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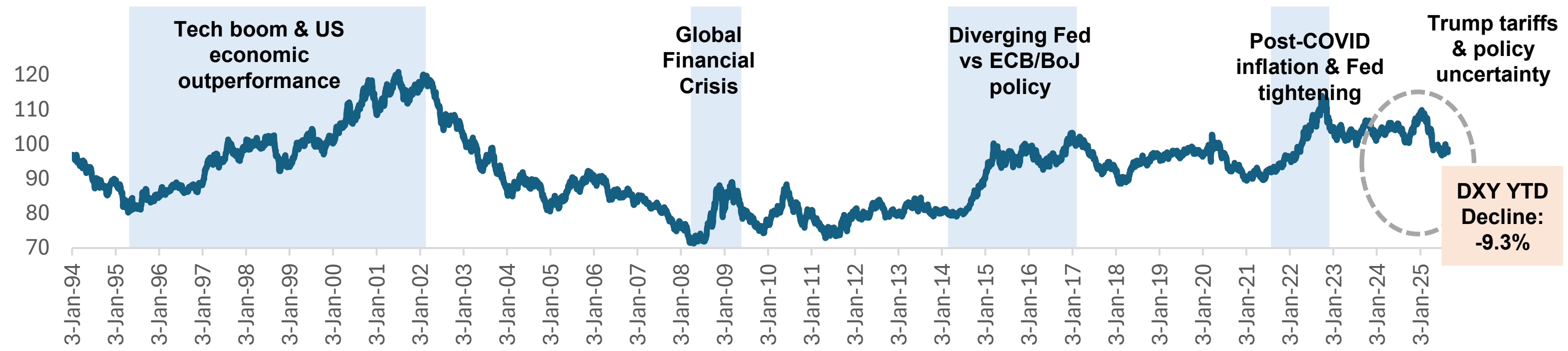
28 AUGUST 2025

Fed Independence in Question: Dollar’s Credibility at Risk

US Dollar Index (DXY), Jan 1994 - Aug 2025



Sources: Bloomberg, CEIC, US Department of the Treasury, BMMB Economics

The firing of Fed Governor Lisa Cook by President Trump has jolted global markets, raising sharp questions about the credibility of US monetary policy. This is the **first time in history a Federal Reserve Governor has been dismissed for cause**, setting a precedent that **threatens the Fed’s independence** — the very foundation of the dollar’s safe-haven status.

For investors, the concern is not about the specifics of Cook’s mortgage declaration, but the signal it sends: **political interference is now reaching directly into the Fed’s decision-making**. This undermines the credibility premium long attached to the dollar, especially at a time when cyclical pressures — from slower US growth to Fed easing — and structural cracks — from *dedollarisation* to the loss of universal AAA status — are already eroding its dominance. This dual narrative — political credibility risk on top of cyclical and structural weaknesses — suggests that the dollar is **no longer bulletproof in times of stress**, with profound implications for global markets and the ringgit

When Politics Overrides Policy: Lessons from Nixon–Burns

Did u know?

While this is the first time in history that a sitting Fed Governor has been terminated by a President, it is not the first time US monetary policy has faced direct political influence. The most famous case was in the 1970s, when ***President Nixon pressured then-Fed Chair Arthur Burns to keep rates low ahead of his re-election.*** *That short-term political gain unleashed long-term inflation, eroding the Fed’s credibility and forcing Paul Volcker to impose punishing rate hikes later.*

The lesson from the Nixon–Burns era is clear: political pressure may deliver short-term wins — like cheaper credit or stronger growth heading into elections — but it comes at the cost of long-term credibility and painful corrections later. That is exactly the concern with Lisa Cook’s dismissal today. It raises fears that Fed decisions are becoming politicised, which could weaken the dollar’s safe-haven role.

