driven by a negative terms-of-trade shock for major energy-importing economies amid the U.S.–Iran conflict. Higher energy costs led to an increase in near-term inflation expectations in those jurisdictions and an upward repricing of policy-sensitive rates. The dollar's appreciation occurred amid intra-quarter volatility, with the dollar benefiting from rising U.S. export prices given the U.S.'s position as a net energy exporter. On net, the largest contributors to the dollar's appreciation on a trade-weighted basis were the euro, Korean won, and Canadian dollar. The Federal Reserve and the 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 New York Fed for the period from January through March 2026. 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. Apratim Gautam was primarily responsible for preparation of the report.

Chart 1

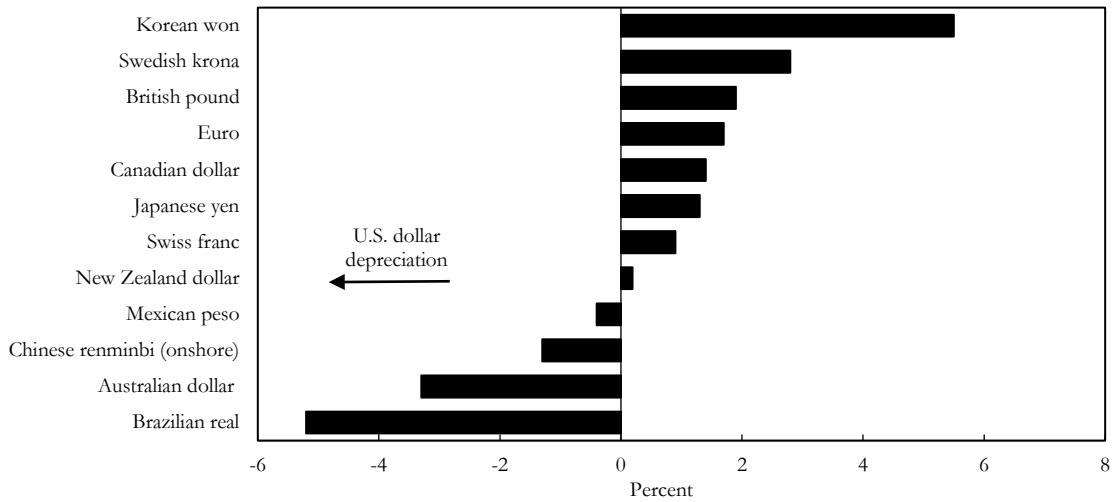
BROAD TRADE-WEIGHTED U.S. DOLLAR INDEX



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 FIRST QUARTER



U.S. DOLLAR MODESTLY APPRECIATES AMID A NEGATIVE TERMS-OF-TRADE SHOCK FOR MAJOR ECONOMIES, DETERIORATION IN RISK SENTIMENT, AND GEOPOLITICAL UNCERTAINTY

During the first quarter of 2026, the U.S. dollar, as measured by the Federal Reserve Board's broad trade-weighted dollar index, appreciated 1.1 percent on net, amid intra-quarter volatility. This appreciation followed the trade-weighted dollar's depreciation of 7.4 percent in 2025. The move in the dollar was largely driven by appreciation against advanced economy currencies, with several of these economies facing a negative terms-of-trade shock as net energy importers. Early in the quarter the dollar broadly depreciated, which contacts attributed to elevated U.S. policy uncertainty and expectations for further Federal Reserve policy easing.

