Foreign Exchange

Figures current as of October 2026

The largest market on earth: what a currency is and what moves it, the dollar system and its test in 2025-26, the majors and the yuan, the machinery under a trade, the interventions, pegs, and crises, the hedges and the carry, and the arguments over whether the dollar's century is ending.

MODULE 1 — The Market

Goal: Learn what trades, how much, and between whom.

$9.6 trillion a day, most of it investment, funding, and hedging rather than trade; the instruments from spot to swaps; the currencies and the centers; who trades; and the conventions and vocabulary of a quote.

MODULE 2 — What Moves a Currency

Goal: Read the forces and how well each predicts.

Interest-rate gaps, inflation, growth, the two accounts, risk and the havens, the terms of trade, and policy; why no model reliably beats a random walk over a year; and the Fed's September 16 rise followed through the euro and the yen, worked.

MODULE 3 — The Dollar System

Goal: Understand how one currency became the world's, and its test in 2025-26.

Reserves, invoicing, funding, and the swap lines; the privilege and its cost; the fall of 2025 and the rise of 2026; and whether the dollar's dominance is ending and what stablecoins do to it, argued both ways.

MODULE 4 — The Majors

Goal: Read the euro, the yen, sterling, the franc, and the commodity currencies.

Three kinds of currency; the euro at its low for the year, the yen at its weakest since 1986, sterling before a budget, the franc's spring, and the Canadian dollar against American tariffs.

MODULE 5 — The Yuan and the Emerging Currencies

Goal: Understand the managed float and the dollar-debt trap.

The fix and the yuan's 9% rise; whether the yuan can become a reserve currency, argued both ways; the rupee, the real, the peso, the lira, and the pegs; and $14.7 trillion of dollar debt owed outside America.

MODULE 6 — The Machinery

Goal: See how a trade is executed and settled.

Dealers and venues, the benchmark scandal, Herstatt and CLS, the basis that broke in 2008, the Fed's swap lines, and a hedged Treasury for a Japanese investor, worked.

MODULE 7 — Intervention, Pegs, and Crises

Goal: Learn when governments beat the market.

Eleven episodes from 1992 to 2026, three rules of what works, Japan's intervention arithmetic worked, and whether America should weaken the dollar on purpose, argued both ways.

MODULE 8 — Hedging, Carry, and the Corporate Side

Goal: Read the currency from the company's and the investor's side.

The forward and who pays for it, the carry trade and its unwinds, and a manufacturer's hedge on October's rates, worked.

MODULE 9 — Where Things Stand, and What to Watch

Goal: Assemble the picture and name the dates.

The argument on a page, the contradictions across the modules, a dated watch list from October 2026 into 2028, and a last word.

A note on the sources: turnover comes from the Bank for International Settlements' survey of April 2025, reserves from the International Monetary Fund's (IMF) data on the currency composition of official reserves, and interventions from Japan's Ministry of Finance and the other central banks. Exchange rates are closing levels on Wednesday, October 14, 2026, unless another date is given. The course explains how the market works; it is not advice, and it does not forecast any rate.

Market Snapshot

The currency market at the close of Wednesday, October 14, 2026

Measure	Level	Source
Dollar index (DXY), the dollar against six currencies	About 102.6, its highest since April 2025	ICE, via Trading Economics
The Federal Reserve's broad dollar index, against 26 currencies	121.60 (October 9); 119.22, the September average	Federal Reserve, H.10 and G.5
Policy rates	Fed 3.75-4.00% (raised September 16); European Central Bank (ECB) deposit rate 2.50%; Bank of Japan 1.25%; Bank of England 3.75%; Swiss National Bank 0%; People's Bank of China 1.40% (seven-day)	The central banks
Short-term rates	Three-month Treasury bill 4.28%; three-month euro (Euribor) 2.628%; the overnight dollar rate (SOFR) 3.88% and yen rate about 1.23%	Treasury; European Money Markets Institute; New York Fed; Bank of Japan
Ten-year government yields	United States 5.19%; Germany 3.44%; Japan 3.00%; Britain 5.40%	National sources
Fed-futures odds of a rise	About 1 in 6 for October 28 and about 9 in 10 by December (October 16)	CME FedWatch
Brent crude; gold	About $106 a barrel; about $4,106 an ounce	ICE futures; spot gold

SOFR is the Secured Overnight Financing Rate; Euribor is the euro interbank offered rate. Each currency's rate on October 14 is in the tables of Modules 4 and 5.

Module 1 — The Market

Its Size, Its Instruments, Its Players, and Its Conventions

Recommended Reading / Reference

Book: Barry Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (2011)

Reference: The Bank for International Settlements' *Triennial Central Bank Survey* of foreign-exchange turnover (April 2025), and its analysis, 'Global FX markets when hedging takes centre stage' (*BIS Quarterly Review*, December 2025)

1a. The Size of the Market

Foreign exchange is the largest market on earth. In April 2025, the month of the latest survey by the Bank for International Settlements (BIS), about $9.6 trillion of currencies changed hands every day, up from $7.5 trillion in 2022 and $6.6 trillion in 2019. The survey is taken every three years, and the next is due in April 2028.

The comparisons show the scale. The world exported $26.3 trillion of goods in 2025, which the currency market turns over in less than three days; with services, $34.7 trillion, it takes about three and a half. The Treasury market, the deepest bond market, trades about $1.2 trillion a day through its primary dealers, an eighth as much. The market value of every listed share on earth, $152 trillion at the end of 2025, changes hands in the currency market in about sixteen days.

So most currency trading is not paying for goods. It is investors buying and selling foreign assets, banks and companies borrowing one currency against another, and everyone hedging what they already own. The market has no exchange, no opening bell, and no official closing price. It runs around the clock from Monday morning in Sydney to Friday evening in New York, through dealers in a few financial centers.

Center	Share of trading, April 2025	Note
United Kingdom	38%	Unchanged from 2022; London's time zone overlaps both Asia and New York
United States, Singapore, and Hong Kong	37% together	American desks traded about $2.3 trillion a day, two-thirds of it with counterparties abroad
The four together	75%	Trading concentrates where the dealers' balance sheets and the time zones meet

BIS Triennial Survey, April 2025; the Federal Reserve Bank of New York's 2025 survey of American dealers. Trades are counted where the dealer's desk sits, not where its client lives.

1b. The Instruments

Instrument	What it is	Daily turnover, April 2025	Share
Spot	One currency for another, settled within two business days	$2.95 trillion	31%
Outright forward	An exchange at a rate fixed today for a later date	$1.75 trillion	18%
Foreign-exchange swap	A spot exchange paired with a forward that reverses it: in effect, borrowing one currency against another for a set time	$4.02 trillion	42%
Currency swap	A longer-term exchange of interest payments and principal in two currencies	$0.16 trillion	2%
Options	The right, but not the obligation, to exchange at a set rate	$0.63 trillion	7%

BIS, *Quarterly Review*, December 2025, on the revised survey data, which put the total at $9.5 trillion. Shares are of total turnover.

The swap is the market's largest instrument because it is how banks, funds, and companies outside America fund and hedge their dollar positions. A Japanese insurer that owns Treasuries, for instance, can swap yen into dollars for three months at a time. The swap's share fell from 51% in 2022, though, because spot, forwards, and options grew faster: the BIS's reading is that 2025 was a year in which hedging took center stage, as investors bought protection against a falling dollar (Module 3).

1c. The Currencies

Currency	Share of trades (of 200%)	Currency	Share of trades (of 200%)
US dollar	89.2%	Swiss franc	6.4%
Euro	28.9%	Australian dollar	6.1%
Japanese yen	16.8%	Canadian dollar	5.8%
British pound	10.2%	Hong Kong dollar	3.8%
Chinese yuan	8.5%	Indian rupee	1.9%
		Mexican peso and Brazilian real	1.6% and 0.9%

BIS Triennial Survey, April 2025, as first released in September 2025; the revised data of December put the yuan at 8.8%. Every trade has two currencies, so the shares sum to 200%. Dollar-yuan was the third most traded pair, after euro-dollar and dollar-yen.

The dollar is on one side of 89% of trades, a share that has barely moved in decades. It is the vehicle currency: a bank in Seoul that wants Mexican pesos usually buys dollars with its won and then pesos with the dollars, because both legs are cheaper to trade than a direct won-peso exchange. That habit, repeated across thousands of pairs, is one of the dollar's quieter advantages (Module 3).

1d. Who Trades

Participant	Share of turnover, April 2025	What they do
Reporting dealers (the large banks the survey counts)	47%	Make prices, hold inventory, and trade with each other to lay off risk
Smaller banks	23%	Trade for themselves and their clients through the large dealers
Institutional investors (asset managers, pension funds, insurers)	13%	Buy foreign assets and hedge their currency risk
Hedge funds and proprietary trading firms	8%	Speculate, run the carry trade (Module 8), and make prices with algorithms
Companies and other non-financial customers	5%	Pay suppliers, convert foreign earnings, and hedge
Official institutions, such as central banks	1%	Manage reserves and intervene (Module 7): small in volume, large in effect
Other financial institutions	3%	

BIS, *Quarterly Review*, December 2025, on the revised data (1b).

Households barely register in the totals. Migrants sent about $729 billion home to low- and middle-income countries in 2025, and paid on average about 6% of the amount to send it, a cost that is a margin rather than a market price.

1e. Quotes and Conventions

An exchange rate is a price: the number of units of one money that buys one unit of another. Most currencies are quoted per dollar, so ¥158.33 means 158.33 yen buys a dollar, and a rising number means a weaker yen. The euro, sterling, and the Australian and New Zealand dollars are quoted the other way, in dollars per unit, so $1.1158 per euro means a rising number is a stronger euro.

Every quote has a bid, at which the dealer buys, and an ask, at which it sells, and the gap between them is the dealer's spread and the client's cost. Prices move in pips: the fourth decimal place for most pairs (0.0001) and the second for the yen (0.01). A spot trade settles two business days later, except between the American and Canadian dollars, which settle in one.