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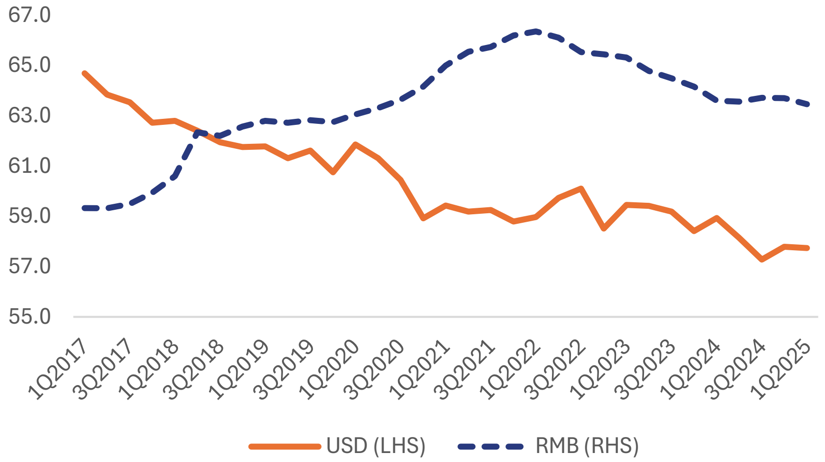
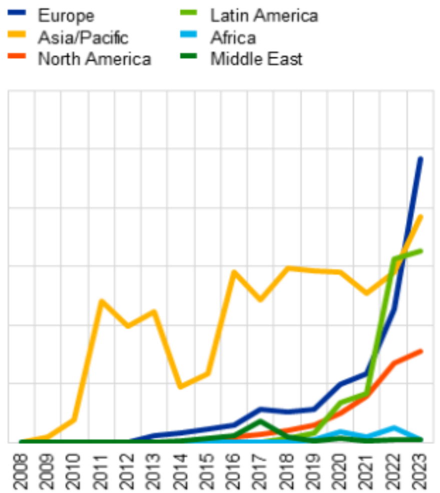
Structural Undercurrents: Dollar Dominance Under Strain

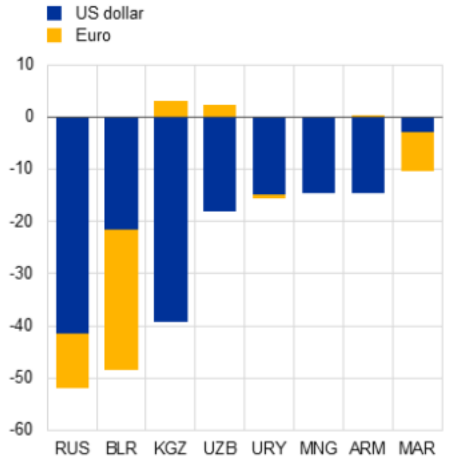
US Dollar and Renminbi Share of Global Foreign Exchange Reserves, %



Share of exports invoiced in renminbi by region, %



Decline in USD Invoicing Share Across Sanctioned and Geopolitically Distanced Economies, %



Sources: IMF COFER, ECB, BMMB Economics

The **dollar's dominance continues to slip**, and the data confirm it. As of Q1 2025, its **share of global reserves has dipped** to 57.7%, down from 57.8% at end-2024—a small move, but consistent with a longer-term slide from over 70% two decades ago (2001: 71.5%). On the trade front, the dollar still leads—pairing the euro, they invoice over 80% of global trade—but cracks are appearing, especially among countries **distancing themselves geopolitically from the West.** At the same time, demand for US Treasuries is cooling. China and Japan, previously the largest holders, have trimmed holdings—underscoring waning confidence. The US is **no longer rated AAA by all three major agencies**. Moody's downgraded it to Aa1 in May 2025, joining S&P (downgraded in August 2011) and Fitch (downgraded in August 2023) in stripping the US of its universal top-rank status. These aren't just trends—they frame a directional shift. *Dedollarisation* isn't overnight, but it's underway—and these fundamentals build the case that the dollar's long-term dominance is eroding.

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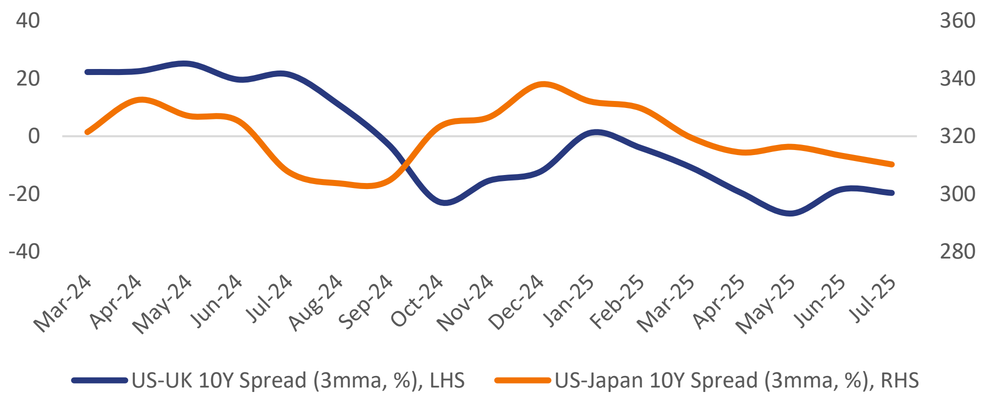
Cyclical Headwinds Further Pressing the Dollar Down

US Sovereign Credit Ratings Snapshot

Agency	Current Rating	Outlook	Last Downgrade	Notes
Moody's	Aa1 (from Aaa)	Stable	May 2025	Cut citing persistent deficits and rising debt burden.
S&P Global	AA+ (from AAA)	Stable	Aug 2011	First major agency to strip U.S. of AAA after debt-ceiling standoff.
Fitch	AA+ (from AAA)	Stable	Aug 2023	Downgrade driven by fiscal deterioration and debt-limit brinkmanship.

