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US Dollar Dips Against Euro but Secures Weekly Gains

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The U.S. dollar weakened slightly against the euro on July 18, but maintained its weekly gains as markets grappled with uncertainty over Federal Reserve policy and the potential inflationary impact of proposed tariffs under President Donald Trump's administration. Investors remain cautious, balancing mixed economic signals with Trump's ongoing public feud with Fed Chair Jerome Powell.

Recent data released on July 15 showed a moderate rise in consumer prices for June, while the producer price inflation report the following day indicated price stability. Despite these figures, Powell warned that Trump's tariff proposals could drive inflation higher this summer, pushing back expectations for interest rate cuts. Meanwhile, the labour market shows cracks beneath the surface, with steady headline job gains and unemployment figures masking weaker hiring trends.

In a recent interview with *Reuters*, Lou Brien, a strategist at DRW Trading in Chicago, remarked, "We're waiting for tariffs to materialise beyond mere negotiation tactics and for the labour market to show its true colours." Brien highlighted that while layoffs remain lower than pre-pandemic levels, hiring has slumped. "If layoffs spike suddenly, the unemployment rate could climb rapidly," he added.

Fed Governor Chris Waller, speaking on Friday, advocated for a rate cut at the July meeting, arguing that tariffs are unlikely to significantly fuel inflation. He noted that underlying data suggest a weakening private sector labor market, urging the Fed to act preemptively to avoid a hiring slowdown. Waller's comments contrast with Powell's cautious stance, which has drawn near-daily criticism from Trump, who has repeatedly called for lower interest rates. The dollar briefly fell on July 16 amid unconfirmed reports that Trump planned to oust Powell, whose term ends in May 2026, but it recovered after Trump dismissed the speculation.

Chicago Fed President Austan Goolsbee, in a separate statement, expressed mild concern about tariff-driven goods inflation in June's consumer price index. However, he remained optimistic about the U.S. economy, suggesting the Fed's policy rate could ease significantly over the next year. Market expectations, reflected in Fed funds futures, point to 46 basis points of cuts by year-end, with two 25-basis-point reductions likely, the first expected in September.

The dollar index closed nearly unchanged at 98.49, poised for a 0.65% weekly gain. The euro rose 0.22% to \$1.1621 but is set for a 0.59% weekly decline, tempered by reports that Trump is pushing for a 15-20% minimum tariff in EU trade talks, according to the *Financial Times*.

Sterling held steady at \$1.3411, heading for a 0.64% weekly loss. The Japanese yen weakened slightly to 148.75 against the dollar, up 0.1% on the day and tracking for a 0.93% weekly gain. Japan faces policy uncertainty as polls suggest the ruling coalition may lose

its upper house majority in Sunday's election, potentially complicating US tariff negotiations.

U.S. Treasury Secretary Scott Bessent, in a meeting with Japanese Prime Minister Shigeru Ishiba on Friday, expressed confidence in reaching a "good agreement" on tariffs, according to Ishiba. As global markets navigate these dynamics, the dollar's resilience underscores its safe-haven appeal amid rising geopolitical and economic tensions.