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IR and FX Newsletter

December 2025

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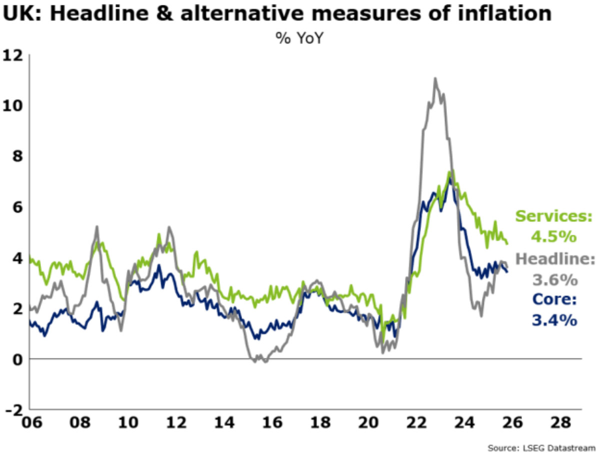
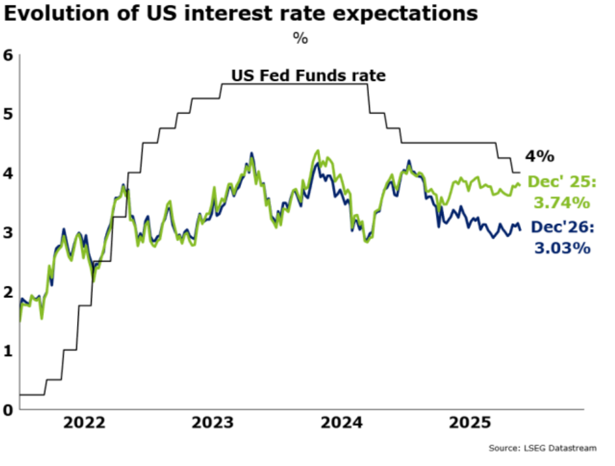
A Macro View: Budget satisfies bond markets but growth set to slow

Despite a strong first half of the year, UK growth has slowed significantly. More recent business and consumer surveys also point to weak underlying momentum, with 2025 shaping up to be the second straight year of stop-start growth for the UK economy. The recent Autumn Budget unveiled tax rises worth £26bn by the end of this parliament but also eased fiscal policy in the interim. The additional fiscal headroom created by the tax rises seems to have satisfied bond markets for now. However, consumers and businesses remain cautious about future geopolitical shocks. We expect activity to remain sluggish over the winter months before a gradual pickup in spring.

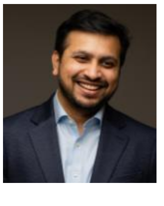
The UK's headline inflation rate edged lower to 3.6% in October but remains well above the 2.6% seen in March. Despite this softening, elevated food and housing services inflation alongside positive real wage growth continues to ensure higher-than-average levels of services inflation (adjoining chart). But the freezing of some utility prices and cuts to energy bills announced in the budget should bring headline inflation down to 2.5% by the summer months and we expect it to reach the 2% target next winter. Financial markets expect the Bank to cut rates to 3.75% in December this year and a further 25 basis point cut by early summer.



The US economy grew faster-than-expected in the first half of this year, driven by investment in AI infrastructure. However, consumer confidence has since deteriorated, for the fourth consecutive month in November, reflecting concerns over higher inflation, which is up from 2.3% in April to 3.0% in September and a weakening labour market. The recent government shutdown also likely contributed to declining sentiment. Markets expect the Federal Reserve to make one further rate cut this year and to continue lowering rates through 2026 to around 3.0% by the end of the year (adjoining chart).



November PMI data point to positive growth in the euro area, marking 11 consecutive months of expansion. Despite German activity softening somewhat, business and investor confidence in the country's medium-term prospects remains strong following announcements of fiscal expansion earlier this year. PMI data from France suggest a stabilisation of activity following recent political uncertainty. Growth remains sluggish compared to historical trend and, with inflation at near target-levels (adjoining chart), markets expect little change in euro area interest rates for the remainder of the year.