No one sets the rate. It is the price at which buyers and sellers of each currency clear at any instant across the dealers' network, and it moves when the balance of their orders moves. A Japanese pension fund buying Treasuries sells yen; an American importer paying a supplier in Shenzhen buys yuan; a hedge fund betting against the euro sells it; a central bank defending its currency sells dollars. Module 2 takes up why those orders move.

1f. The Vocabulary

Term	Meaning	Why it matters
Forward rate	The spot rate adjusted for the gap between the two currencies' interest rates	Arithmetic, not a forecast (Module 8)
Cross-currency basis	The gap between the forward rate the market charges and the one the interest rates imply	The price of the dollar's scarcity (Module 6)
Carry	Borrowing in a low-rate currency to hold a high-rate one	Pays steadily until it does not (Module 8)
Cross	A pair without the dollar, such as euro-yen	Usually priced through the two dollar legs
Peg, band, managed float, free float	How far a government lets its currency move	The regimes of Modules 5 and 7
Reserves	The foreign currency and gold a central bank holds	Its ammunition in a defense (Module 7)
Real exchange rate	The exchange rate adjusted for the difference in inflation between two countries	The measure of competitiveness that a nominal rate hides
Dollar index (DXY)	The dollar against six currencies, with 57.6% of the weight on the euro	The headline measure; the Federal Reserve's broad index, against 26 currencies, is the better one

Module 1 Key Points

The Market

• Currencies traded about $9.6 trillion a day in April 2025, up from $7.5 trillion in 2022.

• The year's goods trade passes through the market in under three days: most trading is investment, funding, and hedging.

• Swaps are the largest instrument, 42% of turnover, but spot, forwards, and options grew faster as investors hedged.

• The dollar is on one side of 89% of trades, the vehicle through which most other pairs are traded.

• No one sets the rate: it is where dealers' buy and sell orders clear, around the clock and across centers.

Module 1 Quiz

Check Your Understanding

1. How long does the currency market take to turn over a year's world trade in goods?

A) About a month of trading
B) Less than three days
C) About a year, since trade drives the market
D) About a week

2. Which instrument made up the largest share of turnover in April 2025?

A) Spot exchange of one currency for another, about 31%
B) Outright forwards, about 18%
C) Options on currencies, about 7%
D) Foreign-exchange swaps, about 42%

3. Why does a bank in Seoul usually buy dollars on the way to Mexican pesos?

A) Both dollar legs are cheaper to trade than a direct won-peso exchange
B) Korean law requires that foreign purchases pass through dollars
C) The peso is pegged to the dollar
D) Pesos can be bought only in New York

4. What does a quote of ¥158.33 mean?

A) One yen buys 158.33 dollars
B) The yen has fallen 158.33 pips
C) 158.33 yen buys one dollar
D) The yen's interest rate is 1.5833%

5. Why did the foreign-exchange swap's share of turnover fall between 2022 and 2025?

A) Banks were barred from using swaps
B) The Fed stopped lending dollars through its swap lines
C) Swaps moved onto exchanges, outside the count
D) Spot, forwards, and options grew faster than swaps

Module 2 — What Moves a Currency

The Forces, the Theories, and How Well Each Predicts

Recommended Reading / Reference

Book: Paul Krugman, Maurice Obstfeld, and Marc Melitz, *International Economics: Theory and Policy*, the exchange-rate chapters

Article: Richard Meese and Kenneth Rogoff, 'Empirical Exchange Rate Models of the Seventies: Do They Fit Out of Sample?', *Journal of International Economics* (1983); Barbara Rossi, 'Exchange Rate Predictability', *Journal of Economic Literature* (2013)

2a. A Price Set by Capital

If exchange rates only balanced trade, they would move slowly and predictably. They do neither, because trade is a small part of the flows (Module 1). The rest is capital: investors moving among countries' assets on the returns they expect, and those expectations change by the hour.

A currency is therefore priced more like a share than like a commodity. Its rate today is the market's estimate of its whole future, the interest it will pay, the inflation that will erode it, the growth of the economy behind it, the risk of holding it, and the chance that its government changes any of these. The rate moves when that estimate moves, which is when the news moves.

Three puzzles follow. A rate decision moves a currency before it changes anything in the economy. A currency can rise on bad news, if the news was expected to be worse. And the same fact, such as a trade deficit, can support a currency in one decade and sink it in the next, depending on who is willing to finance it.

2b. The Forces

Force	The mechanism	Usual direction	How well it predicts
Interest-rate differentials	Capital flows toward the currency that pays more	A higher rate, a stronger currency	The strongest force over months, and the one central-bank watchers trade; its reward comes with sudden crashes (Module 8)
Inflation and purchasing power	A money that buys less at home should buy less abroad	Higher inflation, a weaker currency	Holds over decades and fails over months; deviations from parity take years to halve
Growth and productivity	Faster growth raises the return on a country's assets	Faster growth, a stronger currency	Explains the dollar's strength in 2011-24; fails when the growth comes with deficits the market doubts
The current account	A deficit must be financed by selling assets or borrowing abroad	A deficit, a weaker currency, eventually	The weakest guide over months: the United States has run a trade deficit every year since 1976
The capital account	Where investors want to hold their wealth	Inflows, a stronger currency	The dominant flow: the pull of American shares in the 2010s, and the 'sell America' week of April 2025 (Module 3)
Risk and the havens	In a crisis money runs to the dollar, the franc, and the yen	Fear, stronger havens	Reliable for the dollar in crises abroad, less so when the shock is American

Force	The mechanism	Usual direction	How well it predicts
The terms of trade	An exporter's currency rises with the price of what it sells	Dearer oil helps the Norwegian krone and hurts the yen	Reliable for commodity currencies, unless something larger intervenes (Module 4)
Policy and credibility	Intervention, capital controls, fiscal credibility, the central bank's independence	More credibility, a stronger currency	Sterling in 2022, the tariffs of 2025, the pressure on the Fed in 2025-26

The market compresses these forces into patterns. On 'risk-on' days the currencies of commodity exporters and emerging markets rise, and on 'risk-off' days the havens do. The 'dollar smile', a phrase of the currency strategist Stephen Jen, says the dollar is strongest at the two ends: when America's economy outgrows the rest, and when the world panics. Between them, with the world calm and growing, it weakens. The course treats these as patterns with track records, not laws.

2c. What the Theories Can and Cannot Do

The theories are modest because the data forced them to be. In 1983 Richard Meese and Kenneth Rogoff showed that no economic model of the time, built on interest rates, money supplies, prices, or trade, forecast exchange rates better than a random walk at horizons of one to twelve months. In other words, the best forecast of next month's rate was this month's.

The finding has survived forty years of better models. Barbara Rossi's survey of 2013 found that some models beat the random walk at some horizons in some periods, and that none did so reliably. The models earn their keep over several years, as purchasing power and the current account slowly reassert themselves.

Two failures of theory matter in practice. Purchasing-power parity says the rate should settle where the same goods cost the same in both countries, but the gaps take three to five years to halve, so a currency can stay 'overvalued' for most of a decade. Uncovered interest parity says a high-rate currency should depreciate by the rate gap, cancelling the extra interest. In fact Eugene Fama showed in 1984 that it has tended to do the opposite, the 'forward premium puzzle' on which the carry trade rests (Module 8).

None of this means the forces are unreal. It means the rate already reflects everyone's estimate of them, so what moves it is the surprise: the rate rise that was not priced, the inflation report above forecast, the war, the election. Surprises cannot be forecast. What the theories can do is explain a move after the fact and bound where a currency is likely to be in the long run.

2d. The Fed's Rise of September 16, Worked

Worked example — The Fed's Rise, Through the Euro and the Yen

The setup. Within nine days in September 2026 the central banks behind the three most traded currencies each raised rates by a quarter-point: the ECB on September 10, taking its deposit rate to 2.50%, the Fed on September 16, to 3.75-4.00%, and the Bank of Japan on September 18, to 1.25%. The policy-rate gaps were therefore the same after the week as before it: the Fed's midpoint of 3.875% stood 1.375 points above the ECB's rate and 2.625 points above the Bank of Japan's. **What moved.** The expected path. Sixteen of the eighteen Fed officials projected at least one more rise in 2026, and the statement dropped its guidance about what came next. The 2-year Treasury yield, which prices the Fed's next two years, rose from 4.67% on September 15 to 4.74% on September 16 and 4.82% by October 14. **The euro.** It fell from $1.1542 on September 15 to $1.1464 on September 16, 0.7% in a day, and to $1.1158 by October 14, 3.3% in a month. Holding dollars instead of euros earns the policy gap of about 1.4 points a year, so the month's move was worth more than two years of it. **The yen.** It fell from ¥155.10 to ¥156.30 on September 16, recovered a little before the Bank of Japan's rise, and was ¥158.33 on October 14, 2.0% weaker than before the Fed met. **The lesson.** A rate decision moves a currency by how much it changes the expected path of rates, and by how long the market expects the new gap to last, not by the quarter-point itself. In September the quarter-points cancelled out; the expected paths did not, and by October 16 futures put the odds of another Fed rise by December at about nine in ten (Market Snapshot).

Module 2 Key Points

What Moves a Currency

• A currency is priced like a share: today's rate is the market's estimate of its whole future, so it moves on news.

• Rate gaps are the strongest force over months; purchasing power and the current account matter over years.

• No model has reliably beaten a random walk over one to twelve months since Meese and Rogoff's test of 1983.

• High-rate currencies have tended to hold or rise, not fall by the rate gap: the forward premium puzzle behind the carry trade.

• In September 2026 three central banks raised by a quarter-point each; the euro still fell 3.3% in a month on the Fed's expected path.

