

Bank of England's Narrow Rate Cut Keeps Sterling Strong

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The US dollar faced continued pressure on Friday, heading for a weekly decline, as political and central bank developments in both Washington and London shaped currency markets.

In the United States, President Donald Trump's interim nomination for the Federal Reserve Board has fuelled expectations that a permanent replacement for current Fed Chair Jerome

Powell may adopt a softer stance on interest rates. The move added to market speculation over future US monetary policy, weighing on the dollar's performance.

Trump has appointed Stephen Miran, Chairman of the Council of Economic Advisers, to temporarily fill a vacant seat at the Federal Reserve. Miran's appointment follows the unexpected resignation of Governor Adriana Kugler last week. While the White House continues its search for a permanent board member, analysts believe Miran will advocate for lower interest rates. However, some economists caution that any such position will likely depend on incoming economic data.

Joseph Capurso, Head of International Economics at the Commonwealth Bank of Australia, noted: "While we expect Miran to support rate cuts, we do not believe he will push the Federal Open Market Committee to act unless the data justifies it." He added that Miran could emerge as a potential successor to Powell when his term ends in May next year, depending on the president's assessment of his interim performance.

In the UK, sterling maintained its strength near a two-week high after the Bank of England cut interest rates on Thursday. The decision was far from unanimous, passing by a narrow 5-4 vote among the Monetary Policy Committee, signalling that the central bank's appetite for further easing is limited.

The Bank's move was interpreted by some investors as a cautious approach to supporting economic growth while monitoring inflationary pressures. The slim margin of the vote suggested a split within the committee on the timing and necessity of rate reductions.

Currency traders reacted positively to the decision, with sterling holding on to Thursday's sharp gains. The pound's performance was bolstered by market perceptions that the UK central bank may avoid aggressive rate cuts unless economic conditions worsen.

The combination of a firmer pound and a weaker dollar has shifted exchange rates in favour of sterling this week, giving British importers an advantage. However, market analysts warn that both the Federal Reserve and the Bank of England will remain heavily influenced by economic data in the months ahead, leaving currency trends sensitive to upcoming inflation, employment, and growth figures.