TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS

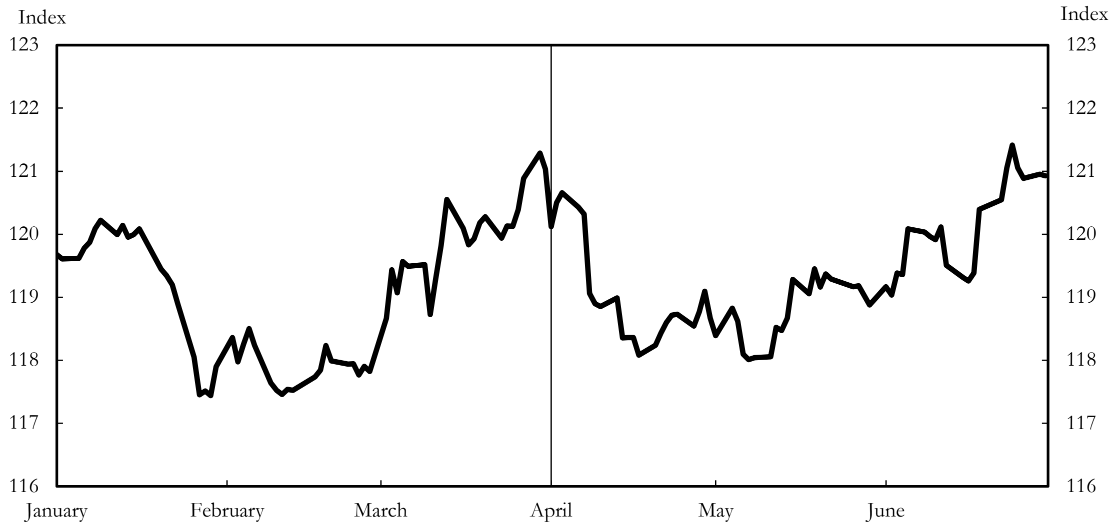
April-June 2026

During the second quarter of 2026, the U.S. dollar, as measured by the Federal Reserve Board's broad trade-weighted dollar index, was little changed on net, with dollar appreciation against advanced economy currencies offsetting depreciation against emerging market currencies. The dollar depreciated early in the quarter as de-escalation in the U.S.-Iran conflict led to a decline in oil prices and improved market risk sentiment, reversing dynamics observed in the first quarter at the start of the conflict. Market focus later in the second quarter shifted to widening U.S.–advanced foreign economy interest rate differentials in favor of the U.S. driven by stronger-than-expected U.S. economic data and an upward repricing of Federal Reserve policy expectations. On net over the quarter, the dollar's performance was mixed on a bilateral basis. The dollar appreciated against advanced economy currencies such as the euro, Japanese yen, and Canadian dollar but depreciated against the Chinese renminbi and several high-yielding emerging market currencies popular in carry trade strategies. 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 for the Federal Open Market Committee, describes the foreign exchange operations of the New York Fed for the period from April through June 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. Martin Prusinowski was primarily responsible for preparation of the report.

