TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS

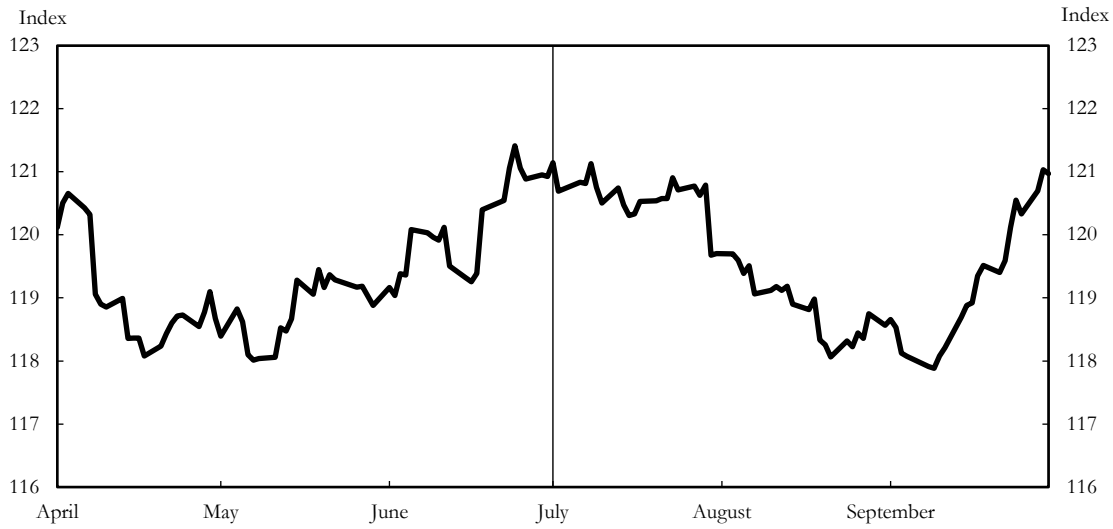
July-September 2026

During the third 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. Moves in the dollar were broadly consistent with changes in front-end U.S.–advanced foreign economy (AFE) interest rate differentials, which also ended the quarter little changed on net despite notable intra-quarter shifts. Early in the quarter, U.S.–AFE interest rate differentials narrowed amid resilient foreign macroeconomic data and a perceived rise in upside global inflation risks related to higher energy prices stemming from a re-escalation of the Middle East conflict, which drove broad dollar depreciation. These dynamics reversed later in the quarter, as stronger-than-expected U.S. economic data and communications from Federal Reserve officials led to an upward repricing of the Federal Reserve's path of policy. The trade-weighted dollar's performance was mixed on a bilateral basis over the quarter, with dollar depreciation against Asian currencies such as the Korean won, Japanese yen, and Chinese renminbi largely offset by appreciation against currencies such as the euro and Mexican peso. The U.S. Treasury purchased Japanese yen in the 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 for the Federal Open Market Committee, describes the foreign exchange operations of the New York Fed for the period from July through September 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

