



IR and FX Newsletter  
July 2025



## A Macro View: Global trade uncertainty continues

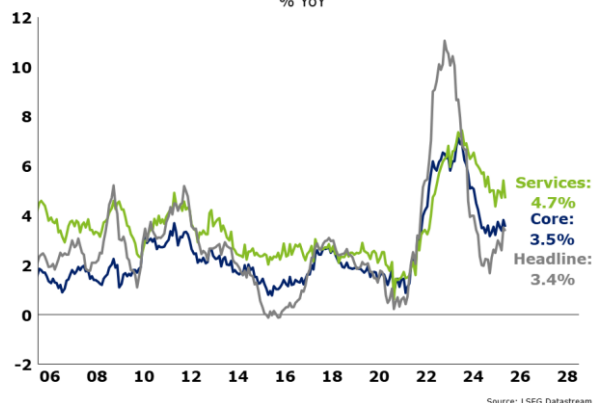
While UK GDP growth came in stronger than expected at 0.7% in the first three months of the year, more timely data suggests momentum slowed in the second quarter. Purchasing managers' indices (PMI) point to only a modest expansion in recent months, while a sharp fall in retail sales in May reversed the strong performance seen in the first four months of the year. Consumer and business confidence remain subdued amid heightened global trade uncertainty.

UK inflation eased marginally to 3.4% in May (adjoining chart) but remains above the rates seen at the start of the year, boosted by higher energy prices. We expect inflation to remain close to its current level over the summer months before edging lower in the fourth quarter and returning to the 2% target rate early next year. The limited rise in core inflation suggests no material increase in underlying price pressures. Financial markets expect the Bank of England (BOE) to continue with its gradual easing of monetary policy, pricing two 25 basis-point rate cuts by the end of the year.

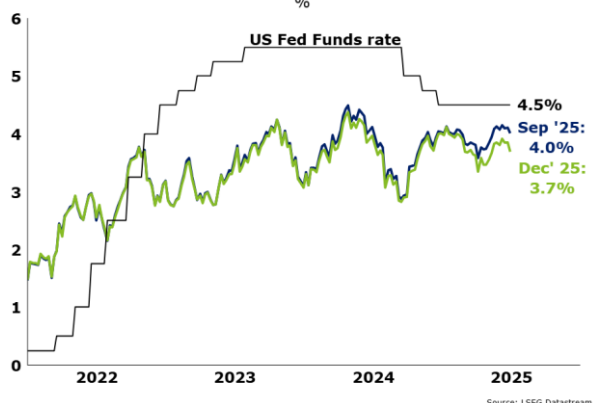
Momentum in the US economy continued to slow in June, with the overall rate of expansion well below that seen last year. Lower exports of goods and services and subdued consumer confidence were partially offset by inventory purchases by businesses amid trade uncertainty. Financial market volatility remains elevated as investors digest the impact of the US administration's tax proposals and as we approach the end of the 90 pause on the 'reciprocal tariffs' announced in early April. Interest rate expectations edged lower, with investors expecting the Federal Reserve (Fed) to lower its target rate to around 3.7% by the end of this year (adjoining chart).

Monthly data indicated sluggish, albeit positive, growth in euro area activity in June, as trade uncertainty continues to dampen growth expectations across major European economies. However, confidence in Germany's medium-term prospects continue to improve following announcements of fiscal expansion earlier this year, while activity in Spain remains above its long-term trend. Given sluggish growth, trade uncertainty and inflation rates at near target levels, markets expect one further 25 basis-point rate cut (adjoining chart) by the European Central Bank (ECB) this year.

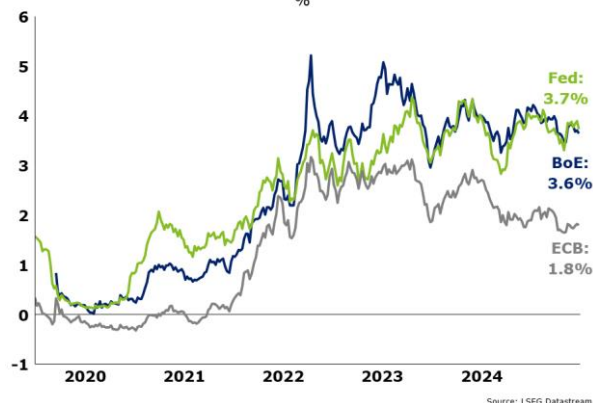
**UK: Headline & alternative measures of inflation**  
% YoY



