CURRENCY OUTLOOK

August 2025

IN BRIEF

What Happened

- July marked the first month in 2025 of gains for the U.S. Dollar overall per the Bloomberg Dollar Spot Index, resurging by 2.7%
- After a six-month streak of losses representing the worst fall since 1973, the Buck had its best monthly performance since April 2022
- The Euro finally fell, conceding 3.3% in value, dropping to its weakest levels since start of June
- Japanese Yen collapse of 4.7% in July brought it down to its weakest level since end of March
- The least affected currency was Mexican Peso after mixed signals across regions and doubts over the future of free trade gave the Buck a boost

Monex USA's View

- The narrative that carried USD to higher ranges since beginning of July changed dramatically at the end with worries over labor data
- At the time of writing, chances of an interest-rate cut to be decided during the Fed's September meeting increased to almost 90.0%
- Complicated tariffs and dwindling economic data could make U.S. Dollar vulnerable to further decline
- While talks continue between China and the U.S., we will watch out for a deal, delay, or higher tariffs as the August 12th deadline approaches
- Details about Q2 throughout the month will play a role in moving the odds of central bank actions

IN FOCUS

JPY: After gaining ground most of the year, the Yen experienced a significant drop of almost 5.0%

(Bloomberg chart shows the Year-to-Date movements for JPY and how suddenly there could be a correction)

Lack of economic momentum and political struggle are starting to affect Yen's value

- Gross Domestic Product has been flat and may stay that way if there are disappointing releases on August 14th with growth expected at 0.1% for Q2
- Upper House elections on July 20th resulted in the Prime Minister's Liberal Democratic Party (LDP) losing control of both houses (Lower) for the first time in its 70-year existence
- Prime Minister Shigeru Ishiba has been defending remaining in office despite mounting pressure to quit
- On July 22nd, a trade deal was announced between Japan and the U.S., however, the details within the pact have been heavily scrutinized and criticized

THE VIEW — July defied 2025's downward trend for the U.S. Dollar

Renewed concerns over economic direction could limit the Buck

It was a good Dollar story until the very end of the month. While July's first half was marked by signs that the American economy has been resilient to uncertainty across market classes caused by nervousness over the future of trade policy, the last days of the month, along with the first Friday of August revealed reasons for fear.

Though some trade deals have been agreed upon and a few indicators showed advancement, economists are wondering if trouble is ahead after data pointing at deterioration for the U.S. labor sector. For now, the U.S. Dollar seems to have shaken off the idea of fading American exceptionalism as economic leverage is winning out in key tariff negotiations.

(Bloomberg Dollar Spot Index rallied in July, reaching levels not seen since May 20th. Best month since 4/2022)

The markets are starting to embrace the idea that tariffs are not going away from the economic discussion nor headlines anytime soon. We are clearly seeing that in order to minimize any potential damage both economically and diplomatically, nations that were promised hikes to their exports into the U.S. are starting to come around to accepting new terms. Replacing financial sanctions, the imposition of tariffs will be used to achieve certain economic as well as political concessions. Alignment with trade will match particular interests and goals.

Even as European nations have used 2025 to form a more united front in order to tackle issues over Russia's war with Ukraine, they have struggled to cope with the challenges facing growth and sustainability. The United States has pursued a more restricted stance on aiding Kiev while asking Moscow to work towards a resolution for peace. This means that protecting the front line has fallen on the shoulders of EU leaders and many revamped their military spending commitment to N.AT.O. also adjusting their national budgets.

On July 27th, EU President Ursula von der Leyen announced a trade pact with the U.S. that set a 15.0% tariff on most European goods, which she celebrated as a step in addressing the deficit the U.S. carries and providing a sense of predictability after a period defined by delays and confusion. Although there are talks remaining over the steel and aluminum levy of 50.0%, both sides say they are looking for stability.

Many countries' leaders and particularly automakers are not pleased. On the other side of the Atlantic, critics argue that the deal as is makes things too lobsided and represent a threat to European competitiveness. This comes at a time when policymakers are debating whether to decouple more from China or the U.S. and face ongoing stagnation.

The initial release of second-quarter GDP confirmed that nations across the Euro-zone are experiencing a slowdown with the figure coming in almost flat as expected at 0.1%, a regression from Q1's then-impressive 0.6% expansion. Nevertheless, the European Central Bank decided not to decrease interest rates for the first time all year. Officials cited the need to keep inflation under control, especially in the midst of uncertainty over how trade will function once new terms and conditions are implemented.

It is likely the tariff schedule will become more complicated and more targeted. China will be especially impacted by the U.S.'s determination to be more protective of high-end technology especially when it comes to sophisticated semiconductors and chips. Another area that the White House wants to confront is high-price medications and their sources. Currently, about two thirds of all active production ingredients in pharmaceuticals go through China or India.

In the U.S., companies have seen mixed results from the first half of the year. Prior to the most important week of earnings that featured large and influential companies, 83.0% of companies that had reported exceeded their expectations. However, when big brands such as Chevrolet presented their numbers, they had to explain foregoing about $1.1 billion in profit from absorbing the costs from increasing inflationary pressures emanating from tariff-related hikes in the cost of production.

Prior to the worrisome July Non-Farm Payrolls reading, Fed Chairman Jerome Powell explained that while GDP in Q2 recovered by 3.0%, the half-percent contraction of Q1 means that we are going through a slowdown in comparison to 2024. Last year, the non-seasonally adjusted average for the first half of the year came in at 2.5% in contrast to 2025's 1.25%.

With expectations that the Fed will turn "dovish" to provide an accommodative financial environment, the Dollar gains attained may hit a wall, but the world's reserve currency has not stopped being a source of safety and dominance.

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