

News, Quotes, Companies, Videos SEARCH

Thursday, August 11, 2011 As of 12:00 AM New York 85° | 69

BUSINESS

Welcome, russell meade Logout My Account My Journal Help

U.S. Edition Home Today's Paper Video Blogs Journal Community

Try CFO Journal for FREE Learn More »

World U.S. New York Business Markets Tech Personal Finance Life & Culture Opinion Careers Real Estate Small Business Asia Europe Earnings Economy Health Law Autos Management Media & Marketing Energy CFO Journal More Industries

TOP STORIES IN Business



Foreclosure Talks Snag on Bank Liability



Oil's Slide Stalls at Pump



Living in a Low-Rate World

Ve Wi

BUSINESS | AUGUST 11, 2011

Beijing, After Trade Surplus News, Boosts Yuan

Article

Video

Comments (19)

MORE IN BUSINESS »

Email

Print

Save

1

123

By WILLIAM KAZER

BEIJING—China's currency jumped against the dollar as authorities announced the country's biggest monthly trade surplus in more than 2½ years.

The currency's move comes amid widespread speculation that Beijing might tolerate a somewhat faster pace of appreciation to offset inflation—one of the major threats to its fast-growing economy. A stronger currency helps to blunt rising prices by reducing the cost of imported goods.

The yuan hit a record high against the dollar on Thursday - a sign that the Chinese central bank is using currency appreciation to rein in high inflation. WSJ's Andy Browne and Tom Orlik examine what this means and what we can expect in the coming weeks.

The yuan, which has strengthened every day this week, finished the day at 6.4215 to the dollar on the over-the-counter market. The yuan traded between 6.4077 and 6.4347 on Wednesday.

On Thursday, the dollar fell to as low as 6.3938—which marked the yuan's strongest intraday level against the dollar since China's landmark currency revaluation in 1994—compared with 6.4404 on Friday before global markets were thrown into turmoil on the downgrading of the U.S. credit rating by ratings firm Standard & Poor's.

While the yuan's moves Wednesday were hardly dramatic—and could well be reversed in the coming days—they were larger than usual for the currency, which is kept in a narrow trading band by China's central bank.

Related News

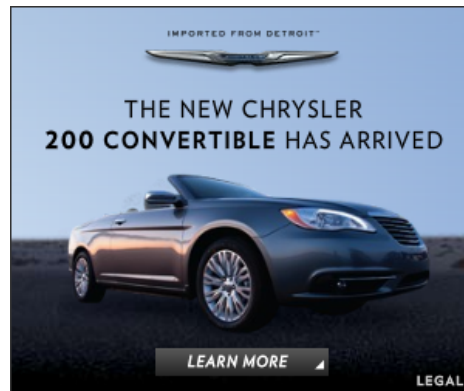
Heard on the Street: Falling Dollar Forces Beijing's Hand on Yuan

China Real Time: Made in China Taking Over U.S.?

The July trade surplus widened sharply to \$31.5 billion, its highest monthly level since January 2009, government data showed Wednesday. The surplus, which reflected accelerating export growth, was up from \$22.3 billion in June, and well ahead of

expectations for \$26 billion, according to a poll of economists.

"Strong export growth, and the resultant high trade surplus, also suggests that the yuan has room for further appreciation against the dollar over the rest of the year," said Brian Jackson, economist at Royal Bank of Canada.



Email Newsletters and Alerts

The latest news and analysis delivered to your in-box. Check the boxes below to sign up.

- News Alert In Today's Paper This Week's Most Popular Management News

SIGN UP

New! To sign up for Keyword or Symbol Alerts click here.

To view or change all of your email settings, visit the Email Setup Center.

Most Popular Video

Riding Inside a Dolphin 2:27

Egyptians Protest Border Deaths 1:42

Goodwill Basketball Game Turns Into Brawl 0:52

Finance & Accounting Jobs

The trade surplus isn't the only factor that may be forcing Beijing's hand. Adding to the Chinese government's worries over inflation are its expectations that the U.S. Federal Reserve will turn to a third round of what is known as quantitative easing—massive bond buying by the Fed—to stimulate the flagging U.S. economy. That would risk sending speculative money washing into emerging nations such as China, and boost global commodity prices.

EXPERIENCE WSJ PROFESSIONAL

Editors' Deep Dive: China's Global Plans for the Yuan

- DOW JONES NEWS SERVICE
China May Slow Yuan
- Internationalization if U.S.S Launches QE3
- DOW JONES CHINESE FINANCIAL WIRE
Yuan Internationalization May See Risks
- DOW JONES CHINESE FINANCIAL WIRE
Assessing Whether China's Leaders Were Tricked on Yuan

Access thousands of business sources not available on the free web. [Learn More](#)

The Fed's pledge Tuesday to keep interest rates low for an extended period also sparked concerns of a flood into China of hot money—crossborder flows by investors seeking quick returns, and, in the case of China, funds that often slip past capital controls.