Chart 1

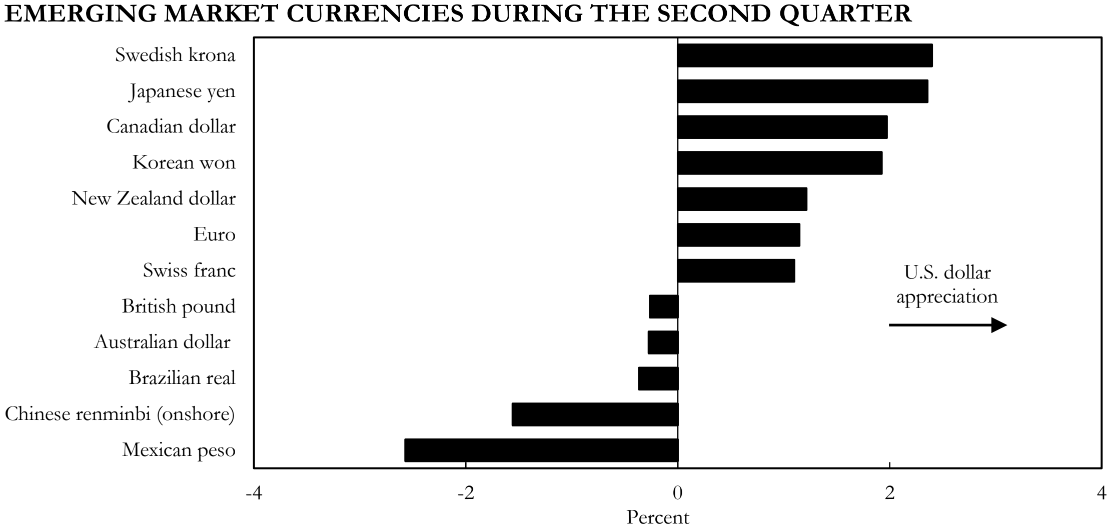
BROAD TRADE-WEIGHTED U.S. DOLLAR INDEX



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.

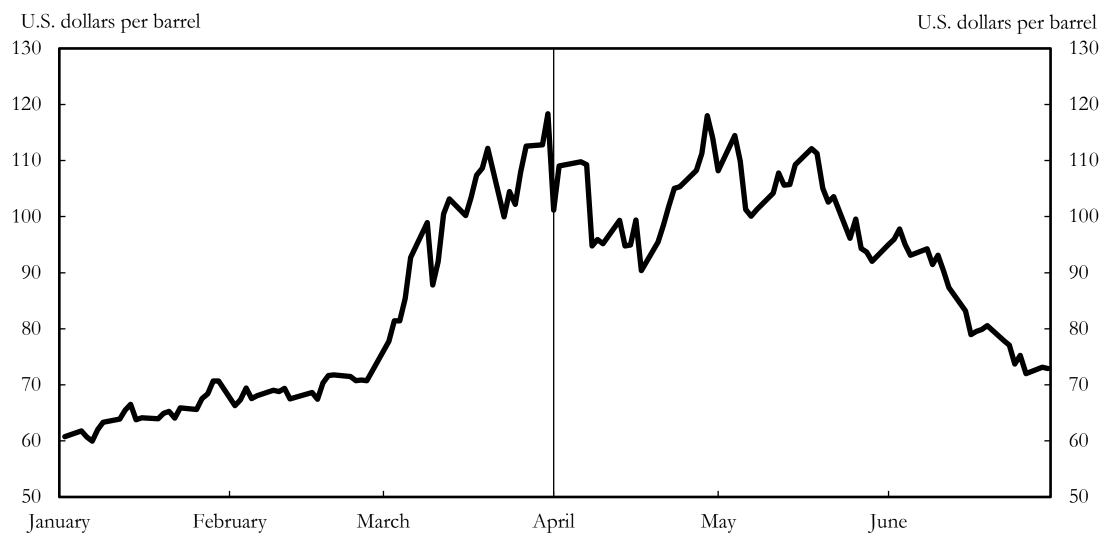
U.S. DOLLAR UNCHANGED ON NET AS EARLY QUARTER DEPRECIATION PRESSURES REVERSE AMID WIDENING INTEREST RATE DIFFERENTIALS

During the second quarter of 2026, the U.S. dollar, as measured by the Federal Reserve Board's broad trade-weighted dollar index, was little changed on net, driven by geopolitical developments and an upward repricing of the Federal Reserve's path of policy. Despite the limited net broad dollar move, the dollar's performance was mixed on a bilateral basis, appreciating against advanced economy currencies such as the euro, Japanese yen, and Canadian dollar but depreciating against several high-yielding emerging market currencies popular in carry trade strategies. [1]

Early in the quarter, the dollar depreciated as reports of de-escalation in the U.S.-Iran conflict drove a decline in oil prices, which market participants viewed as largely reversing the positive terms-of-trade shock and negative market risk sentiment that had supported the dollar in the first quarter. The de-escalation was seen as driving the broad dollar's 2 percent depreciation between the beginning of the quarter and early May. Over the quarter, front-month Brent crude oil futures declined by 38 percent, while the S&P 500 index increased by 15 percent on net.

Chart 3

FRONT-MONTH BRENT CRUDE OIL FUTURES



Source: Bloomberg L.P.