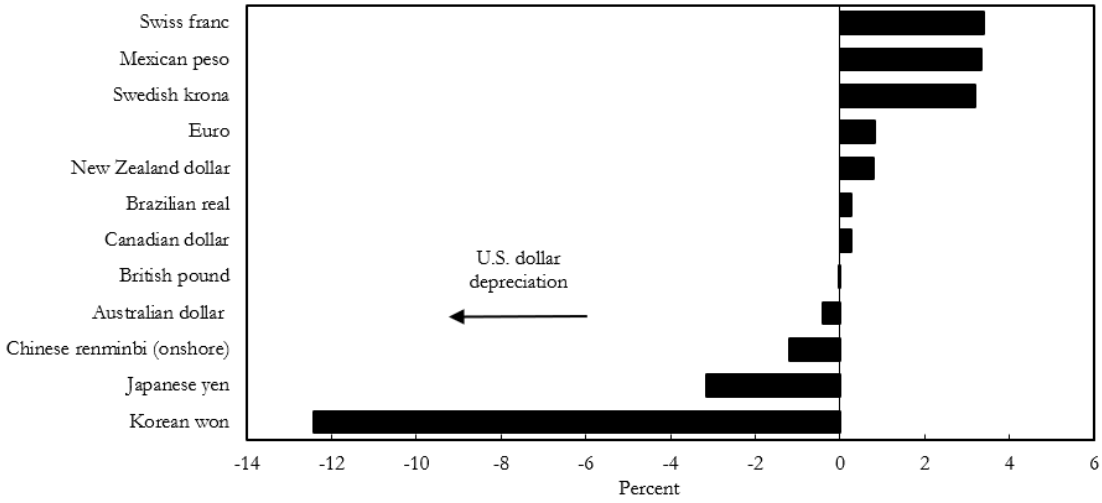
BROAD TRADE-WEIGHTED U.S. DOLLAR INDEX



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

Chart 2

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



Source: Bloomberg L.P.

U.S. DOLLAR LITTLE CHANGED AS EARLY QUARTER DEPRECIATION PRESSURES REVERSE AMID AN UPWARD REPRICING OF FED POLICY

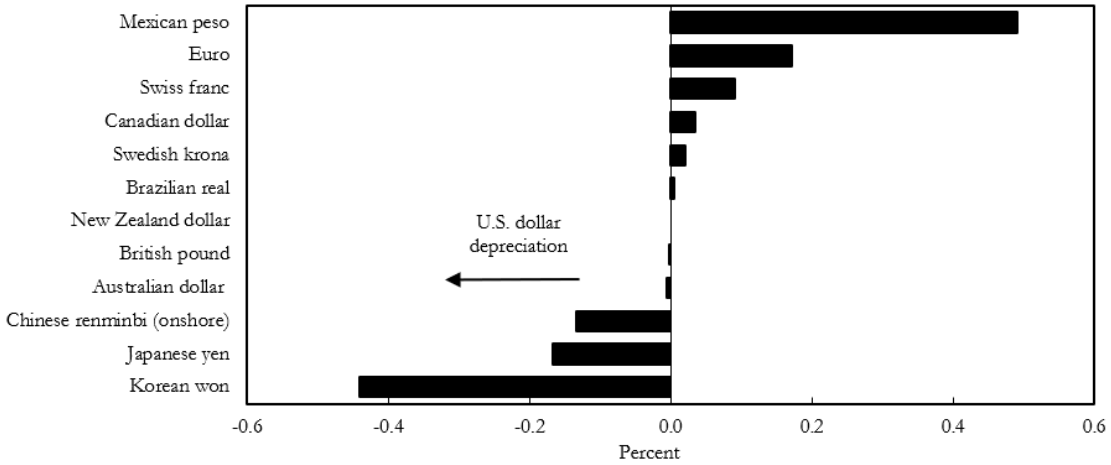
During the third quarter of 2026, the U.S. dollar, as measured by the Federal Reserve Board's broad trade-weighted dollar index, was little changed on net. Moves in the dollar were broadly consistent with changes in U.S.–AFE interest rate differentials, which also ended the quarter little changed on net despite notable intra-quarter shifts and significant increases in advanced economy sovereign bond yields. The trade-weighted dollar's performance was mixed on a bilateral basis over the quarter, with dollar depreciation against Asian currencies such as the Korean won, Japanese yen, and Chinese renminbi largely offset by appreciation against currencies such as the euro and Mexican peso.

Early in the quarter, the dollar depreciated amid a narrowing in U.S.–AFE interest rate differentials, as policy-sensitive interest rates abroad rose more than comparable U.S. rates. Market participants remained focused on the re-escalation of the Middle East conflict, which drove a 42 percent rise in Brent crude oil futures on net over the quarter. Prices for refined energy products also increased notably, which was seen as increasing upside inflation risks in energy-importing jurisdictions. Nonetheless, macroeconomic data in other advanced economies remained generally resilient over the quarter, and this resilience, alongside rising perceived foreign upside inflation risks, resulted in a shift in relative monetary policy outlooks. These factors were seen as driving a near 2 percent depreciation in the broad dollar through the beginning of September.

