

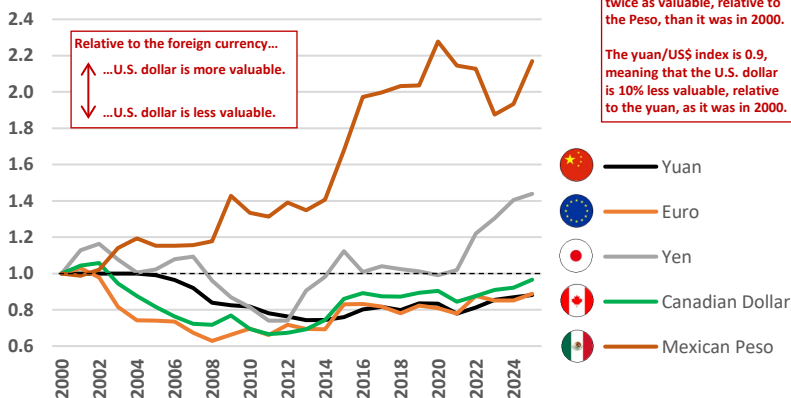
Economic & Market Watch Intelligence Brief

Briefing

- The U.S. dollar is the most widely used currency for international trade and financial transactions. U.S. dollars and U.S. Treasury securities comprise more than half of the reserves held by central banks worldwide (Figure 1).
- "U.S. dollar reserves" means foreign central bank holdings of both actual U.S. dollars and U.S. Treasuries. The higher the interest yield on Treasuries, the more attractive it is for foreign central banks to hold Treasuries and the greater the portion of global central bank reserves held in the form of U.S. dollars (Figure 2).
- The decline in the U.S. dollar's share of global central bank reserves is due in part to a long period of lower U.S. Treasury yields, concerns regarding the future sustainability of the growing U.S. federal debt and opportunities for diversification in other currencies. Since it was launched in 1999, the euro's increasing stability has made it attractive for diversifying against the dollar (Figure 3).
- The significant growth in China's economy has made the yuan more attractive to central banks. The larger the size of China's economy, the more other countries will want to trade with and invest in China. In turn, this gives those countries' central banks a greater incentive to hold yuan.

Chart of the Week

Exchange Rate Index (Foreign per US\$, 2000 = 1.00)



Commentary

A central bank is a country's monetary authority responsible for regulating the money supply and facilitating transactions among the country's banks. The Federal Reserve serves as the central bank of the United States.

Foreign central banks hold U.S. dollars (mostly in the form of U.S. Treasuries) for two main purposes: (1) facilitating trade and investment—a foreign central bank supplies U.S. dollars to its consumers and investors who want to purchase U.S. goods, services and financial assets; (2) managing exchange rates—a central bank can influence its currency's value by using its U.S. dollar reserves to buy its domestic currency.

A central bank can strengthen the value of its currency by using its U.S. dollar reserves to buy back its own currency on world markets. This reduces the supply of the country's currency on world markets and thus increases its value. The stronger the foreign country's currency, the cheaper it is for foreigners to purchase U.S. products and securities (Chart of the Week).

A central bank can weaken the value of its currency by using its currency to buy U.S. dollars. This increases the supply of its own currency on world markets and thus decreases its value. The weaker the foreign country's currency, the cheaper it is for Americans to purchase the foreign country's products and securities.

Snapshots

Figure 1. US Dollar Share of Global Reserves

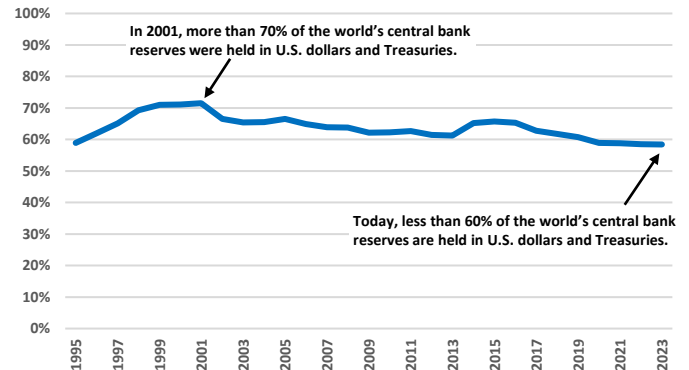


Figure 2. Higher Treasury Yields Make the Dollar Attractive (1998-2023)

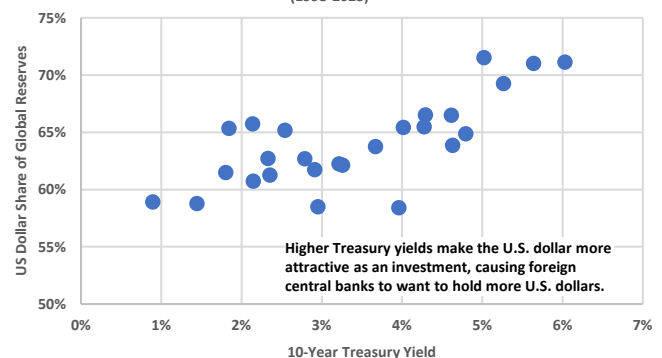
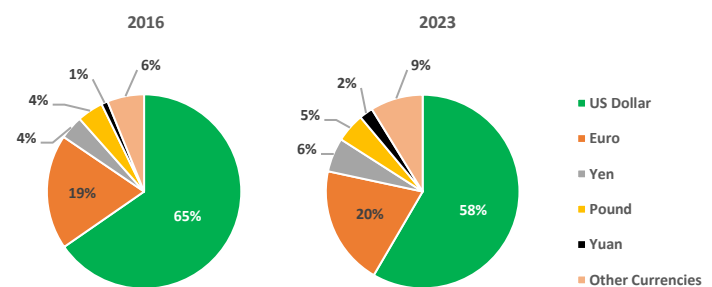


Figure 3. Global Central Bank Reserves by Currency



The world's central banks continue to hold most of their reserves in U.S. dollars, but are diversifying into other currencies as other economies grow and the values of their currencies stabilize.