Module 2 Quiz

Check Your Understanding

1. What did Meese and Rogoff find in 1983?

A) Interest-rate models predicted currencies at any horizon
B) Trade balances predicted exchange rates within a year
C) No economic model beat a random walk over one to twelve months
D) Currencies follow purchasing-power parity month by month

2. What is the forward premium puzzle?

A) High-rate currencies tend not to fall by the rate gap
B) Forward rates always equal future spot rates
C) Low-rate currencies always rise against high-rate ones
D) Forwards always cost more than spot trades, whatever the rates

3. Why can a currency rise on bad news?

A) Central banks buy it after bad news
B) The news was expected to be worse
C) Weaker growth always attracts capital
D) Traders ignore news until it is official

4. In September 2026, why did the policy-rate gaps between the Fed, the ECB, and the Bank of Japan not change?

A) All three held their rates that month
B) The ECB and the Bank of Japan cut while the Fed raised
C) All three raised their rates by a quarter-point within nine days
D) The gaps are fixed by agreement among the central banks

5. What does the 'dollar smile' describe?

A) The dollar's daily pattern around the London fix
B) A Fed policy of letting the dollar decline steadily and gradually
C) A peg that the Treasury defends at the fix
D) A dollar strongest when America booms and when the world panics

Module 3 — The Dollar System

How One Currency Became the World's, and Its Test in 2025-26

Recommended Reading / Reference

Book: Kenneth Rogoff, *Our Dollar, Your Problem* (2025)

Reference: The Federal Reserve's 'The International Role of the U.S. Dollar' (2025 edition); the IMF's data on the currency composition of official reserves (second quarter of 2026, released September 30, 2026)

3a. The Dollar's Roles

Role	The dollar's share	The rivals
Allocated foreign-exchange reserves (IMF, second quarter of 2026)	56.7%, down from about 72% in 2001 and 58% in 2024	Euro 20.6%; yen 5.0%; yuan 2.1%; total foreign-exchange reserves $13.22 trillion
Foreign-currency debt issued since 2010 (Federal Reserve)	About 60%	Euro about 26%
Payments through Swift, the banks' messaging network (June 2026)	50.1%, or 58.6% leaving out payments within the euro area	Euro 21.9%; pound 6.7%; yen 3.7%; yuan 3.1%, fifth
Trade finance through Swift (June 2026)	81.2%	Yuan 8.0%, second
Invoicing of world exports (ECB, 2023 data)	About 40%, and about 60% of exports from outside America and the euro area	Euro a little over 40%, much of it trade within Europe; yuan under 2%
Exchange-rate anchors (Federal Reserve)	More than half of all countries tie their currencies to the dollar	
Banknotes (Federal Reserve)	About half of all dollar notes are held abroad	

IMF; Federal Reserve; Swift's monthly currency tracker; the ECB's *The International Role of the Euro* (June 2025). Allocated reserves are those whose currency the IMF can identify. The dollar's share of currency trading is in Module 1.

A reserve currency is one that governments, banks, and companies outside its home country choose to hold, borrow in, and settle in, and the dollar does all three on a scale no rival approaches. It dominates currency trading (Module 1) and borrowing outside the United States (Module 5).

The roles reinforce one another. Oil and most commodities are priced in dollars, so trade is invoiced in dollars and firms borrow in dollars. Central banks then hold dollars to defend their currencies and pay their debts, and they hold them as Treasuries because that is the deepest and safest market. Each role makes the others cheaper, which is why a rival needs not one advantage but all of them at once.

3b. The Privilege and Its Cost

The system rests on four supports: the depth of the Treasury market, $31.8 trillion of marketable debt; an open capital account that lets anyone hold and move dollars; courts that enforce dollar contracts; and the Federal Reserve's willingness, shown in 2008 and 2020, to lend dollars to other central banks when the world runs short (Module 6).

The privilege is real. America borrows more cheaply than its fundamentals alone would allow: investors accepted about 0.7 points less on Treasuries than on comparable safe assets from 1926 to 2008, on one well-known estimate, although studies of 2025 find the discount smaller since the tariff shock. America can

run large deficits with the rest of the world, 3.0% of GDP in the second quarter of 2026, and foreigners' claims on it exceed its claims on them by $22.4 trillion. Because dollar payments clear through American banks, it can also cut a country off from most of the financial system, as it did to Russia in 2022.

The cost is real too. A currency in global demand is dearer than trade alone would make it: the IMF's assessment of July 2026 put the dollar about 20% above the level consistent with fundamentals, on 2025 data, which weighs on American manufacturers. And a system that depends on one country's conduct is exposed whenever that country's politics change.

3c. The Test of 2025-26

In 2025 the system was tested by its own center. The dollar had its worst first half since 1973, and the year's fall, from 108.49 on the dollar index to about 98.3, was 9.4%, the largest since 2017. In the week after the tariff announcement of April 2, American stocks, Treasuries, and the dollar fell together, a rare pattern for a haven: the S&P 500 lost 12.1% in four sessions and the ten-year Treasury yield rose from 4.01% to 4.48%.

Part of the dollar's fall was hedging rather than selling. The BIS found that foreign holders of American securities, many of them in Asia, hedged their dollar exposure on a large scale in April and May 2025, which pushes the dollar down without any sale of the assets. Danish insurers and pension funds reported doing the same.

The dollar index reached a four-year low of 95.66 on January 27, 2026, the day President Trump said the dollar was 'doing great'. Then the test reversed. The war that began on February 28 and closed the Strait of Hormuz sent money to the dollar as crises usually do, and rate-rise bets lifted it to a thirteen-month high in late June. The Fed's rise in September and the bets on another took it by October 14 to its highest since April 2025, 4.3% above the end of 2025 (Market Snapshot).

Central banks have meanwhile bought gold rather than dollars. They bought more than 1,000 tonnes a year in 2022-24, after the freezing of Russia's reserves, 863 tonnes in 2025, and about 345 in the first half of 2026. At market prices gold made up about 27% of the world's official reserves at the end of 2025, more than the euro's 15% of that total or the 22% held in Treasuries, by the ECB's count, though mostly because its price rose 65% in 2025.

3d. Is the Dollar's Dominance Ending?

The case that it is

Those who see the decline under way point to the trend and its cause. The dollar's share of reserves has fallen from about 72% to 56.7% in a quarter-century, and since 2022 central banks have chosen gold, which no foreign government can freeze when it is kept at home, over the debt of a government that can. The issuer itself has given them reasons: tariffs on allies, pressure on its central bank, a president welcoming a falling dollar, and a week in April 2025 when the dollar fell with the Treasury market.

Some of America's closest partners are preparing. In March 2025 European officials began asking whether they could rely on the Fed's swap lines under this administration, and in November 2025 they discussed pooling their own dollars to depend on it less. The plumbing of an alternative is being built: China has its own payment system and swap lines (Module 5), and the leaders of the BRICS group (Brazil, Russia, India, China, South Africa, and the members added since 2024), meeting in New Delhi on September 12-13, 2026, backed faster cross-border payments settled in their own currencies.

The case that it is not

Those who see the dollar secure answer that erosion is not replacement. The dollar's roles in trading, borrowing, payments, and trade finance have barely moved. The euro is held back by the lack of a single government bond market on the scale of Treasuries, and the yuan by capital controls and a managed exchange rate, so neither has gained: the euro's share of reserves is flat at about a fifth, and the yuan's is 2.1%.

In the second quarter of 2025, the IMF found, the dollar's share of reserves held steady once the dollar's own fall in price was set aside: central banks were not selling. The hedges of 2025 were partly unwound in 2026: by July some Danish pension funds had cut their hedge ratios by about 5 points over a year, and Dutch funds had retreated from hedging begun the year before. And when a war closed the world's main oil route, investors ran to the dollar, not away from it.

The evidence

The measures of use, in trading, debt, payments, and trade finance, show no shift. The measures of trust show some: the gold buying, the hedging of 2025, and the officials' questions about the swap lines. Neither shows a winner, since the euro and the yuan have not gained.

The course's reading

The dollar's dominance is intact by every measure of use and has eroded at the margin by the measures of trust, and the two move on different clocks: use changes over decades, trust can change in a week. The main risk to the dollar's position is not a rival's strength but the issuer's conduct. The signal that would change this reading is a sustained fall in the dollar's share of trade finance or of foreign-currency borrowing, the roles that have not yet moved.

3e. Stablecoins: the Dollar's Reach, or a New Risk?

Stablecoins are tokens that promise to be worth one dollar each, backed by reserves of cash and Treasury bills. They were worth $303.1 billion on October 15, 2026, $183.9 billion of it Tether's and $72.8 billion Circle's USDC, and Tether alone held $115 billion of bills at the end of June. The GENIUS Act, signed on July 18, 2025, sets federal rules for them and takes effect by January 18, 2027 at the latest, or earlier if regulators finish its rules.

The case that they extend the dollar

Their advocates say stablecoins carry the dollar to anyone with a phone, in countries whose own currencies people distrust, and make every holder a lender to the American government. Treasury Secretary Scott Bessent said in August 2026 that they 'will lower government borrowing costs'. A BIS study of 2025 found that inflows to stablecoins do push down three-month bill yields, by up to about 4 basis points within ten days of an inflow of $3.5 billion.

The case that they add risk

Their critics say a private dollar outside the banking system is a run waiting to happen. The BIS's annual report of 2025 found that stablecoins perform poorly on the tests a money must pass: that every unit is worth the same, that supply can expand with demand, and that it resists misuse such as sanctions evasion. A run would force issuers to sell bills into the market at the worst moment, and widespread use abroad would weaken other countries' control of their own money.

The evidence and the course's reading

The bill-market effect is measurable but small and confined to short maturities: the whole stablecoin market is about 1% of marketable Treasury debt. The rules are not yet final, and the largest reserve-backed stablecoins have so far met their redemptions, although USDC briefly fell to about 88 cents when Silicon Valley Bank failed in March 2023. The course's reading is that stablecoins extend the dollar's reach at the margin and add a new run risk inside the bill market, both modest for now; the final rules will decide which grows faster.

