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Fed Uncertainty Weighs on US Dollar as Markets Eye Powell's Response to Political Pressure

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The US dollar (USD) came under renewed pressure at the start of the week as financial markets reacted to growing political uncertainty surrounding the Federal Reserve's (Fed) independence. With investors increasingly concerned about potential political interference

in monetary policy, attention now turns to an upcoming speech by Fed Chair Jerome Powell that could provide clarity on the central bank's stance.

On Monday, the dollar struggled as markets absorbed recent developments tied to the Trump administration's influence over the Federal Reserve. Although President Donald Trump denied any intention to remove Powell from his post, his persistent public push for lower interest rates has raised alarm about the Fed's autonomy. The Federal Reserve, the United States' central banking system, is traditionally expected to operate independently of political influence, ensuring its decisions are based on economic fundamentals rather than electoral considerations.

This climate of uncertainty has weighed heavily on investor sentiment. A more dovish Fed, whether by design or under political pressure, tends to dampen USD strength as interest rate cuts reduce the yield on dollar-denominated assets. Traders are now closely watching for signs that Powell will assert the central bank's independence during his upcoming remarks. A firm response could stabilize the dollar by reassuring markets that monetary policy remains in steady hands.

Meanwhile, the British pound (GBP) made notable gains, with the GBP/USD currency pair climbing to a one-week high. Sterling's strength was largely attributed to diminishing expectations for further interest rate cuts from the Bank of England (BoE). Recent market sentiment suggests the BoE may deliver just one additional rate cut in 2025, a more restrained outlook than previously assumed. This shift in expectations has bolstered confidence in the pound, even in the absence of fresh UK economic data.

Looking ahead, broader market forces and investor reaction to Powell's comments are likely to drive currency movements throughout the day. If the Fed Chair firmly defends the institution's independence and dismisses external pressure, the USD may find renewed support. However, any signs of capitulation or policy softening could fuel further volatility and raise questions about the long-term stability of US monetary policy.

In a time when central bank credibility is closely tied to market performance, how Powell navigates this political minefield will be critical. For now, the dollar remains vulnerable amid the ongoing Fed-related uncertainty.