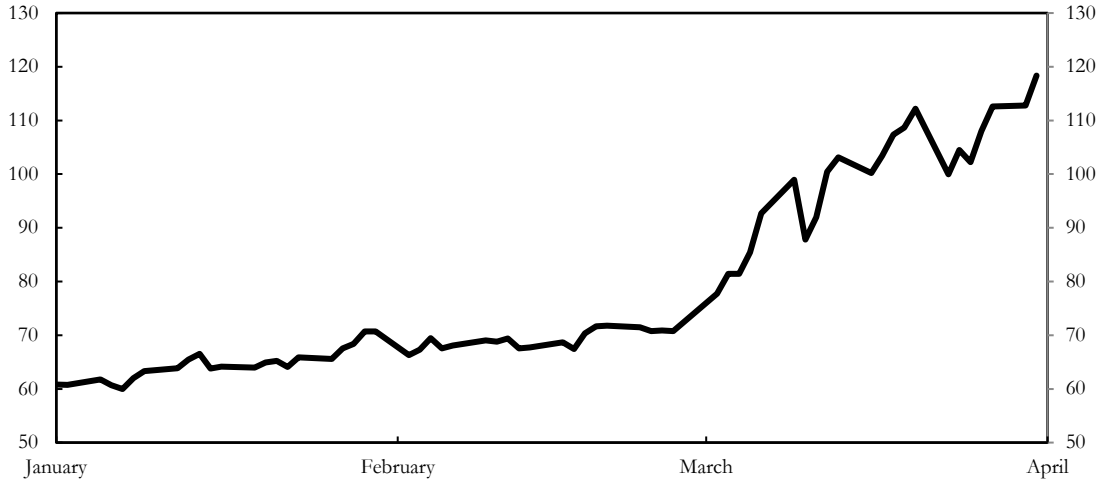
However, contacts noted that the onset of the U.S.–Iran conflict, and a spike in energy prices, exerted pressure on net energy importers' currencies, which generally depreciated against the dollar. Over the quarter, front-month Brent crude oil futures increased by 94 percent. Given the U.S.'s status as a net energy exporter, the U.S. dollar was seen by market participants as benefiting from rising export prices. Contacts also noted that dollar appreciation occurred against a backdrop of deteriorating risk sentiment amid the U.S.–Iran conflict.

Against the backdrop of higher energy prices and near-term inflation compensation, market pricing for the path of Federal Reserve policy rose toward the end of the quarter, with policy-sensitive rates in the U.S. shifting higher. Market-implied pricing shifted from two cuts priced at the end of 2025 to no cuts for the rest of 2026. The Federal Open Market Committee (FOMC) maintained its federal funds target range at 3.5 to 3.75 percent in the first quarter. Market participants were attentive to FOMC communications in March and the possibility that rising energy prices could shift the balance of risks around inflation.

Chart 3

Q1 2026 FRONT-MONTH BRENT CRUDE OIL FUTURES

USD per barrel

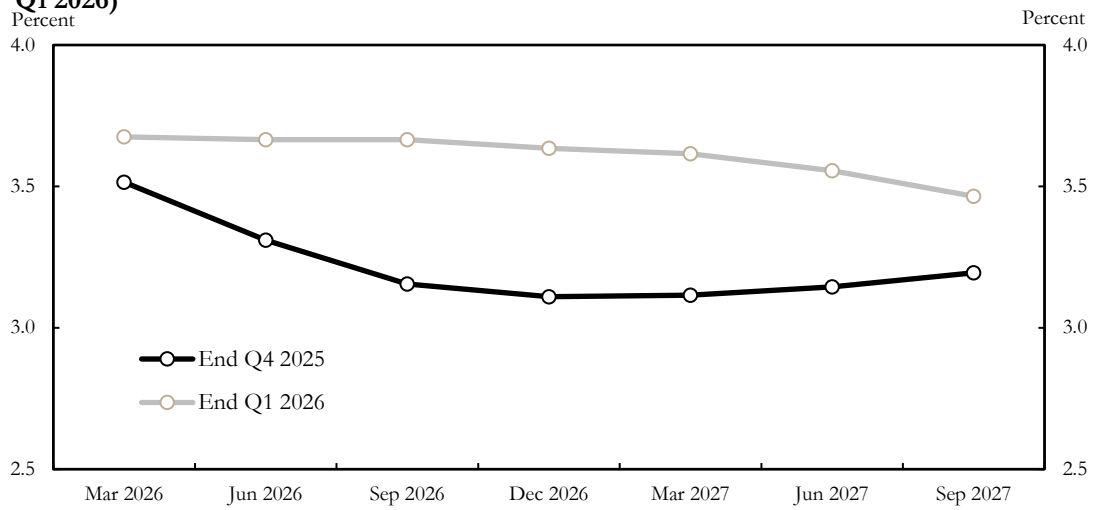


Source: Bloomberg L.P.

