

Dollar under pressure as investors await US trade deals

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SINGAPORE/LONDON (Reuters) -The dollar struggled on Tuesday as investors began to grow impatient over hoped-for U.S. trade deals, while Asian currencies took a breather after an unprecedented two-day surge that highlighted the fragility of the greenback.

The dollar was last down 0.57% on the Japanese yen at 142.87, while Britain's pound gained 0.56% to \$1.3371.

"What's clear this morning is some of the optimism we had last week around trade deals has faded," said Jane Foley, head of FX strategy at Rabobank.

She said the market would soon "get impatient" and start to pay more attention to the warnings from companies about the damage to the world economy from tariffs.

In recent weeks investors had been growing more optimistic that the U.S. would reach deals that pare back tariff levels, optimism that has been helping support shares and the U.S. dollar.

The euro also rose 0.14% to \$1.1331 though its gains were capped by political uncertainty in Germany where conservative leader Friedrich Merz failed to secure enough parliamentary votes to become chancellor.

While not a fatal setback, Merz's failure to win backing at the first attempt is a first for post-war Germany.

"This is a significant negative. He (Merz) is still likely to get elected but this shows that the coalition is not united, which could weaken his ability to pursue policies," said Holger Schmieding, chief economist, Berenberg.

The euro was at a one month low on the pound and a two week low on the yen.

Currency traders were also still processing recent moves in emerging Asian currencies, though the unprecedented two-day rise in the Taiwan dollar eased on Tuesday.

Other currencies in emerging Asia have appreciated too, sounding a warning for the dollar because they suggest money is moving into the region at scale and that a key pillar of dollar support is wobbling.

Many in the market are speculating that countries with traditionally weak currencies may let them appreciate as part of a deal with the United States.

Such a deal has been repeatedly denied by Taiwan's central bank, but the market is not entirely convinced and sees the Taiwan dollar's jump as having its tacit approval, as well as likely being welcomed by the United States.

China's yuan traded onshore finished the domestic session at a six-month high against the dollar at 7.2169, up 0.76% on the day. [CNY/]

The offshore yuan was last at 7.2122 per dollar near its previous day's six month top, hit when onshore markets were closed.

The next major scheduled development for currency markets is Wednesday's Federal Reserve policy decision. The U.S. central bank is expected to keep rates on hold but the meeting may be the last where the outcome is so cut and dry.

The Bank of England also meets this week and is expected to lower interest rates by a quarter point on Thursday as Trump's tariffs darken the global growth outlook, while central banks in Norway and Sweden are expected to keep rates steady.

The Swiss franc weakened after Swiss National Bank Chairman Martin Schlegel said the SNB is ready to intervene in the currency markets and cut interest rates even below zero to prevent inflation falling below its price stability target.

The dollar was last up 0.4% on the franc at 0.8255 and the euro was 0.45% higher at 0.9345.

(Reporting by Rae Wee and Alun John; additional reporting by Dhara Ranasinghe, Editing by Hugh Lawson and Bernadette Baum)