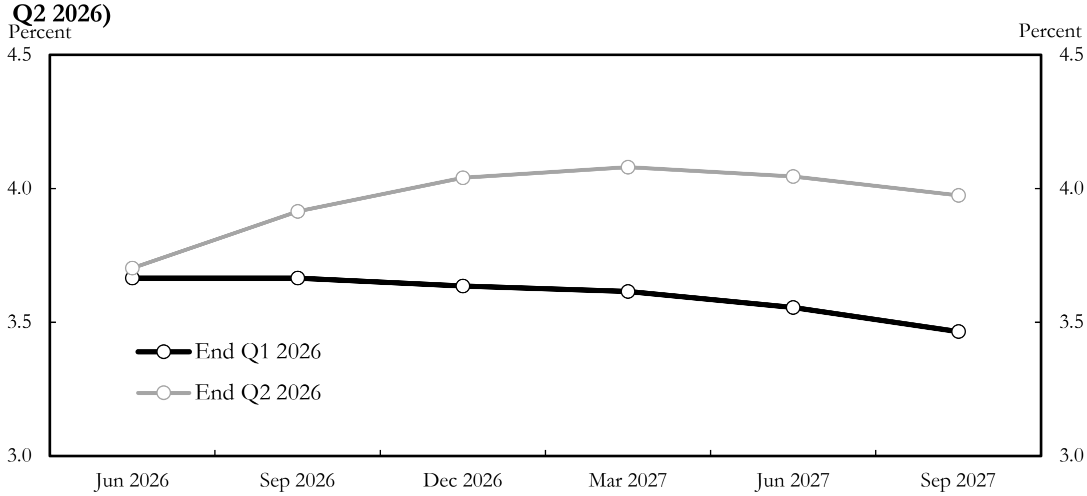
Dollar appreciation later in the quarter was driven by widening U.S.–advanced foreign economy interest rate differentials favoring the U.S., as two-year Treasury yields rose by 38 basis points over the

[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.

quarter while front-end yields in other advanced economy sovereign bond markets generally remained flat or declined. Rising two-year Treasury yields were broadly viewed as being driven by above-expectations U.S. economic data, elevated measures of core inflation, and a repricing higher of Federal Reserve policy expectations. The Federal Open Market Committee (FOMC) maintained its federal funds target range at both the April and June meetings, though market participants interpreted communications from Chairman Warsh at the June meeting as emphasizing the Committee's commitment to price stability and increasing the likelihood of policy rate increases later in 2026. Market contacts were also focused on the increase in the year-end 2026 median federal funds rate in the June Summary of Economic Projections (SEP) from 3.4 percent to 3.8 percent, which implied expectations for a policy rate increase among FOMC members.

Chart 4

SOFR FUTURES-IMPLIED PATH OF FOMC POLICY (Q1 2026 VERSUS Q2 2026)



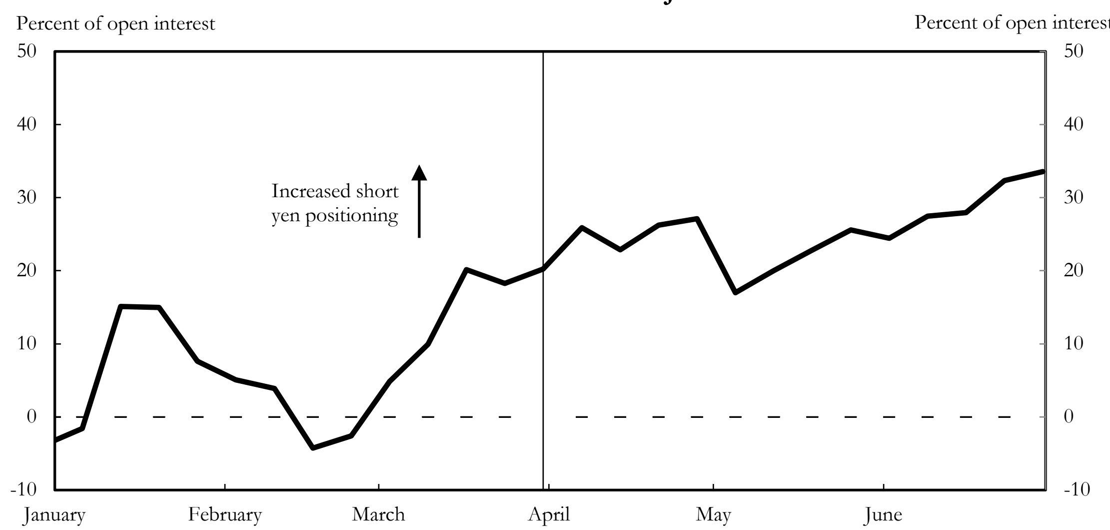
Source: Bloomberg L.P.