Chart 4

SOFR FUTURES-IMPLIED PATH OF FOMC POLICY (Q4 2025 VERSUS Q1 2026)

Percent



Source: Bloomberg L.P.

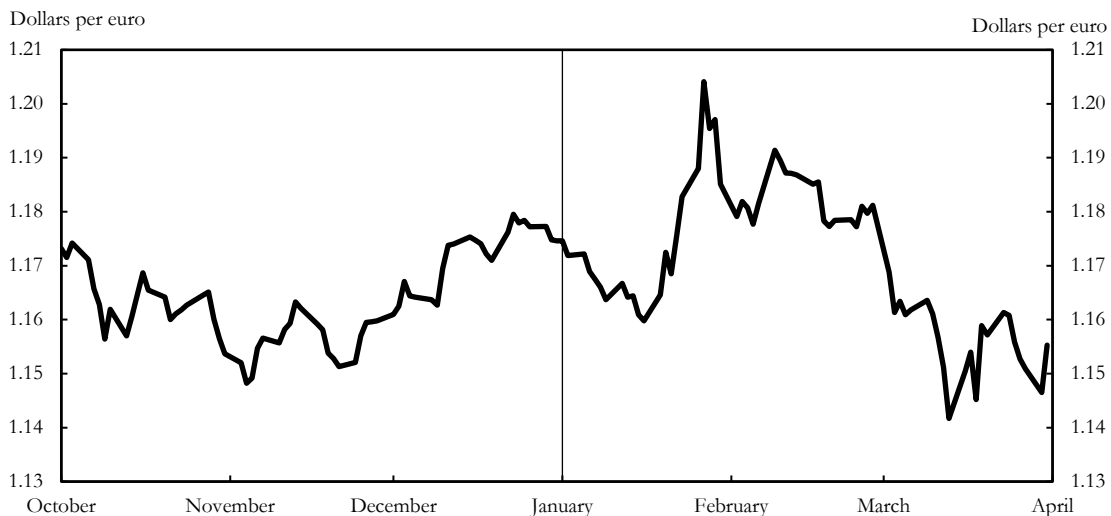
U.S. DOLLAR APPRECIATES AGAINST THE EURO AMID TERMS-OF-TRADE SHOCK

The dollar appreciated 1.7 percent against the euro in the first quarter of 2026, after depreciating 11.9 percent against the euro in 2025. The appreciation of the dollar against the euro came in the context of the euro area's perceived vulnerability to a terms-of-trade shock due to its reliance on energy imports, which have been disrupted by the conflict in the Middle East. This negative terms-of-trade shock put downward pressure on the euro.

Prior to the conflict, headline inflation had been near the European Central Bank's (ECB) 2 percent target for some time. European natural gas and Brent crude oil prices were particularly volatile over the quarter, contributing to a sharp rise in market-based measures of near-term euro area inflation expectations. Market pricing of the ECB's path of policy shifted higher to reflect roughly three hikes in 2026 by the end of March, a significant increase from the end of 2025 when market pricing indicated the ECB would likely keep rates unchanged over the year. The ECB maintained its policy rate constant at 2 percent at both meetings in the first quarter. At its March policy meeting, market participants interpreted ECB communications as taking a balanced tone while signaling readiness to respond to evolving inflation dynamics with potential rate hikes if needed.

