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US dollar tests key levels in rally

The US dollar's historic plunge – its steepest first-half decline in five decades – may be abating. After tumbling by 10.7 percent through June, the greenback has recovered from its lows. The rally has pushed above the 20-day moving average and now faces a critical test of the 50-day moving average at 98.708. A decisive break of this level could trigger a wave of short covering.

Fifth attempt to break 50-day average

The dollar's year-long slide has been marked by repeated failures at the 50-day moving average. After four unsuccessful attempts to reclaim this key technical barrier, a fifth challenge is now underway. Technical signals point to a retest of 100, potentially reaching 102 if momentum builds. Supporting the bounce scenario, the monthly chart shows multi-year trendline support in the 97–98 zone. The greenback may have found a floor.

Crowded positioning creates 'dollar squeeze' risk

Short positioning in the dollar is heavily crowded, creating conditions ripe for a potential "dollar squeeze." The latest Bank of America survey of fund managers showed that investors viewed the short dollar trade as the most crowded currently. The survey revealed that the net percentage of fund managers overweight on the US dollar is at a 20-year low. Fund managers are holding their biggest overweight position in the euro since January 2005. The euro has been a major beneficiary of investor flows out of the US dollar this year, gaining 13.2 percent in the first half of 2025.

Escalate to de-escalate

Trump's latest tariff announcement to impose 15 to 20 percent tariffs on the European Union and 30 percent on Mexico had little effect on weakening the dollar this time. Previous announcements in February, March and especially the April "Liberation Day" tariffs sparked sharp declines in the greenback. The muted market reaction suggests traders have grown accustomed to the escalating tariff rhetoric. Investors are now cognizant of Trump's tactic of escalating to de-escalate.

Peso consolidation

After touching 55.14 on May 26, the USD/PHP rate rebounded above the 20-day and 50-day moving averages but met resistance at the 200-day. Technicals point to sideways trade between 56 and 57.50 as USD/PHP consolidates amid broader US dollar stabilization. A continued dollar rally may weaken the peso again.

Can the US stock rally rescue the dollar?

US equities are at fresh highs even as the dollar remains weak. Will the stock market strength pull the dollar higher? Or will the resumption of dollar weakness drag stocks lower? The answer depends on corporate earnings and future policy actions on interest rates, trade and fiscal policy.