Main Drivers of the U.S. Dollar's Decline

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Abstract:

Lower federal fund rates often lead to a weaker U.S. dollar (USD) because lower interest rates make dollar-denominated assets less attractive to investors. The last Federal Reserve rate cut occurred on December 18, 2024, when the Federal Open Market Committee (FOMC) lowered the federal funds rate by 25 basis points, setting the target range at 4.25 percent to 4.5 percent. The Federal Reserve held interest rates steady in January, March, May, and June 2025 meetings and is not expected to lower the rate till November 2025, while the other central banks have continued to lower interest rates in 2025. However, instead of appreciating, the U.S. Dollar (USD) has depreciated significantly since January 2025. The ICE U.S. Dollar Index reached 98.42 on June 30, 2025, having dropped by more than 10 percent since January 13, 2025. The U.S. dollar even unexpectedly posted a loss on the first trading day after the U.S. bombed Iran's nuclear sites. An examination of the various events indicates that Trump's tariff policy, obstacles to global trade, the expectation of high inflation and weak economic activity in the U.S., the sustainability of U.S. debt levels, Moody's downgrade of U.S. crediting rating, the diversification of safe-haven currencies, and the geopolitical tensions are the main drivers of weakening of U.S. dollar.

Keywords:

U.S. Dollar Index, Tariff, Geopolitical Tensions, Global Trade, Safe Heaven.