

Dollar near one-week low as Omicron fears ease; lira extends rally

The dollar index flatlined near a one-week low on Thursday, as fears of fallout from the Omicron COVID variant eased, boosting higher risk currencies such as the Australian dollar and British pound.

However, data on Wednesday showed U.S. consumer confidence improving more than expected in December, suggesting the economy would continue to expand in 2022 despite a resurgence in COVID-19 infections and reduced stimulus spending.

The Australian dollar rose after Wednesday's 0.86% surge. The Norwegian crown firmed to one-month highs against the dollar and euro, also boosted by soaring oil and gas prices.

The euro was flat, but sterling rallied half a percent as inflation-adjusted gilt yields were boosted by markets pricing 100 bps in UK rate hikes next year.

U.S. real yields have flatlined since the mid-December Fed meeting.

MUFG strategist Lee Hardman predicts the U.S. dollar correction to be short lived.

"Hawkish comments from Fed officials over the past week including from Fed Governor Waller and San Francisco Fed President Daly have signaled that they are considering raising rates as soon as the March FOMC meeting," Hardman said.

A turnaround could come as early as this afternoon if the U.S. PCE deflator hits new multi-decade highs confirming faster Fed rate rises.

"Runaway underlying inflation will be the catalyst for a further meaningful upward adjustment to fed funds futures in favor of a firmer dollar," CBA analysts told clients though they warned the dollar could be curtailed further if the data hinted inflation was topping off.

Elsewhere, the Turkish lira extended its startling rebound this week, rising another 12% at 10.6 per dollar.

The big gains came after President Tayyip Erdogan said the government and central bank would guarantee some local currency deposits against FX depreciation losses.

Futures rise as Omicron worries ease

U.S. stock index futures ticked higher on Thursday, helped by early data suggesting the Omicron variant of the coronavirus was less severe than feared, while investors looked ahead to weekly jobless claims and monthly inflation numbers

Two vaccine makers said their shots offered protection against Omicron, as UK data suggested it may cause proportionally fewer hospitalizations than the Delta coronavirus variant, supporting conclusions reached in South Africa.

World Health Organization officials have, however, warned against drawing firm conclusions about its virulence.

As investors head into the new year following what has been a bumper year for the stock markets, the economic and health impact of Omicron variant will be in the spotlight.

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