Module 3 Key Points

The Dollar System

• The dollar holds 56.7% of allocated reserves, down from about 72% in 2001; the euro holds 20.6% and the yuan 2.1%.

• It fell 9.4% in 2025, its worst year since 2017, then rose 4.3% in 2026 to its highest since April 2025.

• Central banks bought over 1,000 tonnes of gold a year in 2022-24; at end-2025 prices gold exceeded the euro in reserves.

• The course's reading: dominance intact in use, eroded at the margin in trust; the main risk is the issuer's own conduct.

• Stablecoins, $303 billion, extend the dollar's reach and add a run risk inside the bill market, both modest for now.

Module 3 Quiz

Check Your Understanding

1. What share of allocated reserves did the dollar hold in mid-2026?

A) 89%, its share of trades
B) Just under 57%
C) About 72%
D) About 40%, level with the euro

2. What did the dollar index do in 2025?

A) Fell 9.4%
B) Rose 4.3%, its best year since 2015
C) Was unchanged, on balance, for the year
D) Fell 25%, its worst year since 1973

3. Why did the dollar fall in April and May 2025 without large sales of American assets, on the BIS's account?

A) Foreign holders hedged
B) The Fed sold dollars for euros
C) China sold its Treasuries
D) The Treasury stopped issuing bills

4. What did the IMF find about the dollar's reserve share in the second quarter of 2025?

A) Central banks sold most of their dollar reserves for euros and gold
B) It held steady once the dollar's own fall in price was set aside
C) It was reversed entirely within the same year
D) It went almost entirely to the Chinese yuan

5. What does the course take as the main risk to the dollar's position?

A) The euro's growing share of reserves since 2022
B) The yuan's rise to a fifth of world reserves
C) The end of pricing oil and gas in dollars
D) The issuer's own conduct, more than any rival's strength

Module 4 — The Majors

The Euro, the Yen, Sterling, the Franc, and the Commodity Currencies

Recommended Reading / Reference

Reference: The policy statements of the European Central Bank, the Bank of Japan, the Bank of England, the Swiss National Bank, and the Reserve Bank of Australia; Japan's Ministry of Finance, monthly foreign-exchange intervention data

Currency	Rate, October 14, 2026	Central bank's rate	Kind of currency (4a)
Euro	$1.1158, its low for the year	2.50%, raised in June and September	A political construction
Japanese yen	¥158.33 per dollar	1.25%, raised in June and September	A creditor's currency and haven
British pound	$1.3194	3.75%, held 6-3 in September	A financial center's currency
Swiss franc	0.8349 per dollar; 0.9316 per euro	0%	A creditor's currency and haven
Canadian dollar	1.4263 per dollar	2.25%	A commodity currency
Australian dollar	$0.697	4.60%	A commodity currency

Closing rates; the Bank of Canada's rate for the Canadian dollar. Policy rates are the main rate each central bank sets.

4a. Three Kinds of Currency

The major currencies come in three kinds. The euro is a political construction: one money for twenty-one countries, Bulgaria the newest since January 2026, with twenty-one budgets and no common treasury. Its design produced the crisis of 2010-12, when Greece, Ireland, Portugal, Spain, and Italy were borrowing in a currency they could not print. It survived because the European Central Bank (ECB) promised in 2012 to do 'whatever it takes', and its missing fiscal union is the main reason its share of reserves is not larger (Module 3).

The yen and the Swiss franc are creditors' currencies. Japan and Switzerland own far more abroad than foreigners own in them, and in a panic their investors bring money home, which lifts both currencies. That makes them havens, and it made the yen, after decades of near-zero rates, the world's favorite currency to borrow for the carry trade (Module 8): it is sold when the world is calm and bought back when it is not.

The rest are what their economies sell. Sterling is the currency of a financial center attached to a mid-sized economy with a persistent current-account deficit. The Canadian dollar rises and falls with oil and with American demand, the Australian dollar with China's purchases of iron ore and coal, and Norway's krone with oil and gas.

4b. The Euro

The euro rose about 13% against the dollar in 2025, began 2026 near $1.17, and reached $1.2081 on January 27, the day of the dollar's four-year low (Module 3). It has since lost 7.6%, to its low for the year on October 14. The euro area imports most of its energy, so the oil shock that began in February cut its income. Euro-area inflation was 3.8% in September, and the ECB's rise that month was matched by the Fed's, which kept the dollar's rate advantage intact (Module 2). And France, the euro area's second-largest economy, has

a minority government under Prime Minister Sébastien Lecornu and a ten-year bond yield, 4.88% on October 14, above Italy's 4.56%.

4c. The Yen

The yen's weakness has outlasted the Bank of Japan's return to positive rates. The bank has raised its rate six times since March 2024, to its highest since 1995, yet the gap to the Fed's rate is still wide (Module 2). Japan imports nearly all its energy, so the oil shock that began in February raised its import bill as well.

The yen fell past ¥162 at the end of June and reached about ¥164 on July 23, its weakest against the dollar since December 1986. Japan's Ministry of Finance bought yen in the spring and again at the end of July, and the yen has since given back part of the gain (Module 7).

Its direction now turns on two central banks. The Bank of Japan meets on October 29-30, with an increase in December thought more likely than in October, and the Fed meets on October 27-28. On October 15 Finance Minister Satsuki Katayama said the authorities were ready to act again if needed.

4d. Sterling and the Franc

Sterling carries the memory of September 2022, when a budget of unfunded tax cuts sent it to a record low (Module 7). Four years on, Britain pays the highest ten-year yield in the Group of Seven (G7) large economies, 5.40% on October 14, and Chancellor John Healey presents his first budget on October 28. The pound fell from a September average of $1.34 to $1.32 by mid-October as the dollar rose and the market weighed the plan to come.

The franc is the haven that can be too strong for its own economy. In the spring of 2026 it traded near 0.92 per euro, close to its record, and the Swiss National Bank, with its rate already at zero, sold francs: 3.9 billion francs' worth in the first quarter and 1.4 billion in the second. In September it dropped the warning that it stood ready to do more, and by October 14 the franc had eased to 0.93 per euro. The third quarter's figure is due on December 31.

4e. The Commodity Currencies

The terms of trade usually decide these currencies, and in 2026 they have had rivals. The Canadian dollar has had dearer oil on one side and American tariffs on the other: three proclamations of July 20, under section 338 of the Tariff Act of 1930, imposed 50% tariffs from August 22 on Canadian dairy, alcohol, motor vehicles, and other listed goods, and Canada answered with its own from September 8. Three-quarters of Canada's exports go to the United States. With the Bank of Canada holding while the Fed raised, the currency fell from 1.40 per dollar in September to 1.43 in mid-October, in step with the dollar's broad rise (Market Snapshot).

The Australian dollar has had the support Canada lacked: the Reserve Bank of Australia raised its rate for the fourth time in 2026 on September 29, against inflation fed by the oil shock. The krone, the currency of Western Europe's largest oil producer, has the windfall, and Norges Bank raised its rate to 4.50% on September 24.

Module 4 Key Points

The Majors

• The euro is one money for twenty-one budgets; its missing fiscal union caps it at a fifth of allocated reserves.

• The yen fell to its weakest since 1986 in July despite five Bank of Japan rises since March 2024.

• Creditors' currencies, the yen and the franc, are havens: their investors bring money home in a panic.

• Sterling still carries 2022's lesson: the market prices a budget's credibility within hours.

• The Canadian dollar is caught between dearer oil and 50% American tariffs; since September it has weakened as the dollar rose.

Module 4 Quiz

Check Your Understanding

1. Why does the euro hold only about a fifth of allocated reserves?

A) It is pegged to the dollar
B) Its central bank is barred from raising rates
C) No common treasury backs it
D) It trades only inside the euro area

2. When was the yen last as weak against the dollar as in July 2026?

A) Late October 2022
B) Early July 2024
C) December 1986
D) March 2011, after the earthquake

3. What makes the yen and the franc havens?

A) Their investors bring money home
B) Both are backed by gold
C) Both pay the highest interest rates among the majors
D) Both are pegged to the euro by treaty

4. What did the Swiss National Bank do in the first half of 2026?

A) Raised its rate to 2%
B) Fixed the franc at 1.20 per euro
C) Bought francs to support them
D) Sold francs to slow the currency's rise

5. Why did the Canadian dollar weaken from September to mid-October 2026?

A) Canada stopped exporting oil to the United States
B) The dollar's broad rise, with the Bank of Canada on hold
C) The Bank of Canada raised its rate to 4.60%
D) Canada pegged its currency to the American dollar in August

Module 5 — The Yuan and the Emerging Currencies

The Managed Float, the Dollar-Debt Trap, and the Currencies to Watch

Recommended Reading / Reference

Book: Eswar Prasad, *Gaining Currency: The Rise of the Renminbi* (2016)

Reference: The People's Bank of China's daily central parity; the BIS's global liquidity indicators (dollar credit outside the United States, quarterly); the IMF's *External Sector Report* (2026)

5a. The Yuan

China's currency is two currencies and one policy. The onshore yuan (CNY) trades in China within 2% either side of a central rate that the People's Bank of China (PBoC) sets every morning at 9:15, the 'fix'. The offshore yuan (CNH) trades in Hong Kong, London, and Singapore without that band, and the gap between the two is the market's running dissent from the fix.

The policy is a managed float. When the market moves the way Beijing wants, the rate follows it. When it does not, the state banks buy or sell, the PBoC adjusts the fix, and the authorities change the rules on how much foreign currency banks must hold. For a decade the effort went into stopping the yuan from falling, most heavily in 2015-16 (Module 7).

