October–December 2015

This report, presented by Simon Potter, Executive Vice President, Federal Reserve Bank of New York, and Manager of the System Open Market Account, describes the foreign exchange operations of the U.S. Department of the Treasury and the Federal Reserve System for the period from October through December 2015. Doug Scrivani was primarily responsible for preparation of the report.

TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS

Strong Labor Market Data and Anticipation of FOMC Target Rate Increase Support Dollar's Strength

- The U.S. dollar continued to appreciate.

Broad Trade-Weighted U.S. Dollar Index

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

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- **The dollar was supported by a number of factors including.**
  - Increased market expectations for the Federal Open Market.
  - FOMC Committee to raise the target range for the federal funds rate by the end of the year and further in 2016.
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- **The U.S. dollar also appreciated against the Chinese renminbi amid numerous policy actions by Chinese authorities.**
- **Notably, increased expectations for the European Central Bank (ECB) to announce additional easing measures.**

Euro-U.S. Dollar Exchange

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- **Notably, increased expectations for the European Central Bank (ECB) to announce additional easing measures.**
- **In contrast to the broad appreciation of the dollar against other currencies, the U.S. dollar was little changed against the yen.**

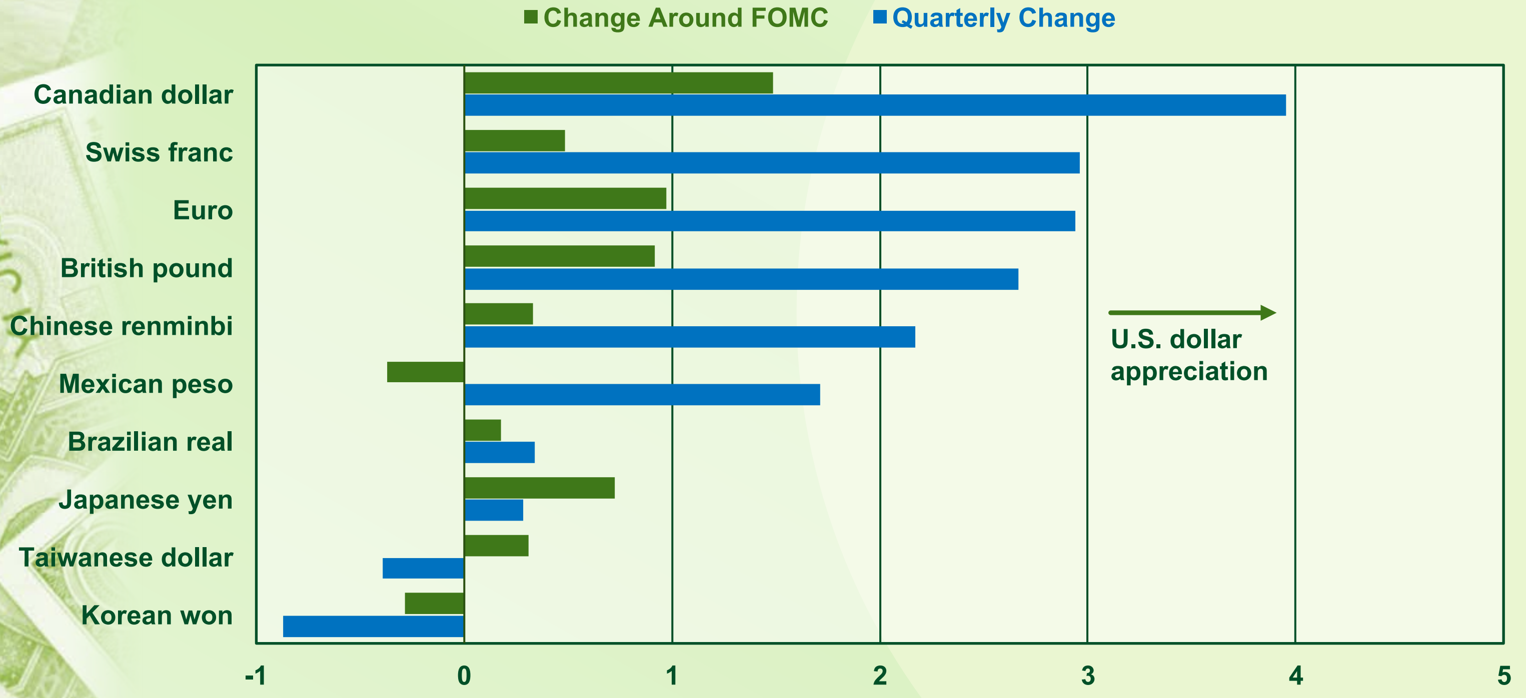
U.S. Dollar-Yen Exchange Rate

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

International Factors Including Declines In Oil Prices and Policy Action by the ECB Support a Stronger Dollar

- During the fourth quarter of 2015, the U.S. dollar continued to appreciate against most developed and emerging market currencies.
- In the few days after the decision by the FOMC, the U.S. dollar appreciated against most developed market currencies but was little changed against emerging market currencies, suggesting that the latter had become less sensitive to the timing of liftoff compared with prior periods.
- In reaction to the decision by the FOMC, emerging market countries that peg their currencies to the U.S. dollar, such as Hong Kong, Saudi Arabia, and Kuwait, also raised their policy rates following the decision.

Foreign Exchange Price Movements During Fourth Quarter and Around the December FOMC Meeting