Dollar appreciation later in the quarter, meanwhile, was driven by an upward repricing of the Federal Reserve's path of policy relative to other advanced economies. U.S. economic data releases, which had been mixed in the first two months of the quarter, turned notably positive in September. This shift, alongside market participants' interpretation of Federal Reserve officials' more hawkish communications on the policy outlook, supported dollar appreciation. Specifically, non-farm payrolls data released in September showed that hiring reaccelerated beyond consensus forecasts, with prior months' data also revised higher. Additionally, inflation data released later in the quarter were broadly seen as cementing expectations for a rate increase at the September Federal Open Market Committee (FOMC) meeting. Indeed, the FOMC raised the federal funds target range by 25 basis points at its September meeting, with market participants focused on increases in the Summary of Economic Projections' median federal funds rate for year-end 2026 and 2027 compared to projections in the prior release.

Chart 3

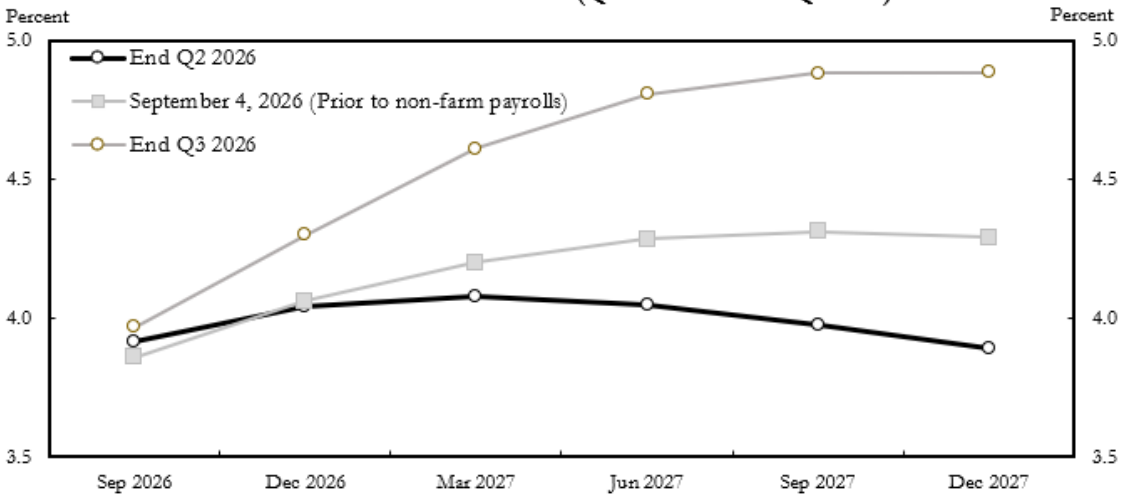
CONTRIBUTIONS TO CHANGE IN TRADE-WEIGHTED U.S. DOLLAR PERFORMANCE AGAINST ADVANCED ECONOMY AND EMERGING MARKET CURRENCIES DURING THE THIRD QUARTER



Source: Bloomberg L.P.

Chart 4

SOFR FUTURES-IMPLIED PATH OF POLICY (Q2 2026 VERSUS Q3 2026)



Source: Bloomberg L.P.

U.S. DOLLAR DEPRECIATES AGAINST JAPANESE YEN AMID YEN PURCHASES BY U.S. TREASURY, JAPANESE AUTHORITIES

The dollar depreciated 3.2 percent against the Japanese yen on net over the third quarter. After the dollar–yen exchange rate reached new multi-decade highs near 164 yen per U.S. dollar in July, the yen appreciated over the remainder of the quarter. The yen's appreciation was broadly viewed by market participants as driven by yen purchases by the U.S. Treasury and Japanese authorities, rising expectations for an accelerated pace of Bank of Japan (BoJ) policy rate increases, and speculation regarding potential shifts in asset allocation by Japan's Government Pension Investment Fund (GPIF).