Since early 2025 it has gone into slowing a rise. The yuan strengthened from about 7.30 per dollar in January 2025 to 6.69 on October 14, 2026, a gain of about 9%, and the offshore rate came close to its strongest since July 2022. Behind the rise is the largest trade surplus any country has run: about $1.2 trillion in 2025, and $938 billion in the first nine months of 2026, after record exports of $447 billion in September alone, up 36% on a year earlier.

The PBoC has leaned against the pace. On October 14 its fix was 6.7249, weaker than the market rate of 6.6933, and on August 24 it set the fix 663 pips weaker than analysts had expected, the widest gap since February. The IMF estimates that the yuan is undervalued by 17-25% on China's fundamentals; the PBoC answered that the estimate is not a judgment on the exchange rate itself.

What the yuan is not yet is a reserve currency. Its shares of reserves, trading, and payments are small, although it ranks second in trade finance (Modules 1 and 3). China has built the pieces of an alternative to the dollar's plumbing: currency swap lines with 42 central banks and monetary authorities, 32 of them in force in mid-2025, a cross-border payment system with 1,690 participating institutions that handled about 180 trillion yuan in 2025, and the settlement in yuan and rubles of almost all its trade with Russia.

5b. Can the Yuan Become a Reserve Currency?

The case that it can

Those who think the yuan can rise point to trade and to plumbing. China is the largest exporter and runs the largest surplus on record, so the world earns yuan and buys from Chinese firms that accept them. The payment system, the swap lines, and the digital yuan already let partners trade without touching the dollar, and America's use of sanctions, from Russia in 2022 onward, gives them a reason to. The yuan's 9% rise since early 2025 has also made it a currency worth holding rather than one to escape.

The case that it cannot, yet

Those who doubt it answer that reserve managers hold what they can sell in a crisis. A reserve currency needs a deep market in safe assets that foreigners can enter and leave at will, a price set by the market, and courts independent of the state. China keeps controls on capital, sets its exchange rate each morning, and leans on it when it moves too fast, as the fix showed in 2026. Foreigners hold about 2% of its bond market.

The evidence

The yuan has gained in trade finance, in China's trade with Russia, and in the volumes through China's own payment system. Its share of reserves was about 1.1% when the IMF added it to the basket behind its special drawing right in October 2016, peaked at about 2.9% in early 2022, and has slipped since (Module 3).

The course's reading

The yuan is becoming a currency for trade and payments among China's partners, not a reserve currency. Becoming one would require an open capital account and a market-set rate, which Beijing has shown, in its handling of the 2026 rise, it is not ready to concede. The signal that would change this reading is a lifting of capital controls, or a reserve share that rises well above its 2022 peak.

5c. The Emerging Currencies

Currency	Rate, October 14, 2026	Regime	The 2026 story
Indian rupee	About 95.15 per dollar	Managed float	A record low of about 97 in May on the oil bill; the Reserve Bank raised its rate to 5.50% on October 7 and has spent reserves, which fell from a record $785 billion in early September to $735 billion by October 2
Brazilian real	5.03 per dollar	Free float	Up more than 4% on October 5, after Flávio Bolsonaro led the first round of the presidential election; the runoff is on October 25, with the central bank's rate at 13.75%
Mexican peso	18.49 per dollar	Free float	Its weakest in eleven months, from 17.27 in September: the Fed raising while the Bank of Mexico, at 6.50%, signals more cuts, and the trade agreement's future in doubt after Washington declined on July 1 to extend it
Turkish lira	49.39 per dollar, a record low	Managed	Inflation 29.7% and the policy rate 37%; the orthodox policy since 2023 lets the lira slide, but more slowly than prices rise

Currency	Rate, October 14, 2026	Regime	The 2026 story
Argentine peso	About 1,513 per dollar	A band, its limits moved each month by inflation since January 2026	Inflation 33.4% in September, from over 200% in 2024; American help in October 2025 (Module 7)
South African rand	16.60 per dollar	Free float	The central bank raised its rate to 7.25% on September 23
Russian ruble	83.87 per dollar	Managed, behind capital controls and sanctions	Cut off from the dollar system since 2022; trade with China settled in rubles and yuan
Saudi riyal; United Arab Emirates dirham	3.75; 3.6725 per dollar	Hard pegs since the 1980s	Held through the Hormuz war: the riyal's one-year forward premium peaked at about 147 points, against 1,020 in January 2016
Hong Kong dollar	7.8475 per dollar, near the weak edge of its band	A currency board since 1983, in a band of 7.75-7.85 since 2005	Near the weak side in October, with no intervention reported in 2026

Closing rates (Market Snapshot), the Hong Kong dollar on October 13. Policy rates and inflation from the central banks and statistical offices. A forward premium of 147 points means the market priced the riyal about 0.4% weaker a year ahead.

5d. The Dollar-Debt Trap

Emerging currencies differ from the majors in one structural fact: their governments and companies borrow heavily in dollars, because for decades their own currencies could not be borrowed in at long maturities. Borrowers outside the United States owed $14.7 trillion in dollars at the end of March 2026, on the BIS's count, and about 30% of it, some $4.4 trillion, was owed in emerging and developing economies.

That debt turns a dollar rise into a tightening. When the dollar strengthens, the local cost of every dollar loan rises. The central bank raises rates to defend the currency, which slows the economy; foreign capital leaves; reserves drain; and if the currency is finally devalued, the dollar debt grows larger still in local terms. That spiral ran through Mexico in 1994, Thailand, Korea, and Indonesia in 1997, Argentina in 2001 and 2018, Turkey in 2018 and 2021, and Sri Lanka, Egypt, and Pakistan in 2022.

The defenses are known. Reserves large enough to be credible were the lesson of 1997 (Module 7), and East Asia has held them since. Local-currency bond markets deep enough to borrow at home have grown in India, Brazil, and Mexico. The IMF lends when reserves run out, and capital controls are the last resort. In 2025 the dollar's fall eased every one of these pressures; in 2026 the oil shock and the Fed's rise brought them back, from the rupee's record low to the lira's.

Module 5 Key Points

The Yuan and the Emerging Currencies

• The yuan rose about 9%, from 7.30 to 6.69 per dollar, between January 2025 and October 2026.

• Behind it is China's record surplus: about $1.2 trillion in 2025 and $938 billion in the first nine months of 2026.

• The PBoC has leaned against the rise, setting its daily fix weaker than the market rate.

• Borrowers outside America owe $14.7 trillion in dollars, $4.4 trillion of it in emerging economies.

• A dollar rise tightens every dollar borrower at once: reserves, local bond markets, and the IMF are the defenses.

Module 5 Quiz

Check Your Understanding

1. What is the yuan's 'fix'?

A) A permanent peg to the dollar set in 1994
B) The offshore rate in Hong Kong
C) The PBoC's daily central rate
D) A tax the state levies on converting yuan

2. How did the PBoC set its fix in 2026?

A) Weaker than the market rate, leaning against the yuan's rise
B) Stronger than the market rate, to support a yuan that was falling
C) Exactly at the previous day's close
D) At a fixed 7.00 per dollar

3. About how much did borrowers outside the United States owe in dollars at the end of March 2026?

A) $1.47 trillion
B) $4.4 trillion, all of it in emerging economies
C) $22.4 trillion
D) $14.7 trillion, about 30% of it in emerging economies

4. Why does a dollar rise tighten conditions in emerging economies?

A) Their exports are priced in their own currencies
B) It raises the local cost of their dollar debts
C) Their central banks hold no dollars
D) It lowers the price of the oil they must import

5. Why did the Mexican peso weaken in September and October 2026?

A) Mexico defaulted on its dollar bonds
B) The rate gap with America narrowed
C) The Bank of Mexico pegged the peso to the dollar
D) Oil prices fell, cutting Mexico's export earnings

Module 6 — The Machinery

How a Trade Is Executed and Settled

Recommended Reading / Reference

Reference: The BIS's papers on foreign-exchange market structure and the cross-currency basis; CLS Group's settlement statistics; the Global Foreign Exchange Committee's *FX Global Code* (2017, revised 2021 and 2024)

6a. Execution

A currency trade has no exchange to go to. A fund that wants to sell $500 million for euros asks several dealer banks for a price, by telephone thirty years ago and by electronic request today. Each dealer holds inventory in the major currencies, sees the flow of the market through its own books, and quotes a bid and an ask a fraction of a pip apart. The fund takes the best price, and the dealer takes the other side onto its balance sheet.

The dealer then either keeps the position, offsets it against another client's opposite trade, which the market calls internalization, or lays it off with other dealers. The interbank market runs on a few electronic venues, chiefly EBS, owned by the exchange group CME, and the London Stock Exchange Group's (LSEG) Matching, along with more than fifteen platforms that let clients ask several dealers at once. EBS handled about $70 billion a day in July 2026, and LSEG's Matching and its client platform, FXall, more than $460 billion together. The large dealers match more than 80% of their customers' trades inside their own books, and about three-fifths of all turnover is executed electronically, a share little changed since 2022; large or unusual trades still go by voice.

Algorithms do much of the work. Dealers' pricing engines quote continuously, funds' execution algorithms slice large orders into small ones over hours, and high-frequency trading firms make prices in the most liquid pairs alongside the banks. The market that was a dozen trading floors is now a network of machines, spread across venues and largely internal to the biggest dealers.

6b. The Fix

Index funds, companies, and custodians value their currency positions at a benchmark, the WM/Reuters rate set at 4 p.m. in London. From 2013 regulators found that traders at the largest dealers had shared their clients' orders in online chat rooms to push the benchmark in their favor. In November 2014 American, British, and Swiss regulators fined six banks $4.3 billion, and in May 2015 six banks paid $5.8 billion more, several pleading guilty in the United States; the fines passed $10 billion in all.

The reforms changed the machinery. The window over which the fix is calculated was widened from one minute to five in February 2015, so a burst of orders moves it less, and central banks wrote the FX Global Code of 2017, a set of principles on conduct that most dealers and large funds have signed.