Chart 5

EURO-U.S. DOLLAR EXCHANGE RATE



Source: Bloomberg L.P.

U.S. DOLLAR APPRECIATES AGAINST THE JAPANESE YEN AMID TERMS-OF-TRADE SHOCK

The dollar appreciated 1.3 percent against the Japanese yen in the first quarter, driven by a negative terms-of-trade shock, heightened concerns around Japan’s fiscal sustainability, and expectations for continued wide interest rate differentials favoring the U.S. As a large net energy importer, Japan was seen by market participants as vulnerable to rapidly increasing energy prices, which weighed on the yen. Contacts noted that the potential for energy subsidies could result in greater fiscal spending, contributing to yen depreciation during the rest of the quarter.

During the quarter, the Bank of Japan (BOJ) held its policy rate constant. Despite market focus on risks of higher inflation related to the energy price shock, market-implied pricing for the BOJ’s path of policy was little changed over the quarter, with markets continuing to price two hikes in 2026. Market participants highlighted, however, that the BOJ noted that rising energy prices and the corresponding terms-of-trade shock could raise inflation expectations and shift its policy path higher.

In January, amid continuing yen depreciation, market participants were attentive to press reports that the Federal Reserve Bank of New York (New York Fed) had made requests for indicative quotes—commonly referred to as “rate checks”—on the dollar–yen exchange rate solely on behalf of the U.S. Treasury in the New York Fed’s role as the fiscal agent of the U.S.¹ The yen appreciated 1.7 percent against the dollar on the day these press reports were in focus.

¹ Market participants use the term “rate check” to refer to when authorities ask counterparties for indicative quotes in a currency pair.

Chart 6

U.S. DOLLAR–YEN EXCHANGE RATE



U.S. DOLLAR APPRECIATES AGAINST THE BRITISH POUND AMID TERMS-OF-TRADE SHOCK

The dollar appreciated 1.9 percent against the British pound during the quarter, which market participants attributed to deteriorating terms-of-trade from elevated oil and natural gas prices given the U.K.’s status as a net energy importer. Alongside the spike in energy prices, market-based measures of near-term inflation expectations rose notably over the quarter. Market pricing for the Bank of England’s (BoE) year-end 2026 policy rate rose in tandem, shifting from just under two rate cuts priced in at the end of 2025 to about two rate hikes priced in by the end of the first quarter of 2026. The BoE maintained its policy rate at 3.75 percent at both its February and March meetings. Market participants were attentive to the March meeting’s statement, which noted the significant increase in global energy prices and the Monetary Policy Committee’s readiness to act as necessary.

U.S. DOLLAR MIXED AGAINST EMERGING MARKET CURRENCIES

The dollar appreciated 0.5 percent against emerging market currencies during the quarter, as measured by the Federal Reserve’s trade-weighted Emerging Market Economies Dollar Index.² However, the performance of emerging market currencies against the dollar varied depending on whether countries were net energy exporters or net energy importers.