U.S. DOLLAR APPRECIATES AGAINST JAPANESE YEN AMID WIDENING INTEREST RATE DIFFERENTIALS AS JAPANESE AUTHORITIES INTERVENED

The dollar appreciated 2.4 percent against the Japanese yen in the second quarter, with market participants focused on the exchange rate rising above 162 yen per U.S. dollar, the yen's weakest level against the dollar in around forty years. Yen depreciation largely reflected widening U.S.–Japanese interest rate differentials amid the Bank of Japan's (BoJ) continued accommodative monetary policy stance and rising U.S. Treasury yields, which contributed to an extension of market participants' short yen positioning. On net over the quarter, two-year U.S.–Japan interest rate differentials widened by about 37 basis points. The BoJ held its policy rate constant in April and raised it to "around 1 percent" in June. Nevertheless, OIS-implied market pricing for the 2026 year-end policy rate fell modestly over the quarter, as BoJ communications were perceived by market contacts as lacking a clear signal on the timing of further rate increases. Additionally, the yen was seen as facing depreciation pressures from its use as a funding currency in carry trade strategies. These trading strategies have reportedly grown in popularity amid persistent wide interest rate differentials and subdued implied volatility in major currency pairs. Consistent with the reported use of the yen as a funding currency, Commodity Futures Trading Commission (CFTC) positioning data showed speculative short yen positioning reaching its most extended level since July 2024.

Chart 5

U.S. DOLLAR NET LONG POSITIONING AGAINST JAPANESE YEN

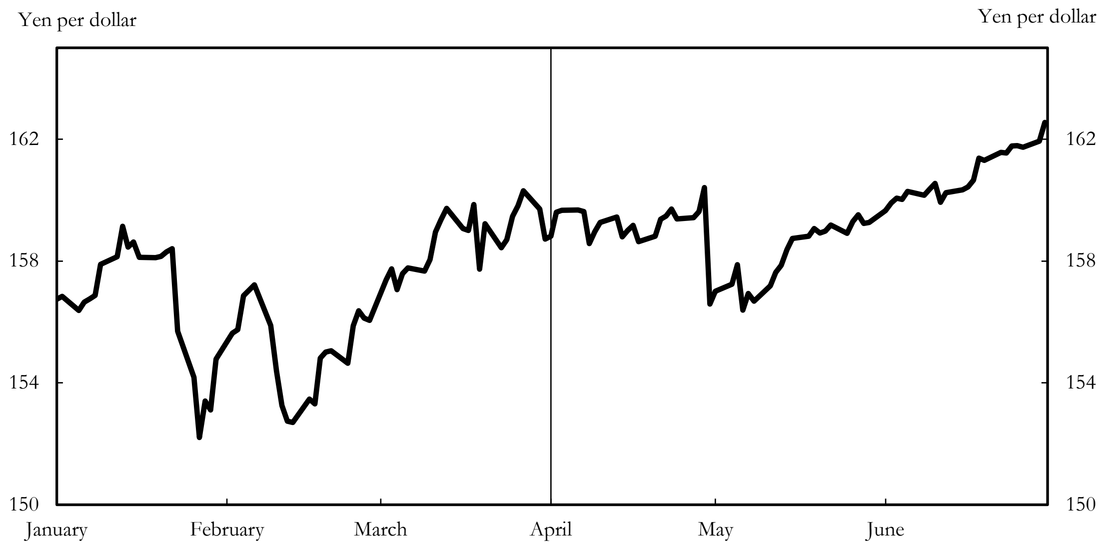


Source: Commodity Futures Trading Commission via Bloomberg L.P.

During the second quarter, Japan's Ministry of Finance published data indicating that it had intervened to combat further yen depreciation in the amount of 11.7 trillion yen. The dollar depreciated against the yen by up to 3.5 percent from peak to trough following the intervention, though this move more than fully retraced over the rest of the quarter.

Chart 6

U.S. DOLLAR−YEN EXCHANGE RATE



Source: Bloomberg L.P.