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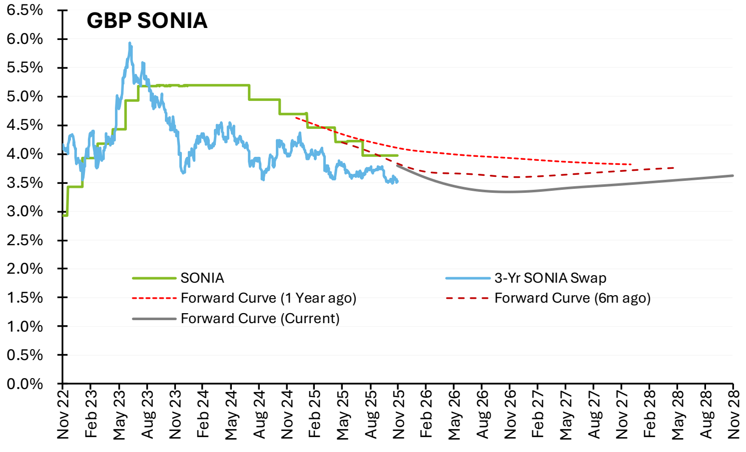
Interest Rate Markets

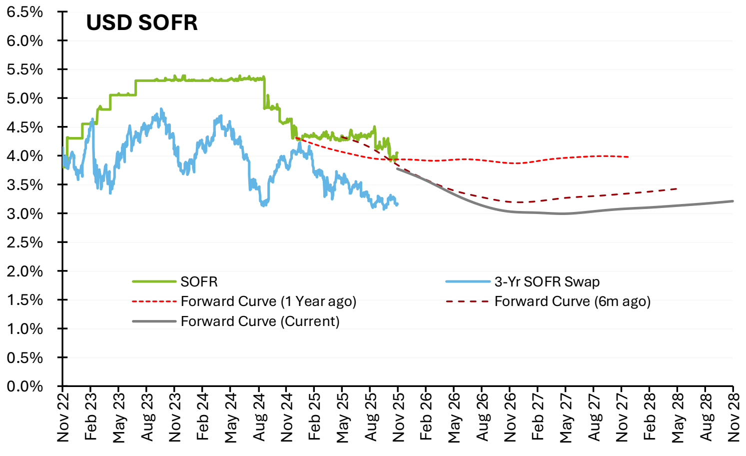
In the UK, inflation saw a slight decrease, falling by 0.2% compared to October to reach 3.6%, though it remains above the Bank of England's target of 2.0%. While the recent budget announcement was expected to inject volatility into the interest rate market, underlying UK rates ultimately held steady. However, expectations for a rate cut in December have notably increased. Across the Atlantic, the US market is now pricing in accelerated expectations for a 25 bps rate cut in December, with further 50 bps of cuts anticipated next year. Meanwhile, the European Central Bank (ECB), that implemented several rate cuts totalling 200 bps since June 2024, are now expected to hold rates steady for the foreseeable future, with market expectations even pointing towards rate rises commencing in 2026.



- The underlying SONIA has remained flat at 3.97% across the month of November.
- Following last month's budget announcement, market expectations for a 25bps rate cut at the Bank of England's 18 December meeting have risen to 86.8%, while the probability of no rate change this year stands at 13.2%.
- The 3-year SONIA Swap rate is currently 3.48%, vs. 3.60% 6 months ago, and down 22 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.47%	3.48%	3.58%
Cap @ 4.25% (premium)*	£0.11m	£0.39m	£1.39m
Cap @ 4.50% (premium)*	£0.07m	£0.30m	£1.15m
Cap @ 4.75% (premium)*	£0.05m	£0.23m	£0.96m

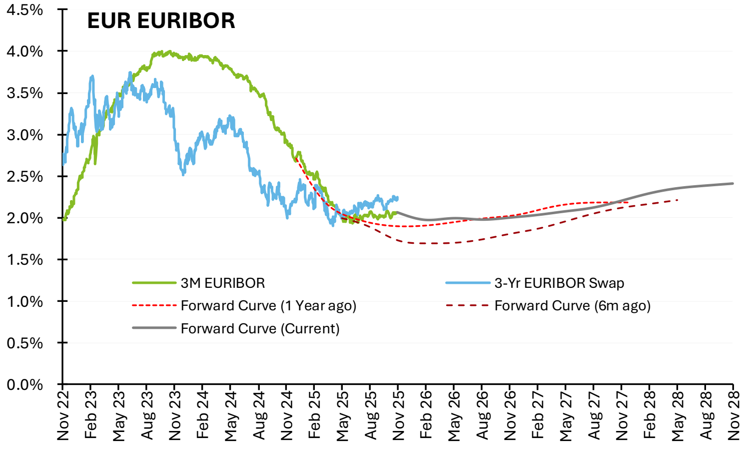
*£100m hedge notional



- SOFR sits above the top end of Fed Funds' current target rate range of 3.75%-4.00%, at 4.05%, following a cut of 25 bps at their Oct 29th meeting.
- The December 10th Fed meeting reflects a 92.4% chance of a further 25 bp cut, with the remaining 7.6% probability assigned to no change in interest rates this year.
- The 3-year SOFR Swap rate is now 3.21% vs. 3.46% 6 months ago, but up 7.0 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.25%	3.21%	3.27%
Cap @ 4.00% (premium)*	\$0.17m	\$0.46m	\$1.45m
Cap @ 4.25% (premium)*	\$0.10m	\$0.34m	\$1.21m
Cap @ 4.50% (premium)*	\$0.07m	\$0.26m	\$1.02m