**Evolution of US interest rate expectations**  
%



**Evolution of end-2025 interest rate expectations**  
%

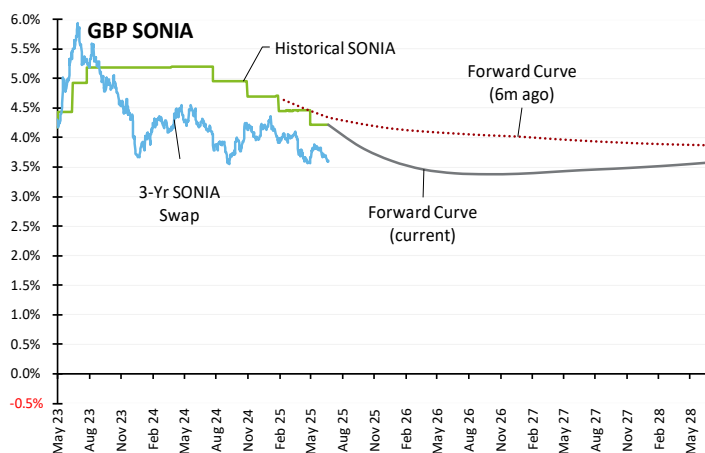


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## Interest Rate Markets

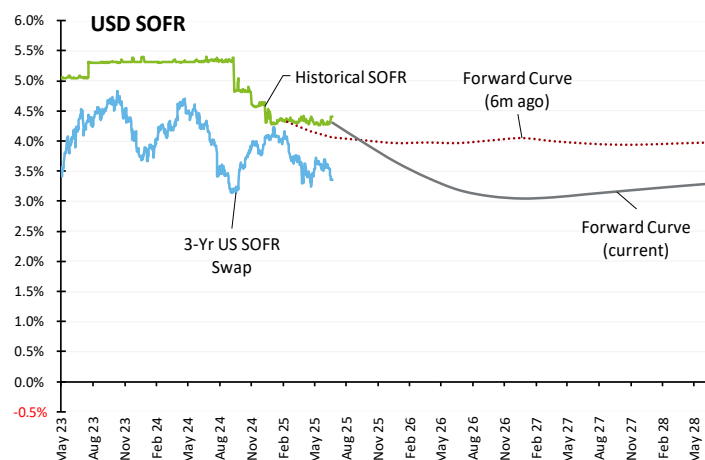
In June, major central banks diverged slightly in their policy paths. The ECB cut rates by 25bps to support meeting its inflation target; all but one Governing Council member supported the move. The Fed held its target range steady at 4.25–4.50%, due to lingering inflation risks; the vote to pause was unanimous. Meanwhile, the BOE also held rates at 4.25%, although the decision was split 6–3, with dissenting members voting for a 25bps cut amid signs of economic slowdown and rising unemployment.



- The underlying SONIA is 4.22%.
- At its policy meeting on 19 June, the BOE held interest rates at 4.25%.
- Markets expect a 25 bps BOE rate cut on 7 August. Current pricing suggests an 74% probability of this.
- The 3-year SONIA Swap rate is currently 3.55%, vs. 4.11% 6 months ago, and down 24bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.58%	3.55%	3.61%
Cap @ 4.25% (premium)*	£0.22m	£0.64m	£1.99m
Cap @ 4.50% (premium)*	£0.15m	£0.51m	£1.70m
Cap @ 4.75% (premium)*	£0.11m	£0.41m	£1.48m

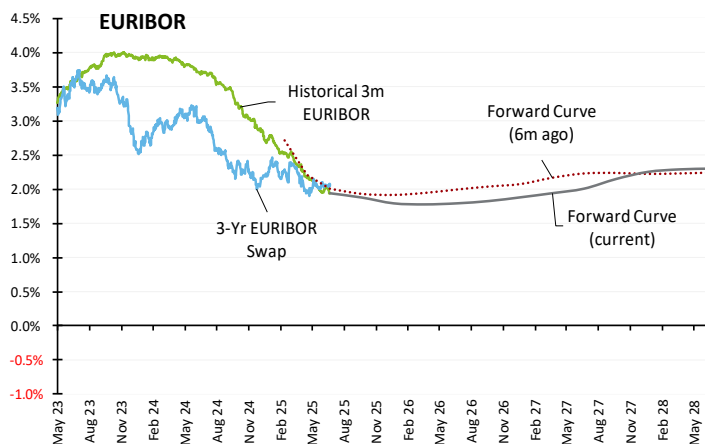
\*£100m hedge notional



- SOFR is inside the Fed Funds current target rate range of 4.25%-4.50%, at 4.40%, following a decision to hold rates on 18 June.
- Market expectations are for another hold at the Fed's upcoming 30 July meeting (an 81% probability).
- The 3-year SOFR Swap rate is now 3.38% vs. 3.98% 6 months ago, and down 18bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.47%	3.38%	3.40%
Cap @ 4.25% (premium)*	\$0.25m	\$0.60m	\$1.72m
Cap @ 4.50% (premium)*	\$0.15m	\$0.45m	\$1.45m
Cap @ 4.75% (premium)*	\$0.10m	\$0.36m	\$1.25m

\*\$100m hedge notional



- 3-month EURIBOR is 1.94%.
- The ECB cut interest rates by 25 bps at its 5 June meeting to 2.00%.
- Market sentiment points towards a hold by the ECB its upcoming 24 July meeting. Current pricing suggests an 86% probability of this. This would be the first hold of 2025, following 4 cuts to-date.
- The 3-year EURIBOR Swap rate is currently 1.96%, vs. 2.09% 6 months ago, and fairly flat MoM.

