Pounded: Sterling slumps to two-year low on interest rate talk

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TERLING fell to its lowest for more than two years today, as currency traders backed the dollar and ditched the pound.

The Federal Reserve is poised to put interest rates up tomorrow, with the Bank of England to follow on Thursday.

But there is a growing conviction that the Fed will move more aggressively than the Bank, making the dollar and dollar denominated assets more attractive.

There is a reasonable chance the Fed puts rates up by 0.75 basis points, whereas the Bank is widely expected to do just another 0.25 point increase, taking the rate to 1.25%.

By early afternoon today, the pound was down to just $1.21. It was $1.41 a year ago.

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The feeling is that the gap in interest rates between the UK and the US might only get wider given recent economic news.

US economists think the Fed will move rates up aggressively in June and July, and then by slightly less in September, November and December.

It is harder for the Bank to do the same.

There are signs that the UK may already be in recession. GDP fell by 0.3% in April, far worse than the 0.1% of growth economists had predicted.

That worry has spilled into equities. The FTSE was down just 10 points today at 7197. But it has lost more than 400 points – £110 billion worth – in the last five trading sessions.

Craig Erlam at Oanda said: “All the talk is about if we’re heading for a recession and how bad it will be. Given the pace of tightening that’s now expected from central banks, and some may see those ramped up further in the coming weeks and months, a soft landing has become incredibly difficult to deliver and we may see that language soften on Wednesday.

The Bank of England follows the Fed on Thursday and the temptation must be building to up the pace of its tightening considering it sees inflation hitting double figures late in the year. Markets now make it a coin toss between 25 and 50 basis points and the labour market figures this morning don’t make the debate any easier, with unemployment ticking higher and wage growth slowing.”