Sterling nears one-month high on UK jobs data

Sterling rose on Tuesday, nearing a one-month high against the U.S. dollar after data showed the pace of pay growth in Britain, closely watched by the Bank of England as it gauges how much higher to raise interest rates, accelerated again.

The yen was perched close to seven-month highs as investors held their breath for a potential policy shift at the Bank of Japan (BOJ).

The pound rose 0.5% to $1.2261, nearing a one-month high touched on Monday, after data showed wage growth picked up more pace in the three months to November, while employment rose by a faster-than-expected 27,000.

"The official data showing employment conditions have held up better than expected should be taken with a pinch of salt", said Simon Harvey, head of FX Analysis at Monex Europe.

"The BoE is unlikely to count its chickens before they've hatched".

BoE Governor Andrew Bailey said on Monday that a shortage of workers in the labour market posed a major risk to forecasts that inflation will fall from its current levels above 10%.

Foreign exchange strategists at ING and Monex Europe said it is too early to dismiss the risk of another 50-basis-point interest rate increase in February as the BoE is set to hike rates for the 10th consecutive time.