1BN) Pound Weakens as King Signals BOE Ready to Print More Money

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By Anchalee Worrachate

June 15 (Bloomberg) -- The pound weakened and gilts rallied on speculation the Bank of England will buy more government debt to support the economy as Europe's debt crisis deepens.

Sterling dropped against all of its 16 major peers after Bank of England Governor Mervyn King presented joint steps with the Treasury to increase the flow of credit to U.K. banks and said the case for more stimulus is "growing." Two-year note yields approached a record low and implied yields on interest- rate futures slid as investors added to bets for lower borrowing costs. Barclays Plc said the Bank of England will boost bond purchases next month.

"I will be a seller of sterling against the dollar," said Jeremy Stretch, head of currency strategy at the Canadian Imperial Bank of Commerce in London. "These measures may arguably help the economy in a longer run, but in the near term there will be more supply of sterling into the market."

The pound declined 0.1 percent to $1.5549 at 10:34 a.m. London time. It slipped 0.1 percent to 81.22 pence per euro.

The U.K. currency has dropped 3.1 percent in the past month, the worst performance among 10 developed-nation currencies, according to Bloomberg Correlation-Weighted Indexes. It's declined as traders added to bets that the central bank will create additional money and buy bonds to boost the economy.
The euro fell 0.9 percent in the period.

Cash Injection

The Bank of England's liquidity plan will see it activate an unused facility to inject at least 5 billion pounds a month into the financial system. A separate program will allow lenders to swap assets with the central bank in return for money to be loaned to companies and households. The Treasury said a 5 percent increase in lending would inject about 80 billion pounds into the economy.

Barclays Plc economist Simon Hayes said today that the central bank will boost its bond-purchase plan by 50 billion pounds next month to shelter Britain from financial woes in the euro area.

The yield on the 10-year gilt fell three basis points, or 0.03 percentage point, to 1.70 percent. The rate on two-year notes dropped four basis points to 0.25 percent after falling to 0.202 percent, approaching the record low of 0.189 percent reached on June 1.

With the euro-area turmoil pushing up funding costs and making it harder to access credit, King said the lending plan will provide banks with funds below current market rates. This will be linked to their performance "in sustaining or expanding their lending to the U.K. non-financial sector during the present period of heightened uncertainty," he said.

Borrowing Costs

The implied yield on the short-sterling futures contract expiring in December fell 14 basis points to 0.68 percent, a contract low based on closing-market rates. Short sterling futures are used by analysts to gauge the future trajectory of borrowing costs between banks. The implied yield on the June 2013 contract declined 13 basis points to 0.64 percent.

The new measures were announced after record-low official interest rates and a so-called quantitative easing program failed to bring down borrowing costs that lenders charge to companies and households. The central bank has said the turmoil in the euro area, Britain's largest trading partner, poses the biggest risk to the economy and financial stability.

Gilts handed investors a 1.4 percent gain this year, compared with a 2.6 return from German bonds and 1.7 percent from Treasuries, according to indexes compiled by Bloomberg and the European Federation of Financial Analyst Societies.

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