6c. Settlement

A currency trade is two payments in two countries, and the danger that one side pays while the other does not is called Herstatt risk. It is named after Bankhaus Herstatt, a German bank closed by its regulator on June 26, 1974 after it had received Deutsche marks from its counterparties and before it paid them the dollars it owed in New York.

CLS, a bank owned by its member banks and supervised by the Federal Reserve, removes that risk for the currencies it handles. It settles both legs of a trade at once, payment-versus-payment, so neither payment is final until both are in. It settles more than $7 trillion a day in eighteen currencies. Yet the BIS found in June 2026 that about a tenth of currency payments, more than $1.4 trillion a day, settle with no protection at all. Most trades in currencies outside CLS, such as the yuan, settle without payment-versus-payment protection, although India and Brazil run their own systems for the rupee and the real: one reason a currency needs plumbing as well as size to become a reserve.

6d. The Basis, and Why It Broke

A forward rate should equal the spot rate adjusted for the two currencies' interest rates. This is covered interest parity, the nearest thing the market has to a law, because any gap offers a riskless profit: borrow the cheap currency, swap it, and lend the dear one. It held, within the cost of trading, for decades before 2008. Since then the dollar has usually cost more to borrow through the swap market than the interest-rate gap implies.

The extra cost is the cross-currency basis, quoted as a negative number when swapped dollars are dearer. For years after 2008 it was persistently negative for the euro and the yen, and it widened sharply in the crises of 2008 and March 2020. In 2026 it has been calm: the euro's one-year basis was slightly positive, about +10 basis points, in early March, and the oil shock strained it less than the tariff week of April 2025 did. The arbitrage that should close it does not, because the banks that would do it must hold capital against the trade, and because the world's demand for dollars through swaps exceeds what the dealers will supply. The basis is the price of the dollar's scarcity. It widens at quarter-ends, when banks shrink their balance sheets for their reports, and in crises, when everyone needs dollars at once.

That is the reason for the Federal Reserve's swap lines, through which it lends dollars to other central banks, which lend them on to their own banks. The lines had $583 billion outstanding at the peak in December 2008 and $449 billion in May 2020. Five are now permanent, with the central banks of Canada, Britain, Japan, the euro area, and Switzerland, and on October 7, 2026 just $0.2 billion was drawn. The basis is the number the market watches for the next dollar squeeze.

Worked example — A Hedged Treasury for a Japanese Investor

On October 14, 2026 a ten-year Treasury yielded 5.19% and a ten-year Japanese government bond (JGB) 3.00%. A Japanese life insurer that buys the Treasury and hedges the currency, by swapping its dollars back into yen three months at a time, pays roughly the gap between dollar and yen short-term rates. With overnight SOFR at 3.88%, or three-month Treasury bills at 4.28%, against about 1.23% overnight in yen, that costs 2.65-3.05 points a year before the basis. The hedged Treasury therefore yields about 5.19% − 2.65% = 2.54% at best, below the JGB's 3.00%, and the insurer earns more by staying at home. Unhedged, the Treasury pays its full 5.19%, but a 5% rise in the yen against the dollar would wipe out more than two years of the extra 2.19 points. That arithmetic, reported on October 15, is why Japanese investors were net sellers of foreign bonds in 2026, more than ¥5 trillion by mid-October, and why the investment plans of three of the largest life insurers, due in the week of October 19, are read for whether the money comes home.

Module 6 Key Points

The Machinery

• A currency trade goes to dealers, not an exchange; they match over 80% of client trades in their own books.

• Traders at the largest banks rigged the 4 p.m. London benchmark; fines passed $10 billion in 2014-15.

• CLS settles more than $7 trillion a day payment-versus-payment, yet a tenth of currency payments still settle unprotected.

• Covered interest parity broke in 2008: the cross-currency basis is the price of the dollar's scarcity.

• Hedged into yen, a 5.19% Treasury yields about 2.5%, below a 3.00% JGB, so Japanese money is drawn home.

Module 6 Quiz

Check Your Understanding

1. Where does a large currency trade usually execute?

A) On the Chicago Mercantile Exchange's trading floor
B) At the Bank for International Settlements
C) Through a central-bank auction
D) With dealer banks, which quote from inventory

2. What is Herstatt risk?

A) The risk that a currency is devalued without warning
B) The risk of a rate rise between trade and settlement
C) The risk that one side of a trade pays while the other does not
D) The risk that a peg breaks over a weekend

3. How does CLS remove settlement risk?

A) Neither payment is final until both are in
B) It guarantees every trade with its own capital
C) It settles each leg a day apart
D) It nets every bank's trades to zero each day

4. What does a negative cross-currency basis mean?

A) The dollar is cheaper to borrow abroad than at home
B) The dealer's spread has turned negative
C) Swapped dollars cost more than rates imply
D) The forward rate equals the spot rate exactly

5. Why did a hedged Treasury yield less than a ten-year JGB in October 2026?

A) Treasuries paid less than JGBs before hedging
B) Hedging cost about 2.65-3.05 points a year
C) Japan taxes foreign bonds more heavily
D) The yen was pegged to the dollar

Module 7 — Intervention, Pegs, and Crises

When Governments Fight the Market, and Who Wins

Recommended Reading / Reference

Book: Paul Blustein, *The Chastening: Inside the Crisis That Rocked the Global Financial System and Humbled the IMF* (2001)

Reference: Japan's Ministry of Finance, foreign-exchange intervention operations (monthly and quarterly); the Swiss National Bank's statement of January 15, 2015; the US Treasury's semiannual report on the currency practices of major trading partners

7a. The Record

Episode	What the government did	What the market did	Who won, and why
Britain, September 16, 1992	Raised its rate from 10% to 12% and announced 15%, and spent about £27 billion of reserves to keep sterling in Europe's Exchange Rate Mechanism	Sterling left the mechanism that evening; the Treasury's loss was about £3.3 billion	The market: the peg required high rates in a recession, and the reserves were finite
Thailand, Korea, and Indonesia, 1997-98	Defended pegs with reserves, then floated and took IMF programs	The baht and the won lost about half their value against the dollar, the rupiah about four-fifths; dollar debts multiplied in local terms	The market; the lesson drawn was to hold far larger reserves
Hong Kong, August 1998	Bought HK$118 billion of shares to defeat funds betting against both the currency and the stock market	The peg held, then and through 2008 and 2020	The government: a currency board fully backed by reserves cannot run out of them
Argentina, 2001-02	A currency board at one peso per dollar since 1991	Recession, a freeze on deposits, default, and a devaluation in January 2002; the peso lost about three-quarters of its value	The market: a peg without the budget to back it
Switzerland, January 15, 2015	Abandoned without warning the floor of 1.20 francs per euro it had held since 2011, after building foreign-currency reserves of 510 billion francs, €196 billion of them in euros	The franc jumped more than 30% within minutes and closed about 15% higher; brokers such as Alpari UK failed	Neither: the bank won every battle for three years, then chose to stop
China, 2015-16	After a surprise devaluation on August 11, 2015, sold reserves to slow the yuan's fall	Reserves fell from $3.99 trillion in June 2014 to about $3.0 trillion in January 2017, partly through valuation; the yuan fell about 10%	The government, with large reserves and a closed capital account
Turkey, 2021-23	Cut rates as inflation rose, to a peak of 85.5% in October 2022	The lira lost most of its value; a return to orthodox policy began in June 2023	The market, then the orthodoxy
Britain, September 2022	A budget of unfunded tax cuts	Sterling fell to a record low of about $1.035, and the Bank of England bought £19.3 billion of gilts to stop a pension-fund spiral	The market: the chancellor was dismissed and the prime minister resigned
Japan, 2022 and 2024	Bought yen worth ¥9.19 trillion in September-October 2022 and ¥15.32 trillion in April-July 2024	The yen recovered each time, then resumed its fall	A draw: intervention bought time; the rate gap set the trend

Episode	What the government did	What the market did	Who won, and why
Argentina, October 2025	A $20 billion swap line from the US Treasury, of which $2.5 billion was drawn and repaid by January 9, 2026	The peso held inside its band; the government won the October 26 midterm elections	Held so far (Module 5)
Japan, 2026	Bought ¥11.73 trillion of yen from April 28 to May 27, and a record ¥15.4 trillion in the month to August 26, chiefly on July 30 and 31; the United States joined on July 31	The speculative excess was reversed, the trend was not (7c)	Open

Japan's Ministry of Finance; the Swiss National Bank; the IMF; HM Treasury papers released in 2005; the People's Bank of China. Japan's amounts are in yen; the 2026 rounds were about $73 billion and $96 billion.

7b. What Works

The record has three rules. First, a government can hold a rate that fits its economy and cannot hold one that does not. The pegs that survived, Hong Kong's, the Gulf states', and Denmark's, are backed by reserves that cover the monetary base and by economies that can live with the rate. The ones that broke, sterling's in 1992, Thailand's in 1997, and Argentina's in 2002, were defended through a recession or a deficit the market could see.

Second, intervention works against speculation and not against fundamentals. Japan's purchases of yen reverse a move that has run ahead of the interest-rate gap, but they do not change the gap. That is why each round has bought weeks or months rather than years, and why the Bank of Japan's own rate rises are the intervention that lasts.

Third, the two directions are not symmetric. A central bank holding its currency down, as Switzerland did in 2011-15, sells a money it can print without limit, so it can hold a ceiling for as long as it accepts the growth of its balance sheet. A central bank holding its currency up, as Britain did in 1992, can sell only the reserves it has, and the market can count them.