"The central bank may speed up the rise in the yuan to alleviate domestic inflationary pressures in the near future," said ANZ Bank economist Liu Ligang. He said the bank believes the yuan will appreciate by around 6% against the dollar this year.

Some economists have been suggesting that the current global-market turmoil means Beijing may be reluctant to use interest rates to counter its problems with inflation, which accelerated to 6.5% in July, a three-year high. Such monetary tightening could depress weak global market sentiment.

Still, strong trade surpluses are setting the stage for China to let the yuan rise slightly faster. It has gained 2.7% against the dollar so far this year and 6.4% since Beijing removed the dollar peg last year.



[View Full Image](#)

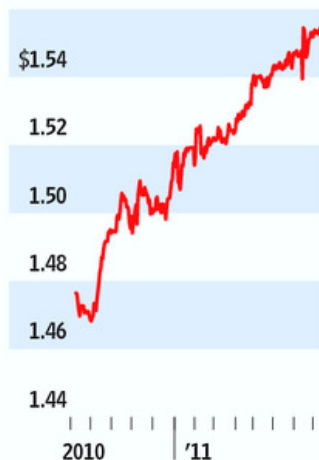
Bloomberg News

Chinese yuan bank notes

Not everyone was convinced that Beijing is ready to allow faster appreciation, even in the face of accelerating inflation.

Gaining Currency

How many dollars 10 yuan buys



Source: WSJ Market Data Group

"The yuan's rise reflects the decline in the U.S. dollar," said Zhao Qingming, an analyst at China Construction Bank Corp., one of the country's big four state-owned banks. "It doesn't mean the yuan's appreciation is being sped up."

A senior official at China's top price regulatory agency was quoted by state media as saying that China faced a growing likelihood of inflation.

"The likelihood of a third quantitative easing in the U.S. is quite high," said Zhou Wangjun, deputy director of the National Development and Reform Commission.

"If the U.S. continues to implement quantitative easing [as its] monetary policy, it might push up commodity prices, intensifying the flow of hot money and increasing the difficulty for price stability in China," he said, according to state-run Xinhua news agency.

China is under pressure from the U.S., Europe and other trade partners to let its currency appreciate to

help reduce hefty trade surpluses. At the same time, a swiftly rising yuan could erode China's standing as a low-cost manufacturing center. It has generally chosen a go-slow approach, but analysts suggest that inflationary pressure from China's huge pile of foreign-exchange

- [Control Officer-General - Citigroup Inc.](#)
- [Accounting Manager \(w/m\) - Robert Half](#)
- [Financial Operations Examiner - Financial Industry Regulatory Authority Inc.](#)
- [Education Sales Counselor - TD Ameritrade](#)

keyword city, state, zip [FIND JOBS](#)

MORE JOBS AND CAREER NEWS

[Technology Jobs](#) | [IT Jobs](#) | [Sales Jobs](#) | [Marketing Jobs](#)

[FINS for Employers & Recruiters »](#)

[POST A JOB](#)

More in Business

- [Ford, Toyota Team Up on Hybrids](#)
- [Goldman Chief Retains High-Profile Lawyer](#)
- [McGraw-Hill Holders Seek Breakup](#)
- [Delta Picks New Boeing 737s](#)
- [Cerberus Walks Away From Deal to Buy Innkeepers Hotels](#)

Most Popular

[Read](#) [Emailed](#) [Video](#) [Commented](#)

- [1. Why Software Is Eating the World](#)
- [2. Opinion: My Response To Buffett And Obama](#)
- [3. Tripoli Tense Amid Pockets of Resistance](#)
- [4. Apple Developing New iPad](#)
- [5. Capture of Gadhafi Son Ends Unusual Career](#)

[Most Read Articles Feed](#)

Latest Headlines

- [Asset Seizures Net Innocent With Guilty](#)
- [DA Moves to Abandon Strauss-Kahn Charges](#)
- [Philadelphia Schools Chief Takes Buyout](#)
- [State-Fair Death Puts Gay Marriage in Focus](#)
- [Exxon Gets OK to Restart Pipeline](#)
- [Irene Churns Toward the Southeast](#)
- [Mortgage Delinquencies Rise](#)
- [King Memorial Opens to Public](#)
- [Flood Threat Builds Next Year](#)
- [Economists Split Over Path Forward](#)

[More Headlines](#)

reserves is also prodding Beijing.