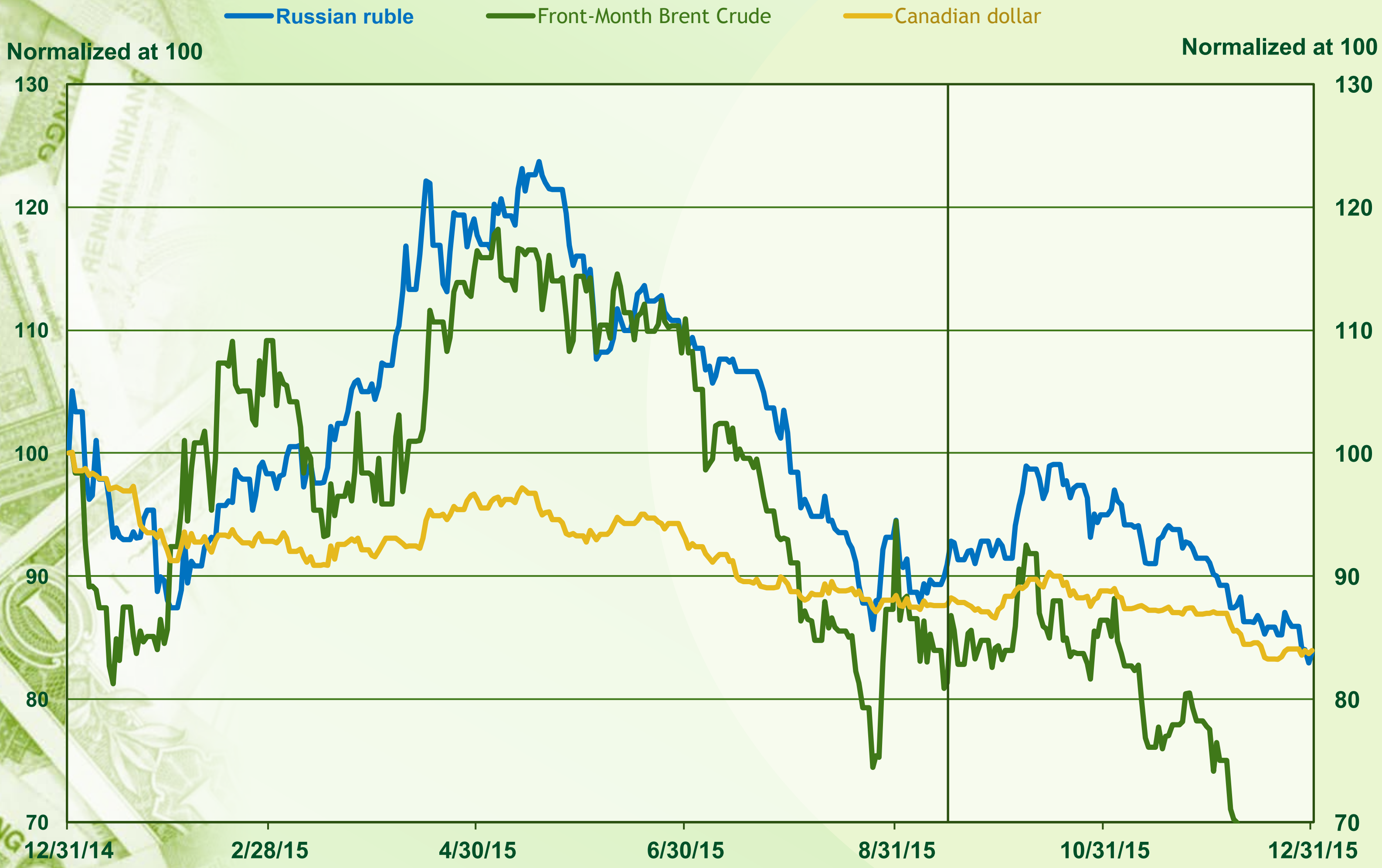


Sources: Board of Governors of the Federal Reserve System; Bloomberg L.P.
Notes: The five emerging and developed market currencies shown in the chart were selected based on their trade weights in the broad trade-weighted dollar index. The change following the Federal Open Market Committee (FOMC) meeting reflects price action from December 15, 2015, to December 17, 2015.

Strong Labor Market Data and Anticipation of FOMC Target Rate Increase Support Dollar's Strength

- During the quarter, there were a number of international developments that supported the U.S. dollar against developed and some emerging market currencies.
- In particular, the decline in oil prices contributed to sharp appreciation of the dollar against the currencies of major oil exporters.
- The U.S. dollar appreciated against the Russian ruble and Colombian peso by 11.0 and 2.8 percent, respectively, while in developed markets the U.S. dollar appreciated against the Canadian dollar by 4.0 percent and the Norwegian krone by 3.9 percent.
- Front-month Brent crude futures fell 22.9 percent during the quarter, a decline that market participants attributed mostly to supply-related issues.

Crude Prices and Oil Exporters



Source: Bloomberg L.P.

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- In anticipation of further easing measures being announced at the December ECB meeting, the U.S. dollar appreciated sharply against the euro, and the five-year euro-area inflation swap rate, five years forward, rose from its September lows.

5-Year EUR Inflation Swap
5 Years Forward

Source: Bloomberg L.P.