The Economic & Financial Research Team



John Suter, VP



Antony Davies, Director



Sam Kem, Sr. Analyst

Email: EconomicResearch@nrucfc.coop

Economic & Market Watch Dashboard

Key Indicators

INTEREST RATES ¹	2025					2026
	Current	Q1	Q2	Q3	Q4	Q1
Fed Funds Target ² (%)	4.50	4.50	4.25	4.00	3.75	3.75
SOFR (%)	4.39	4.25	4.15	4.05	3.90	3.70
2Y UST (%)	4.02	4.15	4.05	3.95	3.85	3.75
5Y UST (%)	4.04	4.30	4.25	4.15	4.10	4.05
10Y UST (%)	4.23	4.45	4.40	4.40	4.35	4.25
30Y UST (%)	4.51	4.70	4.65	4.60	4.60	4.55

ECONOMY	2025					2026
	Current	Q1	Q2	Q3	Q4	Q1
PCE Inflation (YoY %)	2.5	2.4	2.5	2.4	2.5	2.5
CPI Inflation (YoY %)	3.0	2.8	2.7	2.6	2.6	2.8
Real GDP (QoQ %)	2.3	2.1	1.9	1.9	1.9	2.0
Unemployment (%)	4.0	4.3	4.3	4.3	4.3	4.3
Consumer Spending (QoQ %)	4.2	2.2	2.1	2.1	1.9	2.0
Industrial Production (YoY %)	2.0	0.7	0.7	1.0	1.6	1.5

Equities & Currency

	Current	Year ago
DJIA	43,885	39,087
Nasdaq	18,720	16,275
S&P 500	5,960	5,137
US Dollar Index	\$1,291.26	\$1,242.16

Commodities

	Current	Year ago
Crude Oil (Per Barrel)	\$69.82	\$79.97
Natural Gas (Per MMBtu)	\$3.94	\$1.84
Coal (Per Short Ton)	\$14.20	\$13.90
Gold (Per Ounce)	\$2,890.00	\$2,095.70
Corn (Per Bushel)	\$4.52	\$4.12
Soybean (Per Bushel)	\$10.06	\$11.43

Industry

	Current	Year ago
Natural Gas Storage (Billion Cubic Feet)	1,840	2,334
U.S. Daily Power Consumption (MWh)	10,554,594	10,550,038
World Container Index (Per 40ft)	\$2,629	\$3,493

¹ Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters

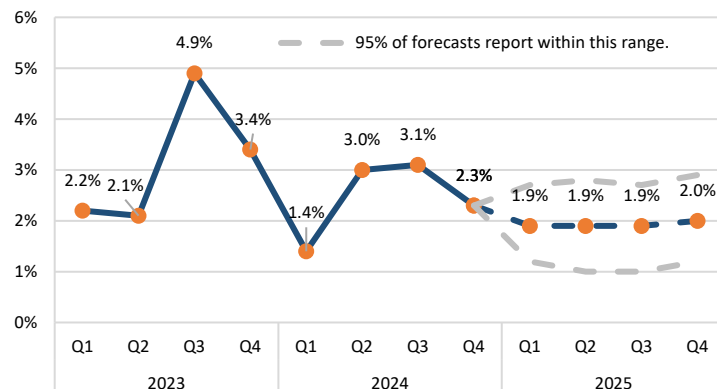
² Target rate forecast is based on futures market contracts

Source: Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Trading Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.

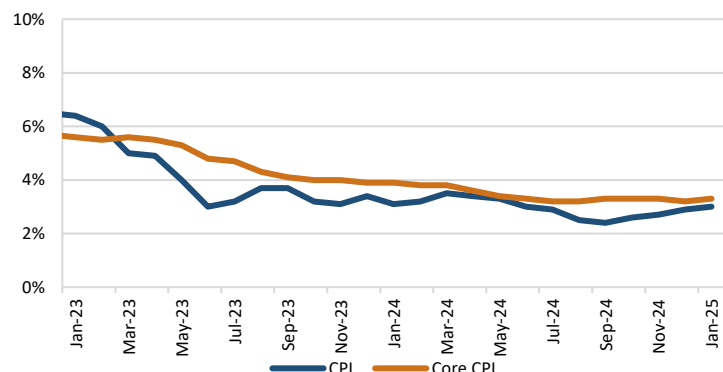
Disclaimer: These materials are being provided to you as a service to our members for informational purposes only, and are not advice or recommendations of any kind. By receiving these materials, you agree not to share the materials outside of you cooperative, that CFC is not providing any representation or warranty regarding the information in these materials, and that CFC is not responsible for the consequences of any decisions made or actions taken in reliance on these materials. SOFR and EFFR are subject to the Terms of Use posted at [newyorkfed.org](https://www.newyorkfed.org). The New York Fed is not responsible for publication of SOFR or EFFR by CFC, does not sanction or endorse any particular republication, and has no liability for your use.

Forecasts

Real GDP Growth Trend



Headline vs. Core Inflation



10-Year U.S. Treasury vs. Fed Funds Trend

