

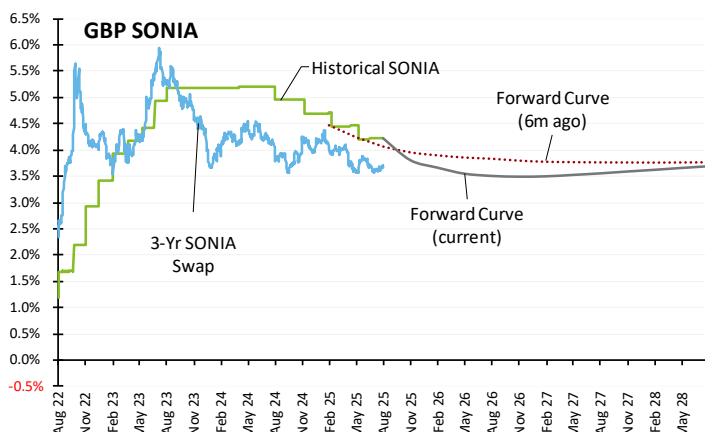


IR and FX Newsletter  
August 2025



## Interest Rate Markets

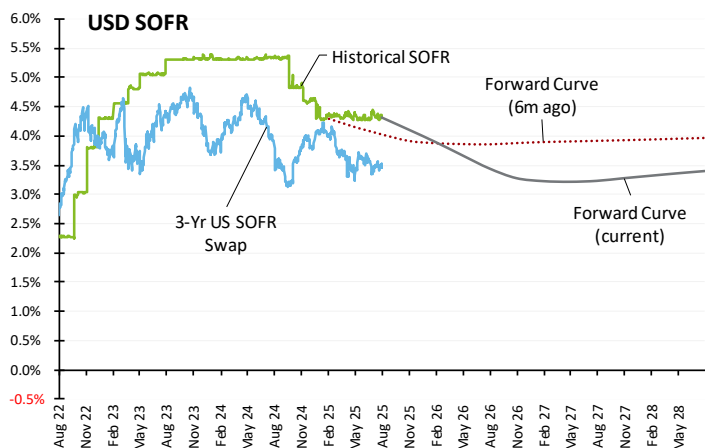
July marks the first month this year that neither the Fed, the BOE or the ECB has cut rates. The ECB held their rate at 2.00% after 7 consecutive cuts since September, with the Eurozone's inflation metric printing at or below target since June. The Federal Reserve again held its target range at 4.25–4.50% though, in a rare move, 2 of the 12 members dissented, voting for a cut; the range has held steady since 18 December last year. US jobless claims fell throughout July and PCE, the key inflation metric, rose 10bps to 2.60%. The BOE MPC is, however, expected to cut rates by 25 bps at their 07 August meeting; continuing the Cut-Hold-Cut-Hold pattern witnessed since their initial cut last Autumn. This feels driven by a concern over the economic outlook despite the ongoing inflation threat with CPI rising once again to 3.60%.



- The underlying SONIA is 4.217%.
- The BOE continued to hold their bank rate at 4.25% at its last policy meeting on 19 June.
- Markets reflect a strong (83%) expectation of a 25 bps BOE rate cut on 7 August.
- The 3-year SONIA Swap rate is currently 3.62%, vs. 3.97% 6 months ago, but up 4 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.63%	3.62%	3.69%
Cap @ 4.25% (premium)*	£0.19m	£0.58m	£1.87m
Cap @ 4.50% (premium)*	£0.13m	£0.45m	£1.59m
Cap @ 4.75% (premium)*	£0.09m	£0.36m	£1.36m

