The pound rose to the strongest level in 16 months versus the euro before Bank of England Governor Mark Carney presents his quarterly Inflation Report.

Sterling gained versus 13 of its 16 major peers as economists predicted data today will show the jobless rate fell to the lowest in more than five years. Carney, battling against rising interest-rate increase expectations as the economic recovery strengthens, will present updated economic forecasts. The governor has reinforced his low-rate message in recent months, after unemployment fell faster than the central bank forecast, voiding the first phase of his forward guidance.

“It’s expected that the unemployment number will come in better, and most people are looking for Carney to be upbeat about the recovery,” Ned Rumpeltin, head of Group-of-10 currency strategy at Standard Chartered Bank in London, said yesterday. “That should be relatively good for the pound. There is a lot of good news built into sterling’s outlook.”

The pound gained 0.1 percent to 81.37 pence per euro at 7:24 a.m. London time after reaching 81.35 pence, the strongest level since Jan. 9, 2013. Sterling climbed 0.2 percent to $1.6861. It appreciated to $1.6996 on May 6, the highest since August 2009.

The U.K. unemployment rate, as measured by International Labour Organization methods, dropped to 6.8 percent in the three months through March, a more-than-five-year low, from 6.9 percent in the quarter through February, according to the median estimate of economists in a Bloomberg News survey.

**Forward Guidance**

The pound strengthened 1.2 percent against the euro and jumped 0.9 percent versus the dollar after the central bank’s previous Inflation Report on Feb. 12 as Carney revised the forward-guidance strategy. The policy was unveiled at his first Monetary Policy Committee meeting in August, when he signaled...
interest rates may rise when unemployment fell below 7 percent. With that framework abandoned, officials’ debate centers on the amount of spare capacity in the economy.

The pound has rallied in the past month as traders bet stronger growth will lead the central bank to bring forward its plans to increase borrowing costs. Derivatives based on the sterling overnight interbank average showed expectations policy makers will increase rates by 25 basis points in March yesterday, compared with April as recently as last week. The Bank of England’s benchmark interest rate has been at a record-low 0.5 percent since March 2009.

Sterling has gained 0.9 percent in the past month, the best performer after the Norwegian krone among 10 developed-nation currencies tracked by Bloomberg Correlation-Weighted Indexes. The euro fell 0.8 percent, while the dollar was little changed.

U.K. government securities returned 3.2 percent this year through yesterday, Bloomberg World Bond Indexes show. German bonds gained 3.5 percent and Treasuries earned 2.7 percent.

To contact the reporter on this story: David Goodman in London at dgoodman28@bloomberg.net

To contact the editors responsible for this story: Paul Dobson at pdobson2@bloomberg.net Keith Jenkins, Nicholas Reynolds

©2014 BLOOMBERG L.P. ALL RIGHTS RESERVED.