Following the July BoJ policy meeting, the yen depreciated as the BoJ's policy rate was left unchanged and communications were broadly perceived by market participants as providing little signal regarding the timing of future policy rate increases. On July 30, 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 United States. [1] The yen appreciated 2.3 percent against the dollar on the day these reports were in focus.

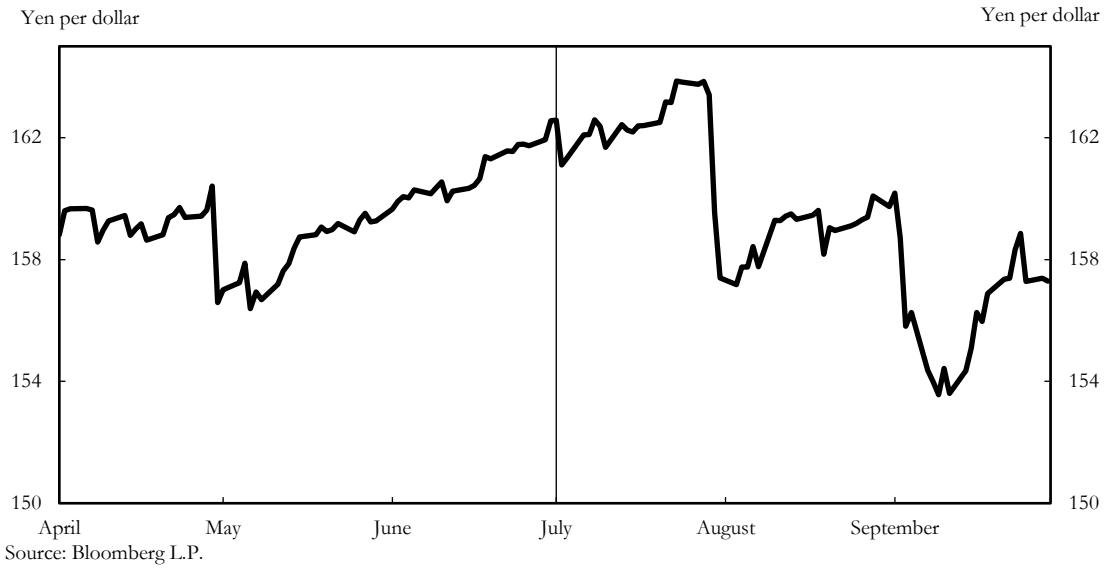
The following day, while acting as fiscal agent for the U.S. Treasury, the New York Fed purchased 79.4 billion yen in the spot foreign exchange market against the sale of euros from the Exchange Stabilization Fund to counter what the U.S. Treasury viewed as disorderly moves in the Japanese yen.[2]

In coordination with these actions taken by the New York Fed as fiscal agent on behalf of the U.S. Treasury, Japan's Ministry of Finance (MoF) conducted foreign exchange interventions to counter what the MoF viewed as excessive volatility and disorderly movements in the Japanese yen in recent months in the amount of 15.4 trillion yen during the third quarter. [3] [4] Between July 30 and August 3, the yen appreciated, with the level of the dollar–yen exchange rate declining from around 164 yen per dollar to around 155 yen per dollar.

[1] When authorities ask counterparties for indicative quotes in a currency pair, market participants refer to the request as a "rate check."
[2] See Secretary Bessent's comments on *X* on August 2, 2026: https://x.com/SecScottBessent/status/2084051676801933622.
[3] See https://www.mof.go.jp/english/public_relations/statement/others/20260803073000.html.
[4] See https://www.mof.go.jp/english/policy/international_policy/reference/feio/monthly/20260828e.html.