7c. Japan's Intervention Arithmetic

Worked example — Japan's Intervention Arithmetic

Take the yen as it stood on July 29, 2026: ¥163.4 per dollar, near its low of the year (Module 4), with the Fed's rate at 3.50-3.75% and the Bank of Japan's at 1.00%. **The ammunition.** Japan held $1.178 trillion of reserves at the end of September: $821.7 billion of securities, mostly Treasuries, $155.2 billion of deposits, $113.6 billion of gold, and the rest in IMF and other assets. An intervention sells dollars from that pool for yen. On July 30 and 31 Japan spent about $95 billion on market estimates, roughly $48 billion a day, and in August its reserves fell a record $79.6 billion. **The constraint.** The deposits that can be spent at once are a fraction of the total, so a long campaign means selling Treasuries, which pushes up the American yields that make the dollar attractive in the first place. Finance Minister Satsuki Katayama has said Japan intends to raise dollars through the Fed's repo facility for foreign central banks instead, borrowing against its Treasuries rather than selling them. **What it bought.** The yen rose almost 4% in two days, from ¥163.4 to ¥157.4, and has since drifted back (Module 4): the speculative excess was reversed, the trend was not. **Why.** The trend is the rate gap. At the July rates it was 3.625% (the Fed's midpoint) − 1.00% = 2.6 points, which September's matching rises left unchanged (Module 2): a trader who borrows yen to hold dollars earns that much a year while the exchange rate stands still. Intervention raises the risk of that trade for a few weeks; only a narrower gap removes its reward. **The American signal.** The United States' participation on

July 31, its first intervention since 2011 and its first purchase of yen since 1998, said something money cannot: that Washington wanted a stronger yen too. Its amount was 'only a very small amount', Treasury Secretary Scott Bessent told Congress on September 15. Three lessons: intervention changes the speed of a move, not its trend; a joint operation is a stronger signal than a large one; and the yen's trend belongs to the two central banks, the Fed's path against the Bank of Japan's.

7d. Should America Weaken the Dollar on Purpose?

The question has a recent history. In November 2024 the economist Stephen Miran, later a Fed governor from September 2025 to May 2026, published 'A User's Guide to Restructuring the Global Trading System', a menu of ways to weaken the dollar: tariffs, a coordinated or unilateral push on the exchange rate, and swapping foreign central banks' Treasuries for century bonds, with America's security guarantee as leverage. No such plan had been proposed by October 2026. Treasury Secretary Bessent said on January 28, 2026 that the United States had a strong-dollar policy and was 'absolutely not' intervening to support the yen; six months later it did.

The case for

Those who favor a weaker dollar argue that it is overvalued, as the IMF's July 2026 assessment found (Module 3), and that the overvaluation has hollowed out American manufacturing. The reserve role, in this view, is a burden America carries for the world: foreign demand for dollar assets keeps the currency too strong. The Plaza Accord of September 22, 1985, in which the Group of Five (America, Japan, West Germany, France, and Britain) agreed to push the dollar down, shows that a coordinated move can work, and the joint purchase of yen in July 2026 shows that coordination is still possible.

The case against

Those against it answer that a currency its own government wants weaker is a currency the world hedges, and that the dollar's roles rest on trust more than on price. A deliberate fall would raise import prices with inflation already at 3.7%, and raise the cost of America's borrowing as foreign holders demanded compensation. Swapping Treasuries for century bonds would look to their holders like a default in all but name. And April 2025 showed the cost of a lost confidence (Module 3).

The evidence

After the Plaza Accord the dollar fell by more than a third against the yen and the Deutsche mark in two years, and in February 1987 the same governments, with Canada, met at the Louvre to stop the fall. In 2025 the dollar fell without any accord (Module 3). The Treasury's report of July 23, 2026 named no manipulator, but it found that years of decline had left 'substantial yen undervaluation', and it warned China against resisting the yuan's rise.

The course's reading

A weaker dollar has been pursued in practice more than in policy: by the doubts of 2025, by the Treasury's joint purchase of yen, and by its pressure on China, but not by an accord. A deliberate devaluation would trade a modest gain for American exporters against a large cost in the trust that underpins the dollar's roles (Module 3). The signal that would change this reading is a formal proposal, or an intervention to weaken the dollar against more than one currency.

Module 7 Key Points

Intervention, Pegs, and Crises

• Pegs survive when reserves cover the monetary base and the economy fits the rate; they break when defended against a recession.

• Intervention reverses speculation, not fundamentals: Japan's rounds bought weeks or months, because the rate gap sets the trend.

• A central bank holding its currency down can print without limit; one holding it up has only its reserves.

• Japan spent about $95 billion on July 30-31, 2026; the yen rose almost 4% and has drifted back since.

• The United States joined on July 31, its first intervention since 2011: a signal about the level, not just the speed.

Module 7 Quiz

Check Your Understanding

1. Why did Britain's defense of sterling fail in 1992?

A) It meant high rates in a recession, with finite reserves
B) Britain had no reserves left to sell
C) The United States sold pounds against it
D) Sterling was already pegged to the dollar by law

2. Why has Hong Kong's peg survived every crisis since 1983?

A) China guarantees it by law
B) Speculators have never tested it
C) It floats within a wide band
D) Full backing by reserves

3. What does intervention work against, on the record?

A) Fundamentals, but not speculation
B) Both, if the amount is large enough
C) Neither, on the evidence since 1992
D) Speculation, not fundamentals

4. How did Japan plan to raise dollars for future interventions without selling Treasuries?

A) Through the Fed's repo facility
B) By issuing yen bonds in New York
C) By selling its gold reserves
D) By asking the IMF for an emergency loan

5. What was new about the intervention of July 31, 2026?

A) Japan sold yen instead of buying it
B) The United States joined, its first intervention since 2011
C) It was Japan's first intervention of 2026
D) The Bank of Japan acted without the Ministry of Finance

Module 8 — Hedging, Carry, and the Corporate Side

The Currency From the Company's and the Investor's Side

Recommended Reading / Reference

Reference: The BIS's analysis of the market turbulence of August 2024, and the Commodity Futures Trading Commission's weekly reports of futures positions

Article: Eugene Fama, 'Forward and Spot Exchange Rates', *Journal of Monetary Economics* (1984); Markus Brunnermeier, Stefan Nagel, and Lasse Pedersen, 'Carry Trades and Currency Crashes', *NBER Macroeconomics Annual* (2008)

8a. The Hedge

A company that earns in one currency and reports in another holds a currency position whether it wants one or not. The usual instrument for removing it is a forward contract, which fixes today the rate at which next quarter's euros will become dollars, so that the reported profit does not depend on where the euro goes.

The forward's price is arithmetic, not a forecast. It is the spot rate adjusted for the two currencies' interest rates, plus the basis (Module 6). The hedge's cost or gain is therefore known in advance: an American company hedging euro receipts earns roughly the rate gap, because dollar rates are higher, while a Japanese investor hedging dollar assets pays it.

Large companies usually hedge a rolling share of the revenue they expect over the coming year, more of the near quarters than the far ones, and disclose the effect each quarter as the difference between their results in constant currency and as reported. Investors tend to hedge their foreign bonds, where currency swings would swamp the yield, more than their foreign shares, where the swings matter less over long periods. Tourists and migrants sending money home do not hedge at all, and pay a bank's or a transfer service's margin instead (Module 1).

8b. The Carry Trade

The carry trade is the hedge turned inside out. A trader borrows the currency with the low interest rate, buys the one with the high rate, and collects the difference for as long as the exchange rate does not move against the position by more than the gap.

On the forward premium puzzle (Module 2), it usually does not, so the trader collects the rate gap and sometimes a capital gain as well. The returns come steadily for years and can vanish in weeks, because carry positions are crowded and leveraged, and they are unwound together when volatility jumps. The pattern is called 'going up the stairs and down the elevator'.

The unwinds are the episodes the market remembers. In October 1998, weeks after the rescue of the hedge fund Long-Term Capital Management, the yen jumped against the dollar as yen-funded positions were closed in a rush. In the summer of 2024 a rise by the Bank of Japan and a weak American jobs report set off a rapid unwind. The yen rose from ¥161.7 per dollar on July 10 to ¥144 on August 5; that day Japan's Nikkei index fell 12.4%, and the VIX, the index of expected volatility in American shares, touched 65.73. The BIS put the yen-funded positions involved at about ¥40 trillion, some $250 billion.

In 2026 the trade has been smaller and thinner. Borrowing yen to hold dollars earns about 2.6 points a year at the policy rates (Module 2), against more than 5 in 2024. Hedge funds' net short position in yen futures on the Chicago Mercantile Exchange, a rough gauge of the carry, was 33,673 contracts on October 13, about a third of its size at the start of September, on the weekly count of the Commodity Futures Trading Commission. The high-yielding currencies have tested the trade: from its September average to October 14 the Mexican peso lost 5.5% against the yen, a year's carry for a trade funded in yen, while the Brazilian real gained 3.5% on top of its high rate (Module 5).

8c. A Manufacturer's Hedge

Worked example — A Manufacturer's Hedge

An American machinery maker sells €400 million a year in Europe, invoiced in euros and paid about three months after shipment. **The exposure.** Next quarter's €100 million of receipts are worth $111.58 million at the spot rate of October 14, $1.1158. If the euro falls 6% by the time they arrive, to $1.0489, they are worth $104.89 million: a loss of $6.69 million on sales already made. With an operating margin of 10%, those sales earn $11.16 million, so a 6% move in the currency takes 60% of the quarter's European profit. **The forward.** The company sells €100 million to its bank for delivery in 92 days. The forward rate is F = S × (1 + r$ × t) / (1 + r€ × t), where S is the spot rate, r$ the three-month dollar rate (the Treasury bill's 4.28%), r€ the three-month euro rate (Euribor's 2.628%), and t the fraction of a year, 92/360. That gives F = 1.1158 × 1.01094 / 1.00672 = $1.1205, 47 pips above spot: the company is paid the rate gap for hedging, because dollars earn more than euros for those three months. It now knows its receipts will be $112.05 million, whatever the euro does. **Both outcomes.** If the euro falls to $1.0489, the receipts lose $6.69 million against today's spot and the forward gains $7.16 million. If the euro rises to $1.18, the receipts gain $6.42 million and the forward loses $5.95 million. Either way the company gets $112.05 million, which is the point, and in the second case the treasurer will be asked why the company 'lost' $5.95 million on a hedge. **The layered program.** Companies rarely hedge a single quarter. A common program hedges the next four at falling ratios, for example 100%, 75%, 50%, and 25% of expected receipts, and rolls forward every quarter, so that a move in the currency reaches the results gradually and prices can be adjusted meanwhile. **What is left unhedged.** A factory in Germany is also a euro asset whose dollar value moves with the rate. Many companies leave it unhedged, because the accounting puts the change in equity rather than earnings and because the factory is a long-term commitment. Three lessons: the hedge's cost or gain is the interest gap and is known in advance; a layered program turns a shock into a slope; and the 'loss' on a hedge in a good quarter is the price of having no loss in a bad one.