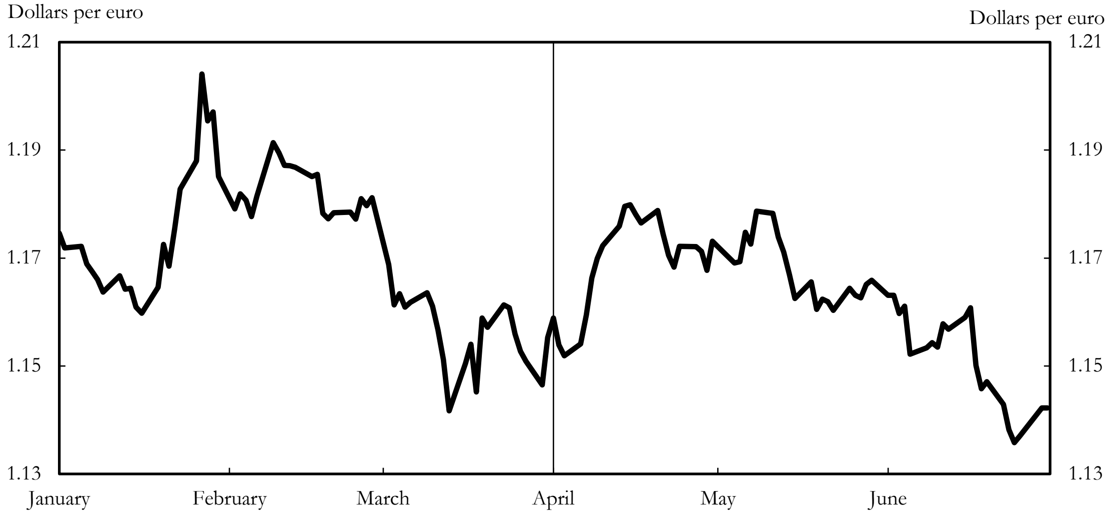
U.S. DOLLAR APPRECIATES AGAINST EURO ON DECLINING EXPECTATIONS FOR ECB RATE HIKES AND WEAKENING EURO AREA GROWTH OUTLOOK

The dollar appreciated 1.2 percent against the euro in the second quarter as lower European Central Bank (ECB) rate hike expectations and weakening euro area growth prospects widened U.S.–euro area interest rate differentials in favor of the U.S. Euro area economic data generally underperformed expectations amid uncertainties regarding energy supply and global growth, and market consensus forecasts for 2026 euro area growth were revised sharply downward.

The ECB held its policy rate unchanged at 2 percent in April and raised it by 25 basis points in June, with market participants attributing the decision to the ECB's desire to respond to the potential for sustained inflation from energy supply disruptions. ECB communications regarding the policy path were interpreted as indicating a balanced policy approach given two-sided risks to growth and inflation. Market pricing for the ECB's policy path through year-end 2026 declined 23 basis points over the quarter alongside falling energy prices and lower near-term euro area inflation expectations.

Chart 7

EURO–U.S. DOLLAR EXCHANGE RATE



Source: Bloomberg L.P.

U.S. DOLLAR LITTLE CHANGED AGAINST BRITISH POUND AMID INTRA-QUARTER VOLATILITY

The dollar was little changed against the British pound on net despite some intra-quarter volatility. Early in the quarter, the pound appreciated against the dollar amid reports of a de-escalation in the U.S.–Iran conflict, which drove a decline in oil prices and an improvement in market risk sentiment. The pound benefited from each of these factors given the U.K.'s position as a net energy importer and its positive correlation with measures of market risk sentiment.

However, pound appreciation reversed later in the quarter amid a 63 basis point narrowing of U.K–U.S. two-year interest rate differentials in favor of the U.S., which weighed on the pound. Coincident with a rise in U.S. yields, U.K. gilt yields declined, driven by an easing in U.K. inflation expectations amid declining energy prices, below-expectations inflation data, and signs of a more pronounced easing in the labor market. Against this backdrop, market-implied pricing for the Bank of England's (BoE) year-end 2026 policy rate fell by around 30 basis points over the quarter to imply roughly one full 25 basis point rate hike by year-end. The BoE maintained its policy rate at 3.75 percent at both its April and June meetings.

Of note, contacts cited uncertainty about U.K. political developments and fiscal policy implications as contributing to volatility in the pound over the quarter.