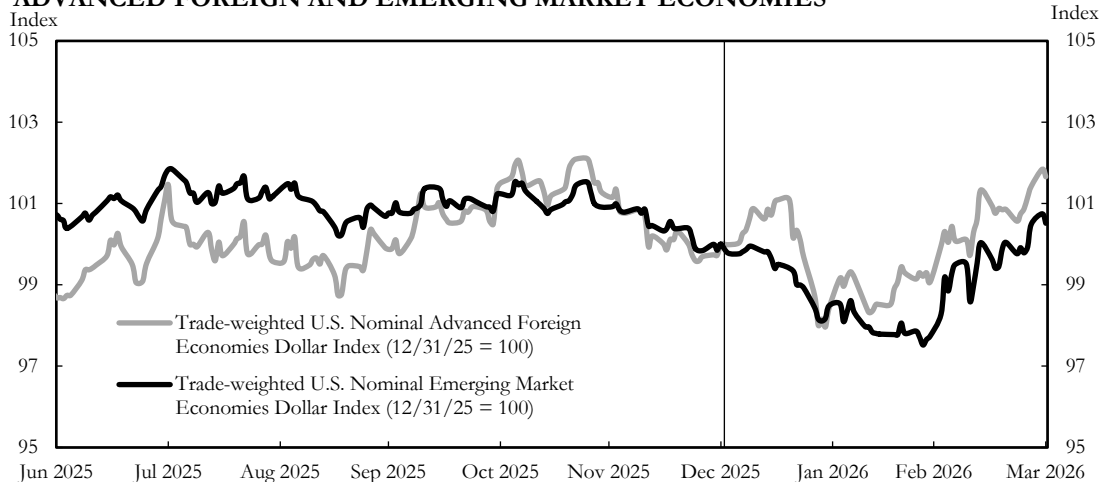
Net energy exporters benefited from a positive terms-of-trade shock and saw their currencies appreciate against the dollar, while net importers experienced the opposite pressure. For example, the dollar depreciated 5.4 percent against the Brazilian real as Brazil benefited from its position as a net energy exporter. Meanwhile, the dollar appreciated 5.5 percent against the Korean won amid the negative terms-of-trade shock, as South Korea is a large net energy importer.

An exception to the trend of depreciation against the dollar by the currencies of net energy importing nations was the Chinese renminbi, which appreciated 1.4 percent on net against the dollar. Contacts noted that while China is a net energy importer, the renminbi continued its gradual appreciation trend that began in the second half of 2025, in part due to China’s growing trade surplus and relative resilience to Middle East energy supply shocks.

² The Federal Reserve’s Emerging Market Economies Dollar Index, formerly known as the Other Important Trading Partners (OITP) index, is a weighted average of the foreign exchange value of the U.S. dollar against a subset of emerging market currencies. For more information on the index, see [Revisions to the Federal Reserve Dollar Indexes](#).

Chart 7

**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

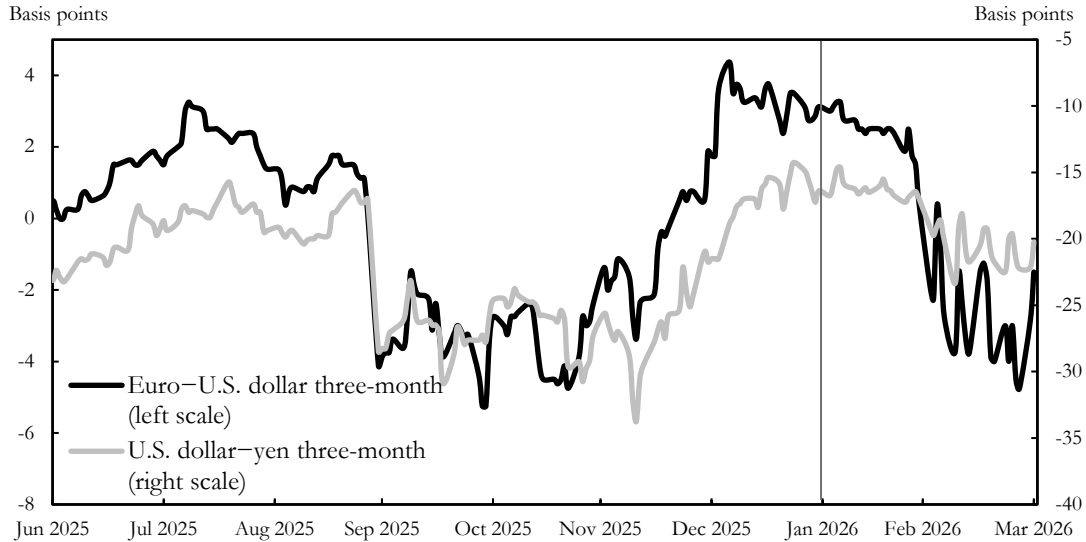
Global offshore dollar funding conditions in the foreign exchange swap market were stable during the first quarter amid ample dollar funding liquidity. Foreign exchange swap-implied U.S. dollar borrowing premiums in major currency pairs remained historically low throughout the quarter, with three-month foreign exchange swap basis spreads in the euro-dollar and dollar-yen pairs trading at historically tight levels of around 5 and 25 basis points on March 31, respectively. Over the quarter-end turn, short-dated foreign exchange swap basis spreads for some currency pairs, including the dollar-yen, widened modestly. These moves retraced following the quarter-end turn and were widely 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 \$481 million at the end of the fourth quarter of 2025 to \$180 million at the end of the first quarter of 2026, in line with comparable periods in the prior two years. The decrease reflected the maturities of swaps that had been originated in the fourth quarter of 2025 during typical year-end-related increases in take-up. All outstanding central bank liquidity swaps at the end of the first quarter were with the ECB, while the BOJ, BoE, Swiss National Bank, and Bank of Canada had no U.S. dollar swaps outstanding.

