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## Dollar Falls, Market Ponders China's Move

Thu Oct 28, 2004 10:06 AM ET

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By Andrea Ricci

**NEW YORK (Reuters)** - The dollar fell in choppy trade on Thursday as traders tried to sort out what a surprise interest rate hike from China meant for currencies.

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The dollar initially rallied on the news, especially against the yen and the commodity currencies, as traders reckoned a slowdown in China's economy would adversely affect its Asian neighbors and crimp demand for raw materials.

But the dollar soon fell as the market mulled whether the rate hike suggested that a revaluation of China's currency also might be in the offing.

Michael Woolfolk, senior currency strategist at Bank of New York, said he believed the rate hike "takes off the table" a near-term revaluation of the renminbi.

"It means that China is attempting to use more traditional policy measures to attempt to control imbalances in the economy and is likely to continue to use those rather than fall back on foreign exchange," he said.

At the same time, however, the rate move, combined with other market liberalizing measures by Beijing, raised the odds that China would adjust the exchange rate regime next year.

"There is a limit to how high they can raise rates without negatively impacting growth, so the obvious solution will be a more flexible exchange rate in the not-so-distant future," said Woolfolk.

China's central bank raised the benchmark one-year yuan lending rate to 5.58 percent from 5.31 percent, and the rate on one-year deposits to 2.25 percent from 1.98 percent in an effort to cool its red-hot economy.

Financial markets have for months expected a tightening, but the timing surprised many participants.

At midmorning in New York, the euro was up 0.33 percent at \$1.2750 (EUR=: [Quote](#), [Profile](#), [Research](#)) . The dollar was down sharply against the Swiss franc at 1.1986 francs (CHF=: [Quote](#), [Profile](#), [Research](#)) .

Against the yen, the dollar was down 0.12 percent at 106.21 yen (JPY=: [Quote](#), [Profile](#), [Research](#)) . [Continued ...](#)

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