Chart 5

U.S. DOLLAR–YEN EXCHANGE RATE

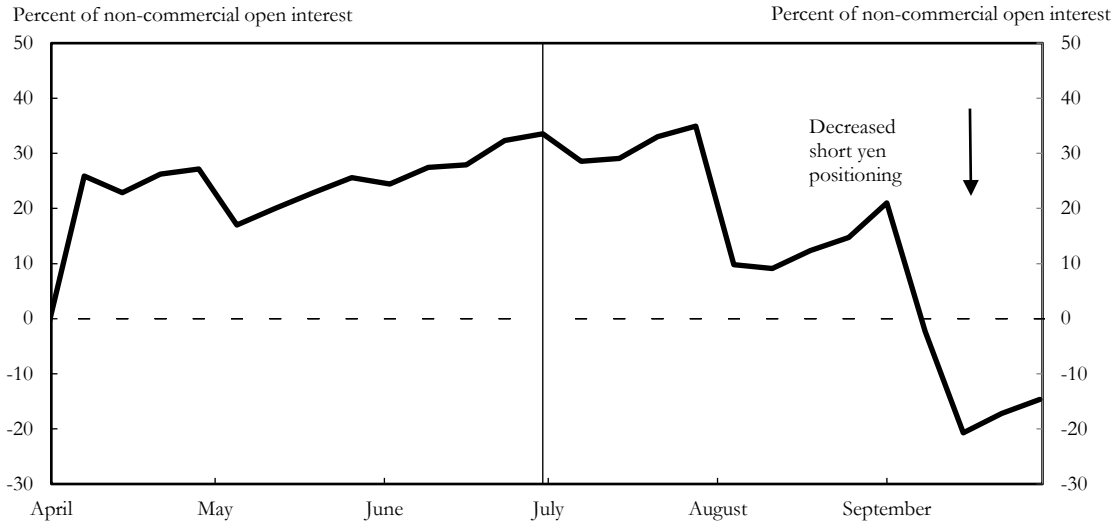


Source: Bloomberg L.P.

Following the foreign exchange interventions, market-implied pricing for the path of BoJ policy rose over the course of the quarter, which was viewed as limiting the re-emergence of yen depreciation pressures. On net, OIS-implied market pricing increased to reflect nearly 50 basis points of cumulative policy rate increases by year-end 2026, compared with around 25 basis points at the beginning of the quarter, while market-implied estimates of the BoJ's terminal policy rate rose by around 36 basis points to around 2.65 percent. At its September policy meeting, the BoJ raised its policy rate by 25 basis points to "around 1.25 percent." Consistent with perceived efforts by Japanese authorities to lean against yen depreciation pressures, market participants noted growing speculation regarding a potential future rebalancing of GPIF portfolio allocations toward domestic assets, which was seen as supportive of yen appreciation. Additionally, the unwinding of extended speculative short yen positions, particularly around the interventions, was viewed as magnifying the degree of yen appreciation over the quarter.

Chart 6

U.S. DOLLAR NET LONG POSITIONING AGAINST JAPANESE YEN



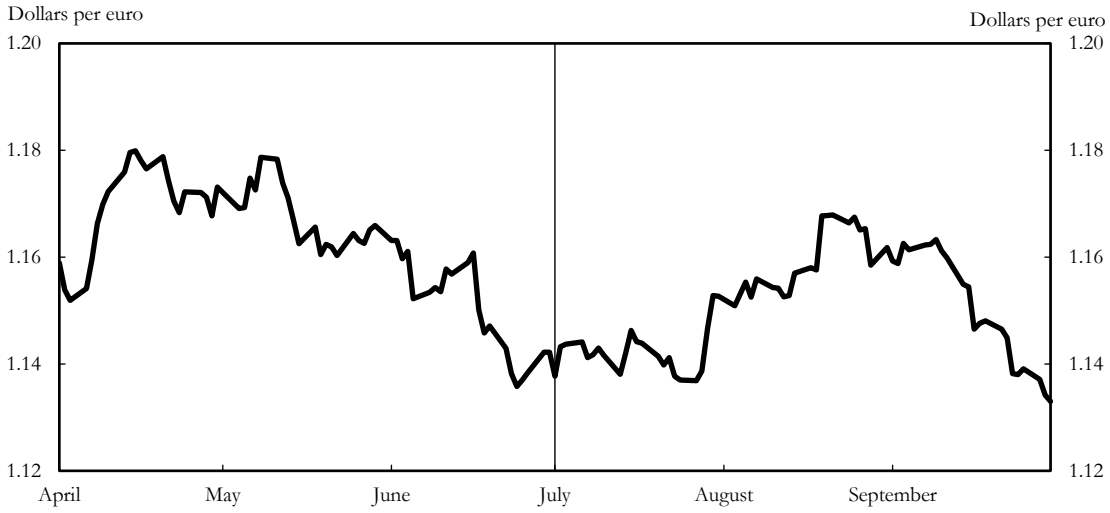
Source: Commodity Futures Trading Commission via Bloomberg L.P.