Narrowing Yield Spread Undermine Dollar Carry Advantage (bps)



While structural cracks erode the dollar's long-term foundation, **cyclical forces are pressing down on it in the near term**. Powell's Jackson Hole shift has cemented expectations for a **September rate cut**, shifting the Fed from "higher-for-longer" to a data-dependent easing path. Yield spreads that once gave the dollar a decisive carry advantage are narrowing, eroding support from rate differentials. Growth momentum is also diverging. **The US economy is expected to slow down to below 2% in 2025, weighed by tariffs, fiscal uncertainty and softer consumption**, while parts of Asia and Europe are showing relative resilience. This divergence encourages capital reallocation away from dollar assets into higher-beta markets.

Positioning amplifies the downside. The dollar was heavily accumulated during the Fed's tightening cycle in 2022–24. With the macro narrative now turning, investors are unwinding those long positions, accelerating the dollar's softness beyond what fundamentals alone would dictate. Together, these **cyclical dynamics reinforce the perception that the dollar has peaked**. They don't replace its safe-haven role, but they have weakened its near-term appeal — leaving it more vulnerable to shifts in sentiment and policy surprises.

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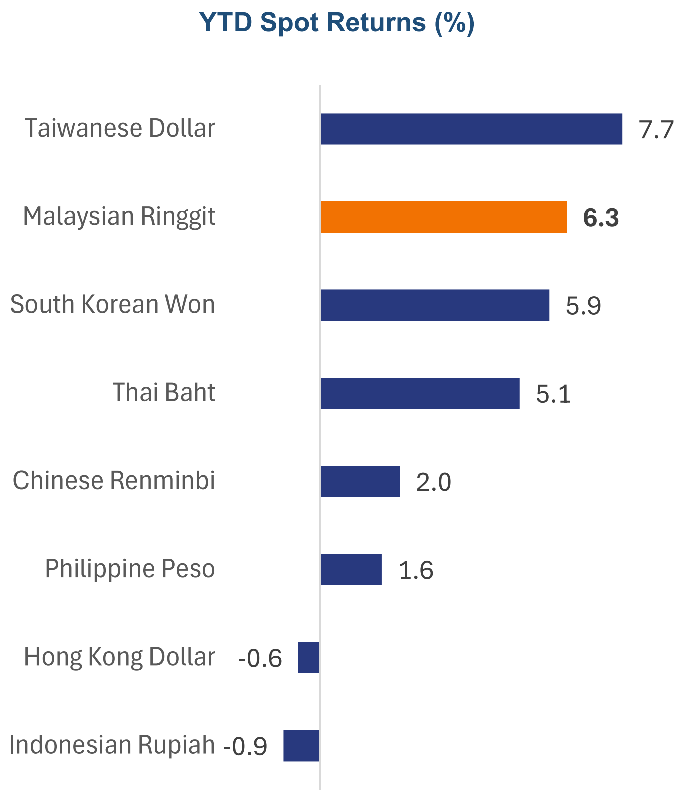
Outlook: Softer Dollar Provides Tailwinds for Ringgit

The near-term path for the dollar is tilted lower. Cyclical pressures — Fed easing, narrowing yield spreads, softer US growth — will dominate over the next 6–12 months. Structurally, the cracks we have long highlighted are deepening: reserve diversification, weaker foreign demand for Treasuries, and the loss of universal AAA standing all weigh on the credibility premium once attached to the greenback. Together, these forces paint a grim outlook: **any safe-haven rallies are likely to be short-lived**, while the underlying trend remains toward gradual weakness.

For Malaysia, this backdrop is supportive. A softer dollar typically channels into portfolio inflows, strengthening demand for Malaysian government bonds. The ringgit is further underpinned by a persistent current account surplus, while imported inflation risks remain contained. With BNM maintaining an accommodative stance, a firmer ringgit ultimately complements domestic financial stability.

Our house view remains that USDMYR will converge toward 4.15-4.20 by end-2025. The dollar's erosion — both cyclical and structural — leaves the ringgit in a comparatively stronger position, with external buffers and credible policy providing resilience.

Watchpoints ahead will centre on the Fed's next policy steps (Sep, Oct and Dec FOMC meetings), incoming US labour market and inflation prints, and, on a medium-term horizon, the pace of reserve diversification reflected in IMF COFER data. Domestically, the **rollout of targeted fuel subsidies remains critical for inflation dynamics and ringgit sentiment**. Political noise out of Washington — particularly around Fed independence — also bears watching, as credibility shocks could amplify dollar weakness beyond what fundamentals suggest.



Sources: Bloomberg, BMMB Economics