China has foreign-exchange reserves of nearly \$3.2 trillion and the nation's rigid foreign-exchange regime means much of the nation's foreign currency earnings are added to the money supply, in turn creating inflationary pressure.

China's exports climbed 20.4% year on year in July but some analysts cautioned that export growth and the trade surplus could tail off in the second half of the year due to sluggishness in the U.S. and European economies.

"There is a risk that external demand may come off in the second half of the year because of the problems in the U.S. and Europe," said Royal Bank of Canada's Mr. Jackson.

Write to William Kazer at william.kazer@dowjones.com

JOIN THE DISCUSSION
19 Comments, add yours

MORE IN
Business »

123

Share

1

1

Email

Print

Order Reprints

Don't Be Shy. Try Forex.

Risk Free Practice Account. GFT.
GFTforex.com

3-in-1 Credit Scores - \$0

View your Credit Report & Scores from All 3 Bureaus in 60 seconds.
FreeScoreOnline.com

Shocking Mortgage Secret

If you owe less than \$729k you probably qualify for govt Refi Programs
www.MortgageRatesExperts.com

#1 Penny Stock Newsletter

News and Views on the Hottest OTC Stocks. Join Now Free!
WallStreetsHottestStocks.com

Add a Comment

JOURNAL COMMUNITY

We welcome your thoughtful comments. Please comply with our **Community rules**. All comments will display your real name.

Track replies to my comment

[Go to Comments tab](#)

CLEAR

POST

Share articles and post your comments on Facebook | [What's this?](#)

[Login with Facebook](#)

Editors' Picks



Mark Morris and His Joy of Text



Italian Protesters Rail Against Train Project



Tabloid's Pursuit of Missing Girl Led to Its Own Demise



Founder of Priceline Spoiling for a Fight Over Tech Patents



Policy, Geography Boost Texas Job Growth

[BACK TO TOP](#)

WSJ.com Account:

- [My Account](#)
- [Subscriber Billing Info](#)

Create an Account:

- [Register for Free](#)
- [Subscribe to WSJ.com](#)
- [Sign up for WSJ Professional](#)

Help & Information Center:

- [Help](#)
- [Customer Service](#)
- [Contact Us](#)
- [Global Support](#)
- [New on WSJ.com](#)

About:

- [News Licensing](#)
- [Reprints](#)
- [Advertising](#)
- [Classifieds](#)
- [Advertise Locally](#)
- [Conferences](#)
- [About Dow Jones](#)
- [Privacy Policy - Updated](#)
- [Subscriber Agreement & Terms of Use - Updated](#)
- [Copyright Policy](#)
- [Jobs at WSJ.com](#)

WSJ.com:

- [Site Map](#)
- [Home](#)
- [World](#)
- [U.S.](#)
- [New York](#)
- [Business](#)
- [Markets](#)
- [Market Data](#)
- [Tech](#)
- [Personal Finance](#)
- [Life & Culture](#)
- [Opinion](#)
- [Autos](#)
- [Careers](#)

Tools & Formats:

- [Today's Paper](#)
- [Video Center](#)
- [Graphics](#)
- [Columns](#)
- [Blogs](#)
- [Topics](#)
- [Guides](#)
- [Alerts](#)
- [Newsletters](#)
- [Mobile](#)
- [Tablet Edition](#)
- [Podcasts](#)
- [RSS Feeds](#)
- [Journal Community](#)

Digital Network

- [WSJ.com](#)
- [Marketwatch.com](#)
- [Barrons.com](#)
- [SmartMoney.com](#)
- [AllThingsD.com](#)
- [FINS: Finance, IT jobs, Sales jobs](#)
- [BigCharts.com](#)
- [Virtual Stock Exchange](#)
- [WSJ Radio](#)
- [Professor Journal](#)
- [WSJ U.S. Edition](#)
- [WSJ Asia Edition](#)

[Take a Tour](#)
[Print Subscriber Services](#)

[Real Estate](#)
[Small Business](#)
[Student Journal](#)
[Corrections](#)
[SafeHouse - Send Us Information](#)

[WSJ on Twitter](#)
[WSJ on Facebook](#)
[WSJ on Foursquare](#)
[My Journal](#)
[Portfolio](#)
[WSJ Digital Downloads](#)

[WSJ Europe Edition](#)
[WSJ India Page](#)
Foreign Language Editions:
[WSJ Chinese](#)
[WSJ Japanese](#)
[WSJ Portuguese](#)
[WSJ Spanish](#)

Copyright ©2011 Dow Jones & Company, Inc. All Rights Reserved