U.S. DOLLAR APPRECIATES MODESTLY AGAINST EURO AMID LITTLE CHANGE IN U.S.–EURO AREA INTEREST RATE DIFFERENTIALS ON NET

The dollar appreciated 0.8 percent against the euro in the third quarter on net. Rising euro area inflation pressures and resilient growth data initially increased market expectations for rate hikes by the European Central Bank (ECB), which drove a narrowing of U.S.–euro area interest rate differentials that supported euro appreciation. Indeed, two-year German yields rose 68 basis points over the quarter, while the one-year euro inflation swap rose by 126 basis points to 3.59 percent. The ECB raised its policy rate by 25 basis points to 2.50 percent in September, signaling in its communications that inflation was expected to remain above target for an extended period given elevated energy prices. In September, euro depreciation pressure emerged with the rise in U.S. Treasury yields, which left two-year U.S.–euro area interest rate differentials little changed on net over the quarter. Growing uncertainty around the French fiscal and political outlook, reflected in a notable widening of French–German government bond spreads, also led to euro depreciation late in the quarter.

Chart 7

EURO−U.S. DOLLAR EXCHANGE RATE



Source: Bloomberg L.P.

U.S. DOLLAR ROUGHLY UNCHANGED AGAINST BRITISH POUND AMID LITTLE NET CHANGE IN U.K.–U.S. INTEREST RATE DIFFERENTIALS

The U.S. dollar was little changed against the British pound in the third quarter as two-year U.K.–U.S. interest rate differentials ended the period roughly unchanged despite intra-quarter fluctuations. Early in the quarter, two-year U.K.–U.S. interest rate differentials widened by about 30 basis points amid rising U.K. yields, with two-year gilt yields rising by 73 basis points over the quarter on net. These early-quarter moves were driven largely by resilient U.K. economic data and rising near-term inflation expectations driven by higher energy prices stemming from the re-escalation of the Middle East conflict, given the country's status as a net energy importer. This widening largely retraced later in the quarter as short-dated U.S. Treasury yields increased alongside an upward repricing of the Federal Reserve's path of policy while U.K. gilt yields remained little changed during this period in September. The Bank of England kept its policy rate unchanged at 3.75 percent over the quarter.

U.S. DOLLAR LITTLE CHANGED VERSUS EMERGING MARKET CURRENCIES AS KOREAN WON APPRECIATION IS OFFSET BY MEXICAN PESO DEPRECIATION

The dollar was little changed on net against emerging market currencies during the third quarter, as measured by the Federal Reserve's trade-weighted Emerging Market Economies Dollar Index,[5] as the trade-weighted impact of the dollar's depreciation against the Korean won was largely offset by its appreciation against the Mexican peso. The dollar's 12.4 percent depreciation against the Korean won was attributed to continued robust growth in Korean exports—particularly semiconductors and related components, amid strong global demand for artificial intelligence infrastructure—as well as policy rate increases by the Bank of Korea at both its July and August meetings. Additionally, a notable slowing of foreign investor equity capital outflows from South Korea and expectations for repatriation of South Korean corporate cash holdings were viewed as supporting the won's appreciation.

