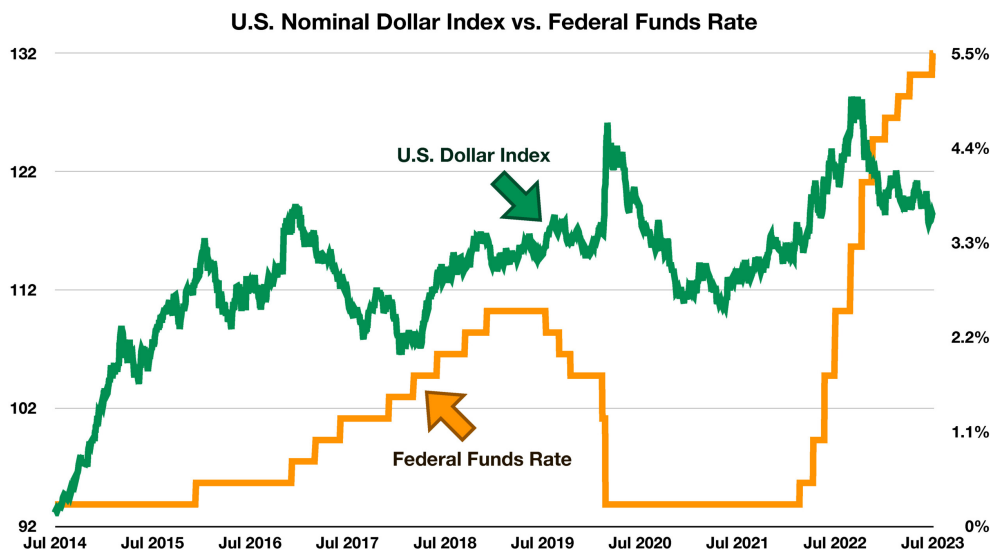


Dollar Losing Value as Fed Continues to Raise Rates - Currency Overview

When the Fed began increasing its Fed Funds Rate in 2022, the U.S. dollar became stronger as higher rates attracted foreign funds. Other currencies, such as the euro, simultaneously lost value due to global turmoil stemming from the Ukraine war. Thus, in much of 2022, exchange rates were very favorable for Americans and holders of U.S. dollars. Since then, the dollar has seen a decline in value over the past year.

In July, the dollar's nominal value index fell to a 14-month low, down over 8% from its peak in October 2022. The Fed Funds Rate, which is the Fed's primary tool for altering interest rates, continues to rise as it reaches upwards of 5.25%. For reference, the Fed Funds Rate was just 0.25% in early 2022 before the Fed's aggressive fight against inflation.

With the dollar being the primary reserve currency of the world, a weak dollar could have a wide range of consequences for both Americans and the global economy. A weaker dollar would reduce import prices for developing nations, easing the inflationary pressures on emerging markets. It could also bolster currencies currently at lower values in comparison to the dollar. A weaker dollar would boost American firms' exports, yet would make imported goods more expensive for U.S. consumers. Since the U.S. has a sizable trade deficit, this could likely make goods more expensive for American consumers and increase domestic inflationary pressures.



Sources: Board of Governors of the Federal Reserve System, Federal Reserve Bank of St. Louis

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