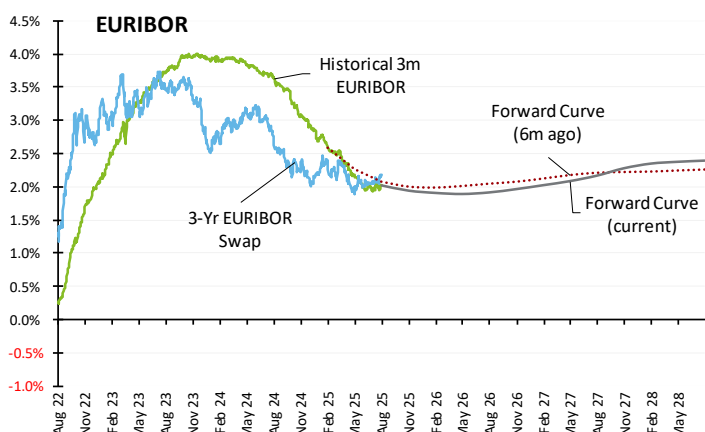
\*£100m hedge notional



- SOFR sits at the lower end of the Fed Funds' current target rate range of 4.25%–4.50%, at 4.32%, with 2 dissenting votes to cut the rate at the 30 July meeting where rates were held once again.
- The 17 September Fed meeting broadly reflects a 50:50 chance of a 25 bps cut, otherwise holding at present levels once again.
- The 3-year SOFR Swap rate is now 3.54% vs. 4.05% 6 months ago, though up 11bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.65%	3.54%	3.54%
Cap @ 4.25% (premium)*	\$0.30m	\$0.60m	\$1.74m
Cap @ 4.50% (premium)*	\$0.18m	\$0.46m	\$1.44m
Cap @ 4.75% (premium)*	\$0.11m	\$0.35m	\$1.22m

\*\$100m hedge notional



- 3-month EURIBOR is 2.02%.
- The ECB last cut interest rates by 25 bps at its 5 June meeting to 2.00%, then held them on 24 July.
- Market pricing reflects a 92% chance of a further hold at the 11 September meeting.
- The current forward curve projects a single quarter-point cut remaining before rates start to lift again.
- The 3-year EURIBOR Swap rate is currently 2.08%, vs. 2.14% 6 months ago, but up 11 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	1.96%	2.08%	2.26%
Cap @ 2.00% (premium)*	€0.40m	€1.10m	€2.97m
Cap @ 2.25% (premium)*	€0.24m	€0.81m	€2.41m
Cap @ 2.50% (premium)*	€0.15m	€0.61m	€1.98m

\*€100m hedge notional

## What can be done in the current Interest Rate markets?



### Borrowing in GBP and USD still permits fixing below the respective SONIA or SOFR rate:

Expectations remain for further cuts to the Banks rates in the UK and the US, this in turn sets the forward curve downward sloping in the short term, allowing for fixed swap rates lower than floating levels. This is no longer that case for the Eurozone however, with the forward curve in EUR returning to a normal upward sloping shape where fixing longer periods now comes at a slight premium:

- SONIA 3m is 4.00% and a vanilla 3y Swap is 3.62%. On a GBP 100m financing, swapping to fix reduces interest costs in year 1 by **GBP 380k**.
- SOFR 3m at 4.28% and a vanilla 3y Swap is 3.54%. On a USD 100m financing, swapping to fix reduces interest costs in year 1 by **USD 660k**.
- EURIBOR 3m at 2.02% and a vanilla 3y Swap is 2.08%. On a EUR 100m financing, swapping to fix now comes with a slight interest cost increase in year 1 of **EUR 60k**.



### Hedges tenors are now beginning to see difference in the hedged rate achievable:

While the US and UK forward curves still reflect 2-3 rates cuts in the coming 6-9 months, the Eurozone is far less likely to cut much further. Rates curves project a bottoming out through the final months of 2025 with rises in floating rates expected as next year progresses.



### Pre-hedging:

Pre-hedging anticipated future debt requires considerable thought and evaluation. Reflecting on the much of the past 18 months, rates have held 'higher-for-longer' than the respective forward curves had intimated. This might well continue to play out and rates may not be cut to the levels implied by to lowest points of the forward curves; meanwhile hedging against those curves prices in the current market expectations of future fall whether they materialise or not.

