



## UK pound drops on election fears

POUND STERLING V US DOLLAR Last updated: 01 Mar 2010, 20:10 UK £1 buys change % 1.5001 - 0.0247 -1.62

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**The pound has tumbled to a 10-month low as fears grow the UK will have a hung parliament in the forthcoming election.**

The currency fell 1.6% to drop below the \$1.50 level against the dollar for the first time since May. It has lost 7% against the dollar this year.

The pound also fell against the euro and most other major currencies.

Separately, the world's biggest bond fund manager Pimco told the BBC it is concerned about UK government debt unless drastic action is taken.

The weak pound is good news for exporters, as their goods become cheaper to buyers overseas.

That was reflected in figures released on Monday showed the UK manufacturing sector growing strongly in February, with the manufacturing purchasing managers' index (PMI) holding at 56.6, unchanged from January's 15-year high.

Export orders grew at the fastest pace since 1996, when comparable records began.

### Hung parliament

According to a YouGov poll published in the Sunday Times, the Conservative lead over Labour has narrowed to two points - down from six points last week - the lowest in two years.

**" A hung parliament, in a country that is not accustomed to them, sounds like a very uncertain prospect indeed "**  
Stephanie Flanders

This could give Labour 317 seats, nine short of an overall majority, with the Tories on a total of 263 MPs.

A hung parliament - where no party has a majority - would make it harder to pass legislation and could hurt the nascent economic recovery.

Investors are particularly worried that a hung parliament would make it harder for the UK to decisively cut its large budget deficit.

"This is the largest single fall in the pound since January last year," said Chris Turner at ING.

"Investors are worried about the uncertainty. If you are an international investor and you think that you could get a hung parliament or a minority government that may take months to resolve how the budget deficit is going to be cut - leaving the risk that the ratings agencies lose patience and decide to withdraw the UK's AAA credit rating - you would prefer to move into a different currency."

Prime Minister Gordon Brown has to call a general election by June.

### Buyer's remorse?

Pimco's head, Mohamed El-Erian, told the BBC World Service that the UK's creditors would become

"significantly concerned" if the UK did not cut spending and grow quickly.

He also expressed concern over other European nations with troubled public finances - such as Greece and Spain.

Governments need companies such as Pimco to keep buying their debt.

If large bond buyers believe that governments will default on their debt or that they will keep falling in value, they will not buy the debt - further driving up the cost of borrowing for those countries.

The UK's total borrowing for the financial year now totals more than £122bn.

Mr El-Erian said: "If the UK cannot combine higher growth with fiscal adjustment, then its debt dynamics will continue to deteriorate to a point where its creditors will become significantly concerned."

He added that there was only a "very small" chance that the UK would default on its debt.

Pimco - or the Pacific Investment Management Company - is based in California and has more than \$1 trillion of assets under management. It is a unit of German insurance giant Allianz.

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