*£100m hedge notional



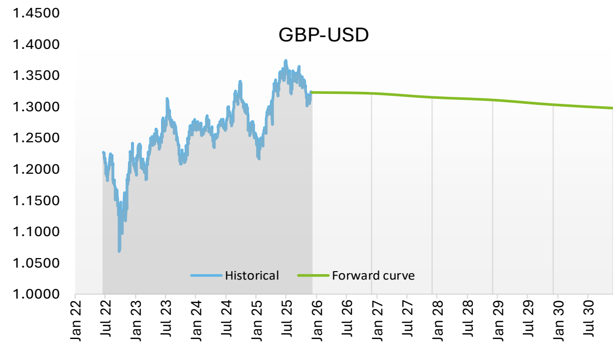
- 3-month EURIBOR is 2.06%.
- The ECB has held rates since July. Markets now assign a 97.8% probability that rates will remain unchanged at the upcoming meeting on 18 December.
- The current forward curve remains largely flat before gradually climbing by the end of 2026 and beyond.
- The 3-year EURIBOR Swap rate is currently 2.12%, vs. 2.00% 6 months ago, and down 1.4 bps MoM.

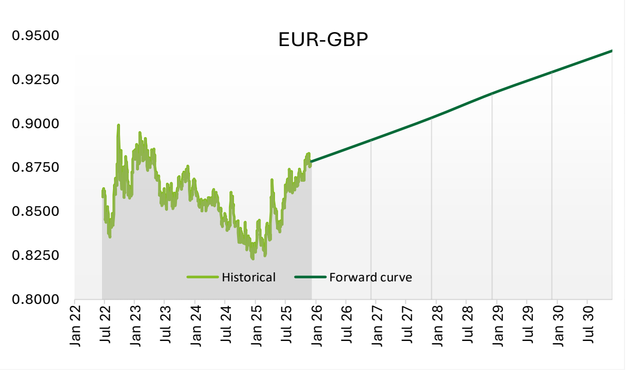
	2-year	3-year	5-year
Swap rate (mid level)	2.03%	2.12%	2.29%
Cap @ 2.00% (premium)*	€0.42m	€1.04m	€2.80m
Cap @ 2.25% (premium)*	€0.21m	€0.69m	€2.17m
Cap @ 2.50% (premium)*	€0.12m	€0.49m	€1.72m

*€100m hedge notional

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 28 November 2025

Currency Markets





- Sterling spot rate strengthened by 0.65% vs. USD in November, to 1.324.
- With the Fed continuing to cut rates, while the Bank of England potentially settles at or around 3.75-4.00%, there is increased pressure on the USD to hold its current Spot level.
- Equally such change in the interest rate outlook has begun to slope the forward rate curve downwards over the coming years.

- Driven by persistently higher UK inflation and the Euro's perceived safe-haven appeal, the EUR strengthened against the GBP by 0.11% last month, closing at 0.876, its highest level since December 2023.
- The interest rate differential between the Eurozone (c. 2%) and the UK market (c. 4%) continues to generate a significant forward carry in the EUR-GBP forward rate.
- This generates forward rates out 2-3 years that offer a stronger EUR than the EUR-GBP has reached since December 2008.
- Option premia has continued to reduce in both the short and longer term.

GBP-USD Spot Rate: 1.324	6mo	12mo	18mo
Forward rate	1.323	1.322	1.319
GBP Put Option* (ATMS**)	$2.59m	$3.91m	$4.98m
GBP Put Option* (5% OTMS***	$0.75m	$1.74m	$2.65m

* GBP 100m Put option premium
** At-the-money Spot rate: 1.324
*** 5% Out-of-the-money vs 1.257

EUR-GBP Spot Rate: 0.876	6mo	12mo	18mo
Forward rate	0.884	0.890	0.897
GBP Put Option* (ATMS**)	€ 2.22m	€ 3.53m	€ 4.59m
GBP Put Option* (5% OTMS***	€ 0.49m	€ 1.32m	€ 2.10m

* GBP 100m Put option premium
** At-the-money Spot rate: 0.876
*** 5% Out-of-the-money vs 0.919

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 28 November 2025

Hedging Advisory and Derivatives Execution team

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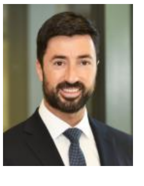
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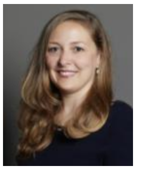
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