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Dollar's Momentum in Question as Market Eyes Key Economic Signals

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The US dollar's recent strength may be running out of steam, with markets now turning their attention to economic data and policy decisions that could determine whether the greenback's recovery continues or stalls. The dollar, which posted gains against most of the Group of Ten (G10) and several emerging market currencies last week, now faces mounting headwinds amid shifting expectations for US interest rates and mixed market signals.

The dollar's climb this month has largely been supported by rising US bond yields, especially the two-year and ten-year Treasury notes. However, by the end of last week, yields began to pull back. The US two-year yield settled lower, and the ten-year yield capped its gains just shy of 4.50%. The midweek market turmoil, triggered by speculation that President Trump might remove Federal Reserve Chair Jerome Powell, briefly sent the dollar sharply lower and caused a ripple effect across equities. While those concerns were quickly extinguished through official denials, the episode underscored the volatility tied to White House influence and leadership uncertainty at the Federal Reserve (Fed).

Adding to the complexity is commentary from Fed Governor Christopher Waller, floated by some as a potential successor to Chair Powell. Waller reiterated his support for a rate cut later this month, yet his position does not appear widely shared among Fed officials. Consequently, the odds of a rate cut in September, tracked by the Federal Funds futures market, have dropped to roughly 63%, marking the lowest probability seen this year. This reduction in expectations may place a temporary floor under the dollar.

Looking ahead, markets will closely watch several critical economic indicators. Among them is the *Purchasing Managers' Index (PMI)* for July, a widely followed gauge of manufacturing and service-sector performance, which is forecasted to post a modest rise. Across the Atlantic, the *European Central Bank (ECB)* is expected to keep interest rates unchanged in its upcoming policy meeting, likely holding off until the fourth quarter. In Japan, Tokyo's July *Consumer Price Index (CPI)* is anticipated to decline slightly, with the headline rate flat since April and possibly registering a second consecutive drop in the core reading, a first this year.

The broader geopolitical landscape also continues to shape market sentiment. The White House's evolving stance on tariffs remains a wildcard. Past tariff actions have been used to resolve trade disputes and exert pressure in diplomatic matters, as seen in cases involving Colombia and Brazil. Most recently, new prohibitive tariffs, reportedly totaling around 160%, on graphite imports from China could slow progress in the US electric vehicle (EV) battery sector. Since US import price indices exclude tariffs, recent flat readings imply that foreign producers have yet to adjust prices to offset these levies.

Domestically, high-frequency data releases are expected nearly every day in the week ahead, though many are survey-based reports that Federal Reserve officials have downplayed in recent commentary. Of more importance will be the official second-quarter *Gross Domestic Product (GDP)* report, scheduled for release on July 30, just hours before

the Fed's *Federal Open Market Committee (FOMC)* concludes its meeting. According to Bloomberg, the median forecast pegs Q2 growth at 2.1% (annualized), with the Atlanta Fed's model forecasting a slightly higher 2.4%. Encouragingly, Bloomberg's economic surprise index has rebounded after dipping to its lowest level since August last year.

The *US Dollar Index*, a basket measuring the greenback's performance against key trading partners, rose as high as 98.95 last week, continuing its climb from the three-year low of 96.35 seen at the beginning of July. Still, analysts note that unless the index breaks above the 97.65–97.70 range with conviction, the correction may already be nearing its conclusion.

In sum, while the dollar has enjoyed a notable rally, its future direction hinges on upcoming economic releases, central bank decisions, and political developments. With global growth uncertain and the Fed treading cautiously, markets should brace for increased volatility, and potentially a turning point for the greenback's momentum.