The variance from spot-starting hedge rates shown on the prior page is limited:

- GBP 5-year Swap starting in 6 months: 3.70% vs 3.69% spot
- USD 5-year Swap starting in 6 months: 3.49% vs 3.54% spot
- EUR 5-year Swap starting in 6 months: 2.31% vs 2.26% spot



### Funding of Hedging costs can be done at favourable rates

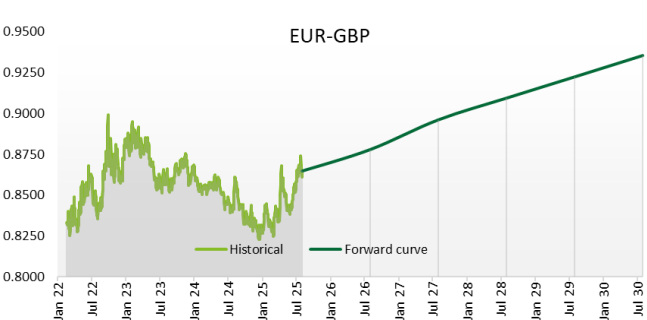
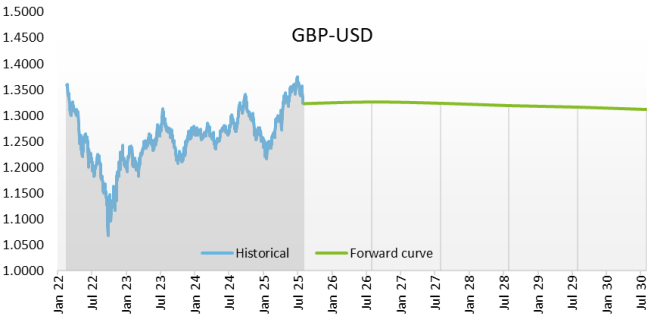
We continue to see many clients buy Caps in conjunction with a Swap based hedging solution to allow for a deferral of the option premium within the Swap trade itself. This cost deferral can often be done via the derivative desks at favourable rates (at SONIA, SOFR or EURIBOR, without application of the similar financing margins); further, debt covenants are not so impacted from this cost deferral.



### Structured Hedging solutions

As the forward curves and future rate expectations shift towards a flatter, or upward sloping, environment the mentality influencing hedging decisions often comes under scrutiny. Clients are reviewing their Fixed/Floating mix adding flexibility to allow rates to fall, while capturing much of the comparatively low rate environment that exists relative to recent history. This is most commonly done through arranging multiple trade types together; commonly varying forms of Swap and Cap combinations. We have also had clients arrange Collar trades, floating between resulting Cap and Floor strikes. The rationales for structuring more bespoke solutions differ, and we encourage discussion to understand and validate any structuring of hedge products to ensure alignment with any varied requirements and priorities of a specific transaction.

Currency Markets



- GBP-USD has dropped nearly 4% from its local highs seen last month of 1.379, sitting at 1.323 at time of writing.
- This retracement in the FX rate has decreased option volatility slightly, with Option premia dropping by over 10% vs premia seen last month.
- The slight divergence in future rate cut timings of the Fed and the Bank of England has a small influence on the tradable forward rates achievable; though largely the forward rates are still relatively flat through the medium-term.
- Barring a slight rally in the last few days, GBP weakened against the EUR over the month with the EUR-GBP rate finishing 0.8% higher than 30 June.
- The projected upcoming rate cut from the Bank of England against the limited chance of further ECB cuts has dropped the level forward carry a little (decreased positive forward points); though the ability to fix FX Forward rates far in excess of recent Spot levels remains.
- Option premia costs are relatively unchanged MoM.
- Forward premia will come down if the ECB pauses while the BofE cut their bank rates.

GBP-USD Spot Rate: 1.323	6mo	12mo	18mo
Forward rate	1.325	1.326	1.325
GBP Put Option* (ATMS**)	\$2.62m	\$3.73m	\$4.74m
GBP Put Option* (5% OTMS***)	\$0.75m	\$1.64m	\$2.50m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.323		
*** 5% Out-of-the-money vs Spot rate:	1.257		

EUR-GBP Spot Rate: 0.865	6mo	12mo	18mo
Forward rate	0.873	0.878	0.889
GBP Put Option* (ATMS**)	€ 2.37m	€ 3.72m	€ 4.90m
GBP Put Option* (5% OTMS***)	€ 0.55m	€ 1.41m	€ 2.29m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.865		
*** 5% Out-of-the-money vs Spot rate:	0.908		

Data source: Refinitiv and ICE Data ICE Data Derivatives, as of 31<sup>st</sup> July 2025

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