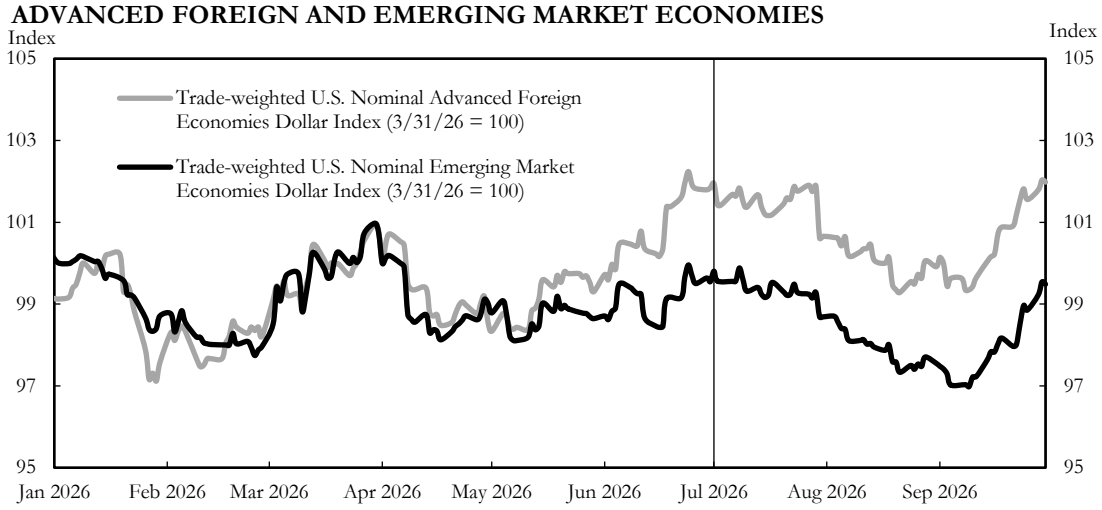
By contrast, the dollar appreciated 3.3 percent against the Mexican peso as carry trade investors unwound peso holdings late in the quarter.[6] This positioning unwind was broadly attributed to several developments. Rising global advanced-economy interest rates and increased interest rate volatility made carry trade strategies less appealing. Additionally, communications from the Banco de México were perceived as signaling a more accommodative policy stance than anticipated, which contributed to a narrowing of the peso's interest rate differential. This made the peso less attractive as a carry investment currency.

The Chinese renminbi appreciated 1.2 percent against the dollar, consistent with the trend of steady renminbi appreciation since the second half of 2025. Market contacts noted that the People's Bank of China (PBOC) continued to use the daily dollar–renminbi central parity fixing to smooth the pace of renminbi appreciation. [7]

[5] See https://www.federalreserve.gov/econres/notes/feds-notes/revisions-to-the-federal-reserve-dollar-indexes-20190115.html.
[6] 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.
[7] 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 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.

