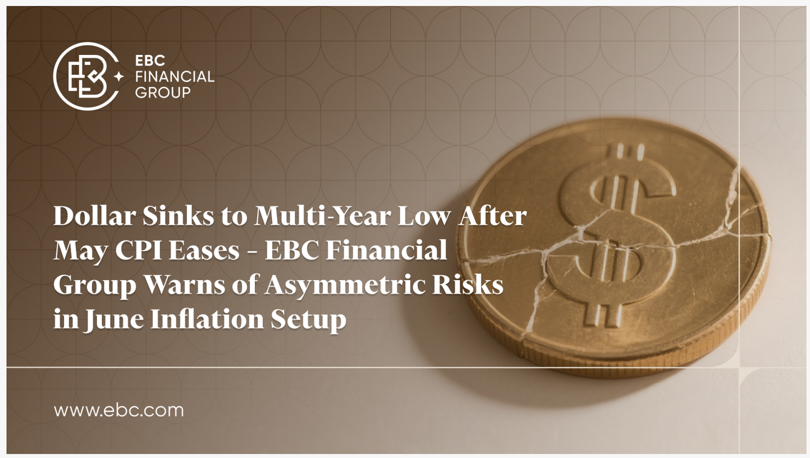
Dollar Hits Multi-Year Low After Soft May CPI – EBC Financial Group Warns of Risks Ahead of June Inflation Data

Soft inflation prints fuels rate cut hopes, but EBC cautions against premature optimism amid sticky core pressures and looming tariff effects.



Dollar cracks after soft CPI print — EBC Financial Group urges caution as greenback hits multi-year low amid rising asymmetric risks ahead of June inflation data.

DC, UNITED STATES, June 18, 2025 /EINPresswire.com/ -- A cooler-than-expected U.S. Consumer Price Index (CPI) print for May has reignited market expectations of a Federal Reserve pivot. In response, the U.S. dollar has slumped to its lowest level since April 2022, sliding as low as 98.6 on the U.S. Dollar Index (DXY) last Thursday morning. While markets have rallied on the softer inflation data, analysts at EBC Financial Group (EBC) say the road to rate cuts is far from guaranteed.

May CPI Eases, But Core Inflation Persists

Headline CPI rose 2.4% year-over-year in May—up from April's 2.3%, but still below market expectations of 2.5%. On a monthly basis, overall prices rose just 0.1%, led by a 2.6% drop in gasoline prices. However, core inflation—stripping volatile food and energy—remained unchanged at 2.8% year-on-year, with housing, insurance, and services categories showing persistent strength. Shelter costs, which account for over a third of the CPI basket, increased by another 0.3% in May.

The initial reaction to the May CPI release sent Treasury yields lower and revived rate cut expectations, with Fed funds futures briefly pricing in nearly 68% odds of a Federal Reserve cut in September. U.S. equity indices rallied on the day, with the S&P 500 hovering just below its all-time high set earlier this year. However, subsequent geopolitical tensions—particularly the Israel-Iran developments—have since tempered the rally. EBC analysts urge investors to look beyond the surface softness and remain alert to shifting risk dynamics.

“Markets saw the 0.1% print and cheered, but the Fed’s focus is deeper,” said David Barrett, CEO of EBC Financial Group (UK) Ltd. “Sticky services inflation, rising shelter costs, and new tariff risks tell us we’re not out of the woods yet. This is not the soft landing—it’s just a temporary cloud break.”

Dollar Dips: Short-Term Tailwind or Long-Term Trouble?

The U.S. dollar has borne the brunt of shifting sentiment, with the DXY down roughly 3–4% year-to-date. The euro has rallied, and emerging-market currencies from Mexico and Asia have posted meaningful gains against the greenback.

EBC warns that while dollar weakness often supports global risk assets, it also reintroduces inflationary pressures, particularly as tariffs on Chinese imports begin phasing in across strategic sectors like EVs, semiconductors, and green energy tech.

“A weaker dollar reduces import costs for other countries—but raises them right here at home,” said Barrett. “With tariffs on over $18 billion worth of Chinese goods taking effect in June, we expect potential spillovers into core goods inflation. Markets celebrating now may find themselves repositioning rapidly if CPI re-accelerates.”

June CPI: The Market’s Next Litmus Test

All eyes now turn to the June CPI report, due out just ahead of the Federal Reserve’s Jackson Hole Economic Symposium in August. With the U.S. labor market still tight—unemployment stands at 4.0%, and average hourly earnings up 3.9% year-on-year—even moderate inflation gains could complicate the Fed’s decision-making.

“The June data will be a credibility test,” Barrett added. “If inflation flares while the dollar remains weak and tariffs kick in, the Fed may face conflicting pressures—supporting growth on one hand while holding the inflation line on the other.”

Investor Strategy: Watch for Asymmetry

EBC emphasises that the current market environment is highly sensitive to marginal data shifts. Rate cut optimism has led to stretched positioning in FX, equities, and rate markets, creating the risk of swift reversals.

Meanwhile, central bank divergence is shaping global capital flows. The European Central Bank cut rates in June, and the Bank of England is widely expected to follow in July—yet the Fed remains cautious.

“This is not a time to chase rate cut narratives,” Barrett concluded. “Asymmetric risks are building. Investors should stay nimble, diversify exposure across currencies and sectors, and prepare for renewed volatility. The next data print could be the pivot—or the plot twist."

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