Module 8 Key Points

Hedging, Carry, and the Corporate Side

• A forward fixes today the rate for a future exchange; its price is spot adjusted for the two interest rates.

• An American firm hedging euro receipts is paid the rate gap; a Japanese investor hedging dollars pays it.

• The carry trade earns the rate gap until the currency moves; from July 10 to August 5, 2024 the yen rose 12%.

• In 2026 yen carry pays about 2.6 points a year, half its 2024 level, and futures positions are a third of September's.

• A 6% fall in the euro takes 60% of a 10%-margin exporter's quarterly profit; the forward removes it.

Module 8 Quiz

Check Your Understanding

1. What is a forward exchange rate, for a hedging company?

A) The bank's forecast of next quarter's rate
B) The central bank's target for the currency
C) The spot rate adjusted for the two currencies' interest rates
D) The average of the spot rate over the past three months of trading

2. Who pays the rate gap when hedging?

A) An American company hedging euro receipts
B) The bank that writes the forward contract
C) American funds hedging their yen bonds
D) Japanese investors holding dollars

3. What did the yen do between July 10 and August 5, 2024?

A) It rose about 12% as carry trades unwound
B) It fell to ¥170 per dollar
C) It was pegged at ¥150 by the Ministry of Finance
D) It fell about 12% as the Bank of Japan cut its rate

4. In the worked example, what does the company receive if the euro rises to $1.18?

A) $118.00 million, the full gain
B) $111.58 million, today's spot value
C) $112.05 million, the same as if it falls
D) $104.89 million, after the hedge's loss

5. What does a layered hedging program do?

A) Removes all currency risk for every future year
B) Spreads a currency move through the results over a year
C) Doubles the hedge after a bad quarter
D) Bets on the currency's direction against the board's policy

Module 9 — Where Things Stand, and What to Watch

The Argument on a Page, and the Dates

Recommended Reading / Reference

Reference: The IMF's *External Sector Report* (July 2026) and *World Economic Outlook* (October 2026); the BIS's *Annual Economic Report* (June 2026); the US Treasury's semiannual currency report (July 23, 2026)

9a. The Argument on a Page

An exchange rate is the price of one country's money in another's, set by no one and moved by everything. Because most trading is investment, funding, and hedging rather than trade, a currency is priced like a share: on the market's estimate of the path of interest rates, of inflation, and of the risks of holding it. That is why the rate moves on surprises, why no model forecasts it well over a year, and why the expected path of rates matters more than any single decision.

At the center sits the dollar, which the world uses to trade, borrow, pay, and save. Its roles reinforce one another, and its power rests on the depth of the Treasury market, an open capital account, enforceable contracts, and a central bank willing to lend dollars abroad. Around it, every other currency is a variation: the euro a political construction, the yen and the franc creditors' havens, the commodity currencies their exports, and the yuan and the emerging currencies managed, pegged, or exposed to their dollar debts.

Governments can steer a currency only where the rate fits the economy. Intervention changes the speed of a move, not its trend, and a peg lasts only as long as the reserves and the economy behind it. Companies and investors live with the result through the forward, whose price is the interest gap, and the carry trade, which earns that gap until the currency moves against it.

9b. Five Contradictions

• **A stronger dollar, a weaker trust.** The dollar has risen 4.3% in 2026, to its highest since April 2025, while central banks keep buying gold and European officials ask whether they can rely on the Fed's swap lines. The price measures demand for dollars this year; the gold and the questions measure confidence over the next decade.

• **Everyone tightened, and the dollar still won.** In nine days of September the Fed, the ECB, and the Bank of Japan each raised by a quarter-point, leaving the rate gaps unchanged, yet the euro and the yen fell. The decisions cancelled out; the expected paths did not.

• **Positive rates in Japan, and the weakest yen in forty years.** A ten-year JGB now yields more than a hedged Treasury, so Japanese money has reason to come home, yet the yen is near its weakest since 1986, because the unhedged rate gap still pays the carry trade about 2.6 points a year.

• **Two governments that want the same thing at different speeds.** The US Treasury warns China against resisting the yuan's rise, and the People's Bank leans against that rise every morning. Both want a stronger yuan; they disagree about how fast.

• **A haven that is sometimes the shock.** Investors ran to the dollar when war closed the Strait of Hormuz in 2026, and away from it in the tariff week of April 2025. The dollar shelters the world from the

world's shocks, but not always from America's.

9c. What to Watch

Date	What to watch	Why it matters
Week of October 19, 2026	The investment plans of Japan's largest life insurers	Whether money comes home to JGBs rather than Treasuries (Module 6)
October 25	Brazil's presidential runoff	The real's direction and the central bank's room to cut from 13.75%
October 27-28	The Fed's meeting	A second rise now, in December, or not at all: the dollar's rate path (Module 2)
October 28	Britain's budget	Sterling's verdict on the public finances, as in 2022 (Module 7)
October 29 and 29-30	The ECB's and the Bank of Japan's meetings	Whether the euro and the yen get support from higher rates at home
End of each month	Japan's Ministry of Finance publishes its intervention totals	Whether Japan has intervened again since July (Module 7)
November 3	The American midterm elections	Fiscal and trade policy, and the pressure on the Fed
November 5	The Bank of England's decision	A first rise since 2023 is in play
November 18-19 and December 14-15	The Asia-Pacific Economic Cooperation (APEC) summit in Shenzhen and the Group of Twenty (G20) summit in Miami	Any meeting of President Trump and President Xi, the trade truce that expires on January 10, 2027, and the yuan's pace
December 8-9	The Fed's meeting and projections	Whether the rises continue into 2027
December 31	The Swiss National Bank's third-quarter intervention figure	Whether it sold francs again after dropping its warning
Late December	The IMF's reserve data for the third quarter of 2026	The dollar's share, 56.7% in the second quarter, and the yuan's
By January 18, 2027	The stablecoin law takes effect at the latest	The size of a rule-bound buyer of Treasury bills (Module 3)
About January 2027	The US Treasury's next currency report	Any manipulator named, and the language on China and Japan
April 2028	The BIS's next survey of turnover	Whether the dollar's share of trading, 89%, has moved at all

Scheduled dates are as announced by the institutions concerned; the Treasury's report and the IMF's data follow their usual calendars.

9d. The Last Word

The reader who has followed the Fed's rise through the euro and the yen, the yen to its intervention, the swap to its basis, the peg to its reserves, and the exporter to its forward can read the next rate decision, the next intervention, and the next headline about the dollar's decline for what they are. Of every currency, ask three questions: what the rate gap is, what the market has already priced, and who has to buy.

Module 9 Key Points

Where Things Stand, and What to Watch

• A currency is priced on the expected path of rates and risks, so it moves on surprises and resists forecasting.

• The dollar's roles reinforce one another; its position is secure in use and less so in trust.

• Intervention changes a move's speed, not its trend; pegs last while reserves and the economy support them.

• The forward's price is the interest gap; the carry trade earns it until the currency moves.

• Watch the Fed on October 27-28, Japan's monthly intervention data, and the IMF's reserve figures in late December.

Module 9 Quiz

Check Your Understanding

1. Why, in the module's argument, does no model forecast exchange rates well over a year?

A) Currencies follow trade, which cannot be forecast
B) Central banks keep their rate plans secret from markets
C) Exchange rates are set by a committee each morning
D) It reflects the expected path of rates, so it moves on surprises

2. Which contradiction involves the rate gaps of September 2026?

A) The yuan rose while the PBoC cut rates
B) All three raised, yet the euro and the yen fell
C) Sterling rose while gilt yields fell
D) The franc fell while the Swiss National Bank sold francs

3. Why is the yen weak although a JGB now yields more than a hedged Treasury?

A) Japan's central bank is still cutting rates
B) Japanese investors are barred from buying JGBs
C) The unhedged rate gap still pays carry
D) The yen is pegged to the dollar

4. Which comes first on the module's watch list?

A) Insurers' plans, October 19
B) The Fed's meeting of December 8-9
C) The BIS's next turnover survey, in April 2028
D) The IMF's reserve data, in late December

5. What three questions does the last word say to ask of every currency?

A) The rate gap, what is priced, and who has to buy
B) Its age, its issuer, and its backing in gold
C) Its peg, its band, and its central bank's name
D) Its share of trade, of reserves, and of world debt

Answer Sheet

Answers to every module's Check Your Understanding quiz.

Module	Answers
Module 1 Quiz	1. B 2. D 3. A 4. C 5. D
Module 2 Quiz	1. C 2. A 3. B 4. C 5. D
Module 3 Quiz	1. B 2. A 3. A 4. B 5. D
Module 4 Quiz	1. C 2. C 3. A 4. D 5. B
Module 5 Quiz	1. C 2. A 3. D 4. B 5. B
Module 6 Quiz	1. D 2. C 3. A 4. C 5. B
Module 7 Quiz	1. A 2. D 3. D 4. A 5. B
Module 8 Quiz	1. C 2. D 3. A 4. C 5. B
Module 9 Quiz	1. D 2. B 3. C 4. A 5. A