OFFSHORE U.S. DOLLAR FUNDING CONDITIONS REMAIN STABLE

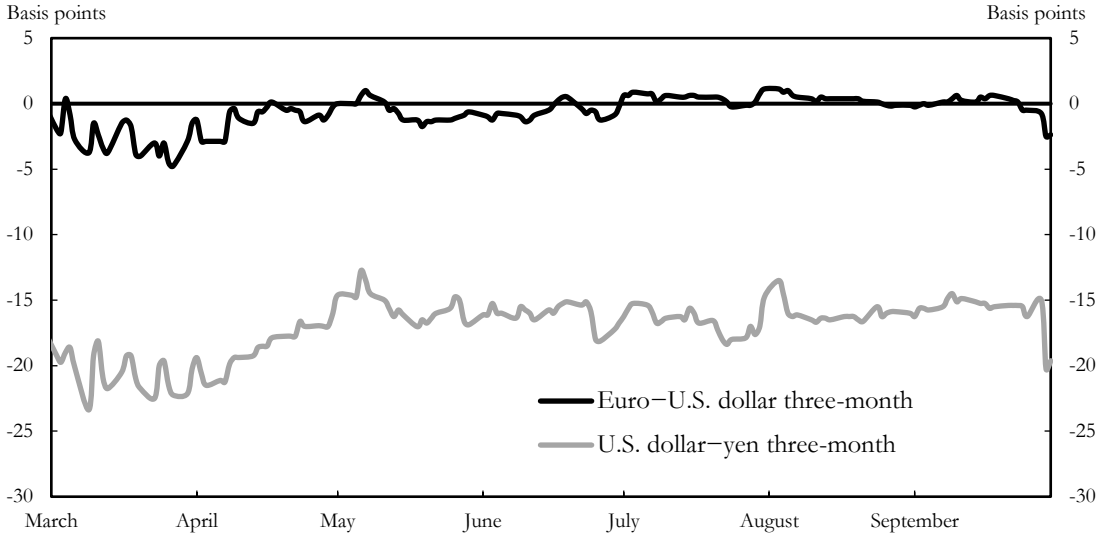
Global offshore dollar funding conditions in the foreign exchange swap market were stable over the third quarter. Foreign exchange swap-implied U.S. dollar borrowing premiums in major currency pairs remained generally low, with three-month foreign exchange swap basis spreads in the euro–dollar and dollar–yen pairs averaging at historically tight levels. Three-month spreads widened at the end of the third 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

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 decreased from $250 million at the end of the second quarter of 2026 to $207 million at the end of the third quarter of 2026. The outstanding central bank liquidity swaps at the end of the third 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 U.S. Treasury purchased Japanese yen in the foreign exchange markets over the period. The Federal Reserve did not intervene in foreign exchange markets over the period. As of September 30, the value of the 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 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.[8]

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 September 30, 2026, the U.S. dollar value of euro-denominated deposits and government securities held by the SOMA was roughly unchanged since June 30, 2026, at $13.1 billion, while the U.S. dollar value of yen-denominated assets increased from $5.8 billion to $6.0 billion over the same period. Changes in the dollar value of the portfolios reflect the net effect of foreign exchange translation effects and local currency returns.

Over the third quarter, the U.S. dollar value of euro-denominated deposits and government securities held by the ESF decreased from $13.1 billion to $12.6 billion, while the U.S. dollar value of yen-denominated deposits and government securities increased from $5.8 billion to $6.5 billion. Changes in the dollar value of the portfolios mostly reflect the July 31 U.S. Treasury purchases of yen in the spot foreign exchange market against the sale of euros from the ESF.

[8] 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, 2026[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, 2026[a]
Federal Reserve System Open Market Account (SOMA)						
Euro	13,107	0	76	0	(84)	13,099
Japanese yen	5,802	0	14	0	198	6,014
Total	18,909	0	90	0	114	19,113

		Changes in Balances by Source				
	Carrying Value, June 30, 2026[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, 2026[a]
U.S. Treasury Exchange Stabilization Fund (ESF)						
Euro	13,086	(500)	74	0	(75)	12,585
Japanese yen	5,802	500	15	0	203	6,520
Total	18,888	0	89	0	128	19,105

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, 2026

	U.S. Treasury Exchange Stabilization Fund (ESF)[a]	Federal Reserve System Open Market Account (SOMA)[b]
Euro-denominated assets	**12,584.9**	**13,099.1**
Cash held on deposit at official institutions	7,296.1	7,810.3
Marketable securities held under repurchase agreements[b]	0.0	0.0
Marketable securities held outright	5,288.8	5,288.8
German government securities	383.2	383.2
French government securities	4,423.3	4,423.3
Dutch government securities	482.3	482.3
Yen-denominated assets	**6,519.8**	**6,014.0**
Cash held on deposit at official institutions	3,626.8	3,121.0
Marketable securities held outright	2,893.0	2,893.0

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 16.78 and 17.48 months, respectively; the SOMA and the ESF yen portfolios had Macaulay durations of 5.07 and 4.67 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, 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	197
Swiss National Bank	Unlimited	0
Bank of Japan	Unlimited	0
Bank of Canada	Unlimited	0
Bank of England	Unlimited	10
		207
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