Dollar Appreciates Against Chinese Renminbi

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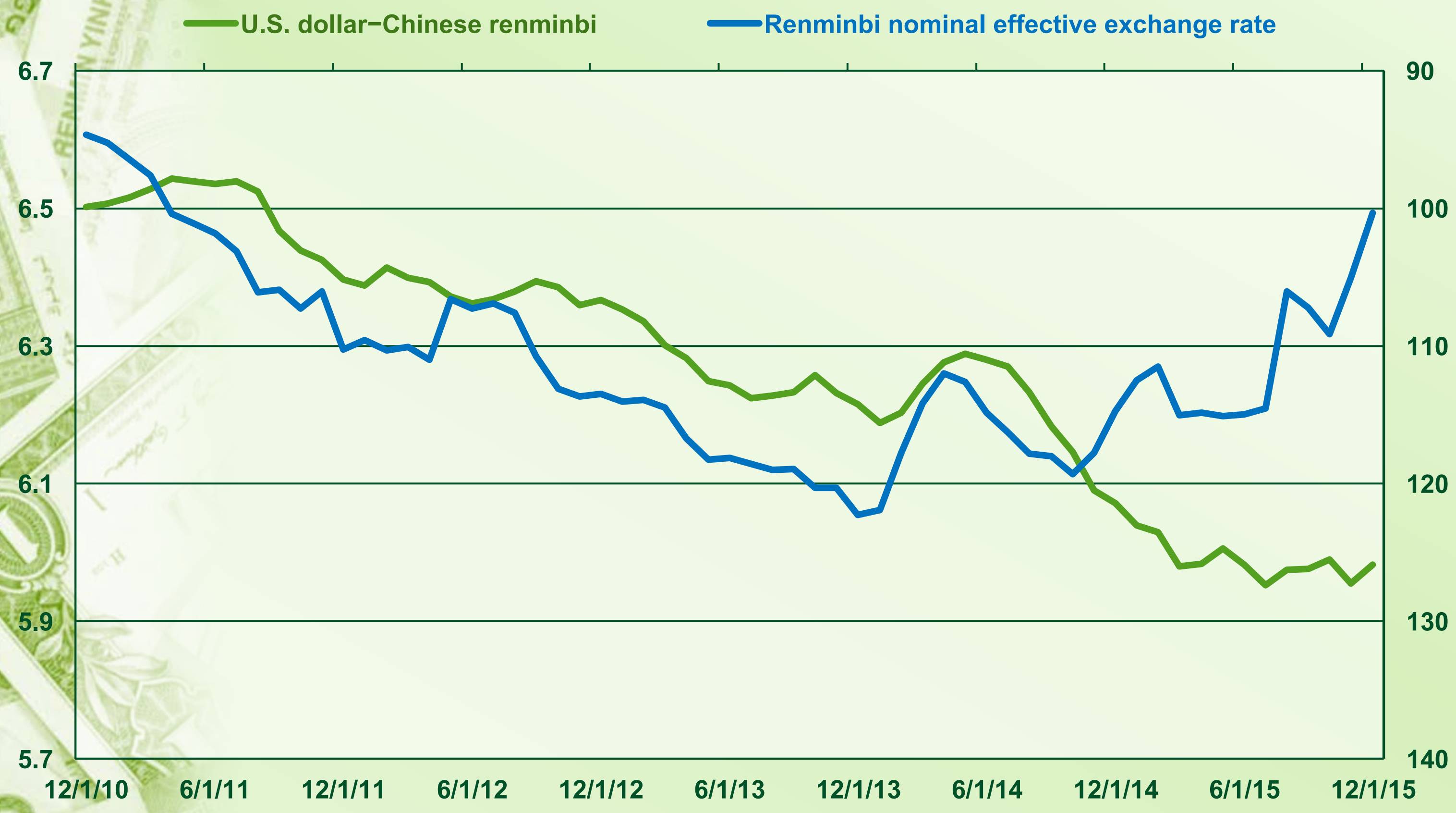
U.S. Dollar–Chinese Renminbi Exchange Rate and Renminbi Trade-weighted Exchange Rate



Sources: Bloomberg L.P.; Bank for International Settlements.

Treasury and Federal Reserve Foreign Exchange Holdings

- The U.S. monetary authorities did not undertake any intervention operations during the quarter.
- Foreign Exchange Reserve Holdings
- Liquidity Swap Arrangements with Foreign Central Banks

Table 1

Foreign Currency Holdings of U.S. Monetary Authorities Based on Current Exchange Rates
Millions of U.S. Dollars

	Carrying Value September 30, 2015[a]	Changes in Balances by Source: Net Purchases and Sales[b]	Changes in Balances by Source: Investment Earnings[c]	Changes in Balances by Source: Realized Gains/ Losses on Sales[d]	Changes in Balances by Source: Unrealized Gains/Losses on Foreign Currency Revaluation[e]	Carrying Value December 31, 2015
Federal Reserve System Open Market Account (SOMA)						
Euro	12,194	0	3	0	-331	11,866
Japanese yen	7,793	0	1	0	-30	7,764
Total	19,986	0	5	0	-361	19,630

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U.S. Treasury Exchange Stabilization Fund (ESF)						
Euro	12,175	0	3	0	-330	11,848
Japanese yen	7,793	0	1	0	-30	7,764
Total	19,967	0	5	0	-360	19,612

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 the “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.
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