

Dollar Edges Up on Most Rivals; Snow's Remarks on Yuan Resonate

*By Michael Deibert
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NEW YORK -- The dollar edged moderately higher against most major counterparts after surging earlier in the day on some encouraging U.S. economic data.

Sterling, meanwhile, chalked up impressive gains, hitting a fresh 4 1/2-year high versus the dollar as higher United Kingdom interest rates continue to attract investors.

The dollar hit session highs on reports home-building activity in the U.S. surged in May and U.S. consumer prices held steady, suggesting the risk of deflation to the economy may be easing.

U.S. industrial output also edged up slightly in May. Analysts watching the performance remained unconvinced, however, that the U.S. currency, despite recent bursts of strength, had turned the corner from its lackluster performance over the last year.

Late yesterday, the dollar was changing hands at 118.12 yen, up from 117.63 yen on Monday, while the euro was buying \$1.1797, down from \$1.1838 on Monday. The dollar was trading at 1.3080 Swiss francs, up from 1.3041 francs on Monday.

In any case, the U.S. data weren't enough to offset the advantage the pound enjoys on the interest-rate front. With the federal-funds target rate at 1.25% and expectations mounting for another reduction when the Federal Open Market Committee meets next week, the Bank of England's benchmark repo rate stands at 3.75%.

The pound sailed all the way to \$1.6898, but exited from New York trading at \$1.6811, up from \$1.6735 late Monday. In addition to higher yields, the safety and liquidity of the U.K. financial markets -- important factors for big institutions -- tend to steer investors' funds toward London, analysts said.

Elsewhere, hopes for a revaluation of the Chinese yuan jolted Asian markets after U.S. Treasury Secretary John Snow said late Monday Washington would encourage a move by China toward a flexible exchange rate.

As the dust settled during New York trading, analysts said that while Mr. Snow's remarks were clearly significant, they haven't altered a sense that China will only revalue the yuan if it is in its interests to do so.

“Obviously the U.S. has great interest in seeing the yuan appreciate, that's one thing” said Glenn Bai, China analyst at the G7 Group in Washington. “But the other thing is what the Chinese will actually do.”

Saddled with a debt-laden banking system, China has maintained it has no intention of removing capital controls while structural balances remain in its economy. “The Chinese government has no clear self-interest in floating its currency if it is expected to strengthen in value,” said Michael Woolfolk, a currency strategist at Bank of New York. Many economists think the yuan is undervalued as much as 50%, he noted.

Though Beijing says the yuan exchange rate is determined through a managed float, in reality the rate is almost entirely government controlled, and it gyrates in a narrow band with a central point of about 8.28 yuan against the dollar.

Speaking at an economic conference yesterday in New York, Mr. Snow sounded upbeat on the U.S. economy and reaffirmed the U. S. commitment to a strong-dollar policy, but didn’t mention the yuan.

-- *Grainne McCarthy contributed to this article.*