

Dollar adrift as optimism over China reopening turns to caution

The dollar pared some gains on Thursday after riding long-end U.S. Treasury yields higher overnight, though investors remained on edge going into the year end as initial optimism over China's reopening fizzled.

Following China's removal of its quarantine rule for inbound travellers beginning Jan. 8, countries such as the United States, Japan and India said they would require COVID tests for travellers from China.

The speed at which the country has scrapped COVID rules has overwhelmed its health system and sparked concerns about the spread of the virus.

The Japanese yen was last roughly 0.6% higher at 133.71 per dollar, languishing near a one-week low of 134.50 that was hit in the previous session.

"Many countries adopting an additional layer of testing for travellers arriving from China reflect hobbled resumption of travel amid China's outbreak," said Vishnu Varathan, head of economics and strategy at Mizuho Bank. "This might also fuel fears of new strains of COVID that could once again disrupt the global recovery."

The uncertainty over the global economic outlook, along with mounting worries about a recession in the United States, saw the two-year Treasury yield, which typically moves in step with interest rate expectations, slip overnight. It last stood at 4.3678%.

Meanwhile, the yield on the benchmark U.S. 10-year Treasury last stood at 3.8637%, after rising to a more than one-month high of 3.8920% overnight. [US/]

Against a basket of currencies, the U.S. dollar index was firm at 104.33.

"Near term, there's still the big question mark as to how soon can we get over this COVID resurgence," said Moh Siong Sim, a currency strategist at Bank of Singapore. "But in the medium term ... I think the growth outlook for China can be steadier and less bumpy, and that in turn means the rest of the world could benefit from that as well."

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