Chart 8

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 March 31, the value of the Federal Reserve System Open Market Account (SOMA) foreign-currency-denominated assets totaled \$19.1 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 \$19.1 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.

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 March 31, 2026, the U.S. dollar value of euro-denominated deposits and government securities held by the SOMA and the ESF decreased to \$26.3 billion from \$26.7 billion on December 31, 2025, and the U.S. dollar value of yen-denominated deposits and government securities decreased to \$11.8 billion from \$12.0 billion on December 31, 2025. Changes in the dollar value of the portfolios reflect the net effect of foreign exchange translation effects and local currency returns.

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, 2026 ^a
	Carrying Value, December 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	
Federal Reserve System						
Open Market Account						
(SOMA)						
Euro	13,336	0	64	0	(248)	13,152
Japanese yen	5,995	0	11	0	(86)	5,919
Total	19,331	0	75	0	(334)	19,071

	Changes in Balances by Source					Carrying Value, March 31, 2026 ^a
	Carrying Value, December 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	
U.S. Treasury Exchange						
Stabilization Fund (ESF)						
Euro	13,315	0	64	0	(248)	13,131
Japanese yen	5,995	0	11	0	(86)	5,919
Total	19,310	0	75	0	(334)	19,050

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 March 31, 2026

	U.S. Treasury Exchange Stabilization Fund (ESF) ^a	Federal Reserve System Open Market Account (SOMA) ^b
Euro-denominated assets	13,130.9	13,151.6
Cash held on deposit at official institutions	5,736.4	5,757.1
Marketable securities held under repurchase agreements ^b	0.0	0.0
Marketable securities held outright	7,394.5	7,394.5
German government securities	670.5	670.5
French government securities	6,232.3	6,232.3
Dutch government securities	491.7	491.7
Yen-denominated assets	5,919.4	5,919.4
Cash held on deposit at official institutions	3,007.5	3,007.5
Marketable securities held outright	2,911.9	2,911.9

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

^a As of March 31, the SOMA and the ESF euro portfolios had Macaulay durations of 20.32 and 20.35 months, respectively; the SOMA and the ESF yen portfolios had Macaulay durations of 5.44 and 5.44 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 March 31, 2026
<u>Federal Reserve System Open Market Account (SOMA)</u>		
Reciprocal currency arrangement		
Bank of Canada	2,000	0
Banco de México	3,000	0
Standing dollar liquidity swap arrangement		
European Central Bank	Unlimited	180
Swiss National Bank	Unlimited	0
Bank of Japan	Unlimited	0
Bank of Canada	Unlimited	0
Bank of England	Unlimited	0
		180
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>U.S. Treasury Exchange Stabilization Fund (ESF)</u>		
Banco de México	9,000	0
Banco Central de la República Argentina	20,000	0
	29,000	0