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Dollar Declines to Three-Year Low, As Pressure for Rate Cuts Grows

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The U.S. dollar is at risk of further losses as the Federal Reserve faces mounting political pressure to cut interest rates, analysts said.

The dollar hit a three-year low against a basket of currencies after The Wall Street Journal reported that President Trump is considering naming his selection to replace Fed Chair Jerome Powell well ahead of his term ending in 11 months' time, a mark of his frustration over Powell's resistance to lower rates.

"A candidate who is perceived as being more open to lowering rates in line with Trump's demands would reinforce the dollar's current weakening trend," MUFG Bank senior currency analyst Lee Hardman said in a note.

The dollar has fallen by more than 10% this year against a basket of currencies due to growing concerns about Trump's tariffs leading to weaker U.S. economic growth and lower interest rates.

The DXY dollar index hit a three-year low of 96.997 earlier Thursday. Weakness in the dollar also propelled the euro to a 3½year high of $1.1744, LSEG data show.

The Wall Street Journal reported that Trump could announce and select a replacement by September or October. Trump's ire toward Powell could prompt an even earlier announcement sometime this summer, the report said.

"If the new chair is announced in the coming weeks, then we could see a shadow Fed emerge, which could undermine Powell's message of slow and steady rate cuts," XTB research director Kathleen Brooks said in a note. Trying to call a bottom for the dollar "seems pointless now," she said. Fed officials C h r i s topher Waller and Michelle Bowman, both nominated by Trump, have signaled a preference for a rate reduction as soon as July.

With two policymakers now disagreeing with Powell's careful approach, markets could be quick to anticipate further rate cuts if U.S. economic data are weak, ING analyst Francesco Pesole said in a note, which could lift the euro as high as $1.20 against the dollar.

In its midyear outlook, JP Morgan said expectations for slowing U.S. growth were a key reason why it is forecasting the DXY dollar index to weaken by 5.7% in the next year and for the euro to rise to $1.20 by December from $1.1701 currently.

U.S. money markets currently expect a 24% chance of a July rate cut by the Fed. A rate cut is fully priced in for September and one more by year-end, according to LSEG.

Reduced geopolitical risks are weighing further on the dollar after Monday's announcement of a cease-fire between Iran and Israel. Increased tensions in the Middle East had encouraged safe-haven demand for the dollar, while the currency usually benefits when oil prices are higher as the U.S. is a major oil producer.

This week's Natixis Investment Managers Strategists Survey showed investors are increasingly shunning U.S. assets due to concerns about the economic impact of Trump's tariffs.

"Market strategists are once again seeing genuine opportunity beyond the U.S.," Natixis head of market strategy Mabrouk Chetouane said in the survey's press release. 10%

Approximate decline in the dollar this year against a basket of currencies