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U.K. Pound Falls to 9-Month Low Versus Dollar on Debt Concerns
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By Paul Dobson

Feb. 25 (Bloomberg) -- The pound slid to a nine-month low against the dollar as ratings companies said they may downgrade Greece's debt, stirring concern Britain may struggle to tackle its own record deficit.

Sterling fell against 14 of its 16 most-traded peers as investors added to bets the Bank of England will need to keep interest rates near record-low levels this year. Standard & Poor's and Moody's Investors Service said Greece, which has the European Union's largest budget deficit, faces downgrades as early as next month. At more than 12 percent of gross domestic product, the U.K. deficit is on a par with that of Greece.

"Sterling is being seen in the risk bucket and risk is off the agenda right now," said Jeremy Stretch, a currency strategist at Rabobank International in London. Investors are taking bets on rate hikes "off the table," he said.

The pound fell as much as 1.1 percent to $1.5245, the lowest level since May 18, and was at $1.5272 as of 2:01 p.m. in London. The U.K. currency weakened 0.5 percent to 88.30 pence per euro.

Prime Minister Gordon Brown is selling a record amount of debt to finance stimulus measures that were introduced to help the economy recover from the longest recession on record. The government in December increased its planned gilt sales for the fiscal year that will end in March to a record 225.1 billion pounds from the 220 billion pounds announced in April.

Bruce Stout, who runs Aberdeen Asset Management Plc's Murray International Trust, said he's concerned Britain's widening debt gap will hamper economic growth.

'Horrible Thing'

"We're very, very aware of the risk the U.K. is carrying," Stout said. "Debt is a horrible thing. Sterling is a very vulnerable currency."

The pound may fall below parity with the euro and drop to $1.05 if the government tackles the country's debt burden too early, UBS AG said yesterday.

"If the next government was to prematurely curb the fiscal deficit after the elections, without the economy reaching a surer footing, the consequences for sterling, financial markets and public confidence would be grave," Mansoor Mohi-Uddin, chief currency strategist at UBS in Singapore, said in a research note.

While the opposition Conservatives, who have called for spending cuts to start this year, are still ahead of the ruling Labour Party in opinion polls, the gap has narrowed. A poll by YouGov Plc in the Sunday Times newspaper showed the Conservative lead over Labour at its narrowest since December 2008.

Bonds Rise

U.K. government bonds rose after a government report showed business investment fell 5.8 percent in the fourth quarter, compared with analyst estimates for a 0.1 percent gain.

The yield on the benchmark 10-year gilt dropped 3 basis points to 4.05 percent. The yield on the short-sterling futures contract expiring in December fell 5 basis points to 1.11 percent as investors added to bets interest rates will stay lower for longer.

The U.K. sold 7.5 billion pounds of gilts this week.

The rally in gilts “is down to the Greek story, which has lifted risk aversion,” said Jason Simpson, an interest-rate strategist at Royal Bank of Scotland Plc in London. “We’ve got past this week’s supply and gilts have bounced quite nicely.’

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