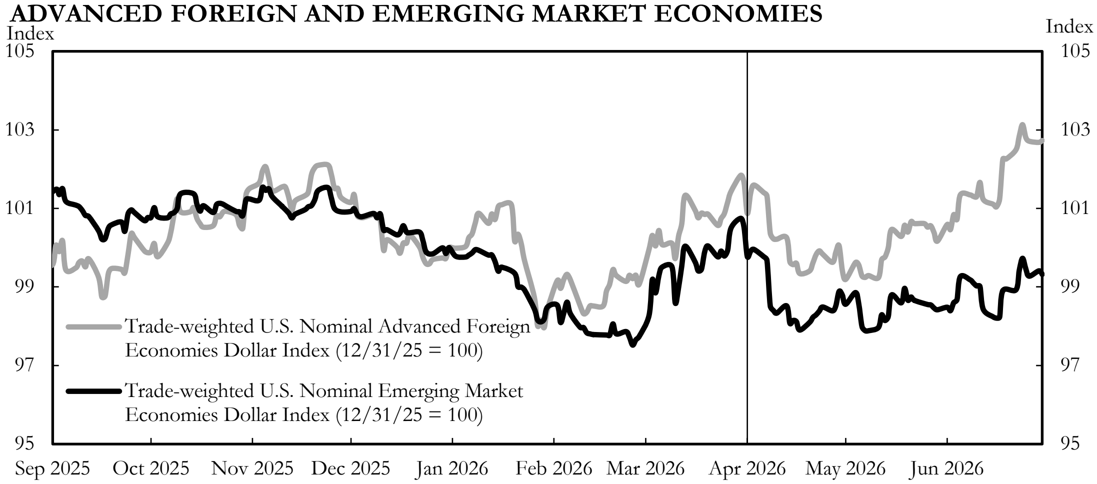
U.S. DOLLAR DEPRECIATES AGAINST HIGH-YIELDING EMERGING MARKET CURRENCIES WHILE RENMINBI APPRECIATION TREND CONTINUES

The dollar depreciated 1.2 percent against emerging market currencies during the quarter as measured by the Federal Reserve's trade-weighted Emerging Market Economies Dollar Index.[2] The move was driven largely by the dollar's 2.5 percent depreciation against the Mexican peso and 1.6 percent depreciation against the Chinese renminbi, though these currencies appreciated due to different factors. Emerging market currencies with relatively high domestic interest rates, such as the Mexican peso, generally appreciated against the dollar. Market contacts attributed the strong performance of high-yielding emerging market currencies largely to inflows related to carry trade strategies popular among global investors amid generally subdued foreign exchange volatility, particularly later in the quarter.

The Chinese renminbi's appreciation against the dollar was consistent with the ongoing trend of renminbi appreciation since the second half of 2025. Factors viewed as supporting the currency were China's near record-high second-quarter trade balances amid strong export growth and relative resilience to energy supply shocks given robust domestic stockpiles. The People's Bank of China (PBOC) was viewed as using the daily dollar–renminbi fixing[3] to lean against renminbi appreciation pressure throughout the quarter.

Chart 8

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.

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[2] See https://www.federalreserve.gov/econres/notes/feds-notes/revisions-to-the-federal-reserve-dollar-indexes-20190115.html.

[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.

OFFSHORE U.S. DOLLAR FUNDING CONDITIONS REMAIN STABLE

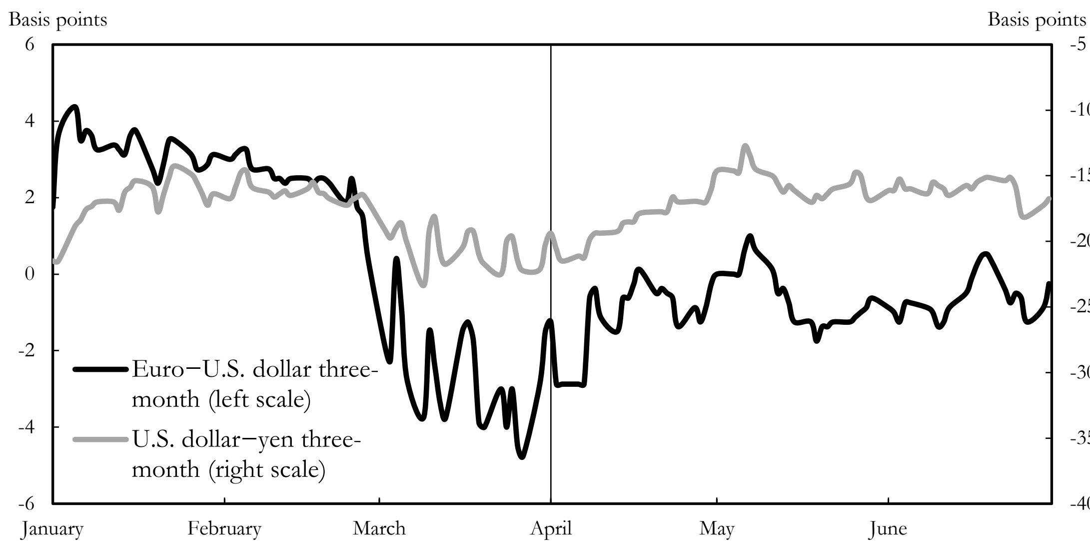
Global offshore dollar funding conditions in the foreign exchange swap market were stable during the second quarter amid ample dollar funding liquidity. Foreign exchange swap-implied U.S. dollar borrowing premiums in major currency pairs remained low relative to historical averages throughout the quarter, with three-month foreign exchange swap basis spreads in the euro–dollar and dollar–yen pairs trading at historically tight levels. 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 characterized as typical of quarter-end trading conditions.

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

Swap usage over the quarter was relatively low and similar to levels observed in prior quarters as offshore dollar funding markets remained stable throughout the period. Aggregate swaps outstanding of the U.S. dollar liquidity swap arrangements with foreign central banks increased from $180 million at the end of the first quarter of 2026 to $250 million at the end of the second quarter of 2026. The outstanding central bank liquidity swaps at the end of the second quarter were with the ECB and BoE, while the BoJ, Swiss National Bank, and Bank of Canada had no U.S. dollar swaps outstanding.

Chart 9

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 System Open Market Account (SOMA) foreign-currency-denominated assets totaled $18.9 billion, comprised of euro- and yen-denominated holdings. The value of the U.S. Treasury's Exchange Stabilization Fund's (ESF) foreign-currency-denominated assets also totaled $18.9 billion, composed 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 June 30, 2026, the U.S. dollar value of euro-denominated deposits and government securities held by the SOMA and the ESF decreased to $26.2 billion from $26.3 billion on March 31, 2026, and the U.S. dollar value of yen-denominated deposits and government securities decreased to $11.6 billion from $11.8 billion on March 31, 2026. 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

	Carrying Value, March 31, 2026[a]	Changes in Balances by Source: Net Purchases and Sales[b]	Investment Earnings[c]	Realized Gains / Losses on Sales[d]	Gains/Losses on Foreign Currency Revaluation[e]	Carrying Value, June 30, 2026[a]
Federal Reserve System Open Market Account (SOMA)						
Euro	13,152	0	72	0	(117)	13,107
Japanese yen	5,919	0	11	0	(129)	5,802
Total	19,071	0	83	0	(246)	18,909

	Carrying Value, March 31, 2026[a]	Changes in Balances by Source: Net Purchases and Sales[b]	Investment Earnings[c]	Realized Gains / Losses on Sales[d]	Gains/Losses on Foreign Currency Revaluation[e]	Carrying Value, June 30, 2026[a]
U.S. Treasury Exchange Stabilization Fund (ESF)						
Euro	13,131	0	72	0	(117)	13,086
Japanese yen	5,919	0	11	0	(128)	5,802
Total	19,050	0	83	0	(245)	18,888

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, 2026

	U.S. Treasury Exchange Stabilization Fund (ESF)[a]	Federal Reserve System Open Market Account (SOMA)[b]
Euro-denominated assets	**13,086.3**	**13,107.0**
Cash held on deposit at official institutions	5,781.9	5,802.6
Marketable securities held under repurchase agreements[b]	0.0	0.0
Marketable securities held outright	7,304.4	7,304.4
German government securities	526.6	526.6
French government securities	6,291.1	6,291.1
Dutch government securities	486.7	486.7
Yen-denominated assets	**5,802.1**	**5,802.0**
Cash held on deposit at official institutions	3,308.8	3,308.7
Marketable securities held outright	2,493.3	2,493.3

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

[a] As of June 30, the SOMA and the ESF euro portfolios had Macaulay durations of 20.21 and 20.24 months, respectively; the SOMA and the ESF yen portfolios had Macaulay durations of 4.01 and 4.01 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, 2026
	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	235
Swiss National Bank	Unlimited	0
Bank of Japan	Unlimited	0
Bank of Canada	Unlimited	0
Bank of England	Unlimited	15
		250
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 del la República Argentina	20,000	0
	29,000	0