	2-year	3-year	5-year
Swap rate (mid level)	1.86%	1.96%	2.14%
Cap @ 2.00% (premium)*	€0.35m	€1.02m	€2.88m
Cap @ 2.25% (premium)*	€0.22m	€0.77m	€2.37m
Cap @ 2.50% (premium)*	€0.15m	€0.59m	€1.97m

\*€100m hedge notional

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



### Borrowers can still fix rates below the current floating rate:

The current shape of the forward curve still allows borrowers to fix rates at levels below the current floating rate, though the market expectations for material further cuts to bank rates are diminishing:

- SONIA 3m is 4.10% and a vanilla 2y Swap is 3.58%. On a GBP 100m financing, swapping to fix reduces interest costs in year 1 by **GBP 520k**.
- SOFR 3m at 4.27% and a vanilla 2y Swap is 3.47%. On a USD 100m financing, swapping to fix reduces interest costs in year 1 by **USD 800k**.
- EURIBOR 3m at 1.94% and a vanilla 2y Swap is 1.86%. On a EUR 100m financing, swapping to fix reduces interest costs in year 1 by **EUR 80k**.



### Hedges tenors do not materially impact the hedged rate:

While the forward curves still reflect a degree of rate cutting, most pertinently in the US, over the coming 6-12 months, there has been a reduction in this sentiment in recent weeks leading to a bottoming out in forward rate projections ahead of anticipated rate rises thereafter. This continues to translate into relatively flat swap rates across the short-to-medium term:

- |             |                |                |               |
|-------------|----------------|----------------|---------------|
| • GBP swap: | 2-year: 3.58%, | 3-year: 3.55%, | 5-year: 3.61% |
| • USD swap: | 2-year: 3.47%, | 3-year: 3.38%, | 5-year: 3.40% |
| • EUR swap: | 2-year: 1.86%, | 3-year: 1.96%, | 5-year: 2.14% |



### Pre-hedging:

Due to the relatively stable medium- to long-term rate environment, pre-hedging future debt (assumed closing is in 6 months) allows for locking in swap rates in advance at similar levels to spot-starting trades:

- GBP 5-year Swap starting in 6 months: 3.60%
- USD 5-year Swap starting in 6 months: 3.34%
- EUR 5-year Swap starting in 6 months: 2.21%



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

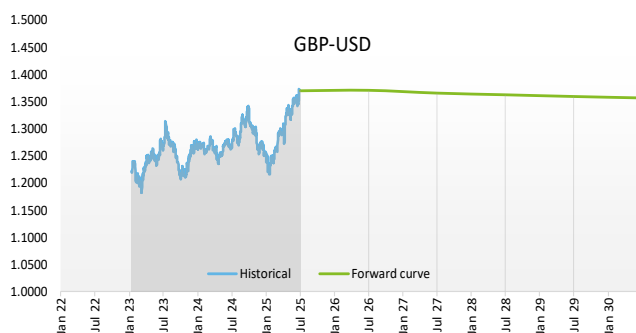
We continue to see many clients buy Caps in conjunction with a Swap based hedging solution to allow for a deferral of the option premium within the Swap trade itself. This cost deferral can often be done via the derivative desks at favourable rates (at SONIA, SOFR or EURIBOR, without application of the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



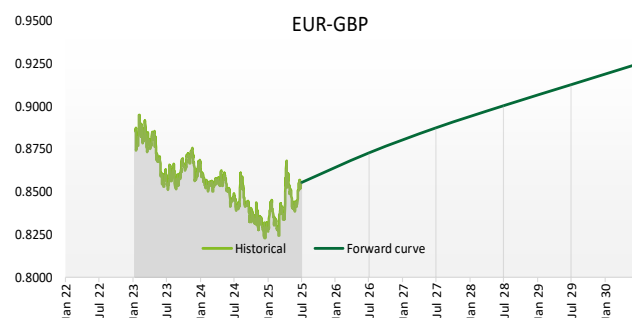
### Structured Hedging solutions

Over the past few months many clients are incorporating two, or more, trades into their hedge solution; most commonly a combination of Swap and Cap trades, or trades with variable strike rates over time. 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 continued its strengthening path initiated in January, reaching its highest level since early 2022. Sterling gained as the Fed held rates amid growing political noise, while the BOE's split decision signaled a more cautious stance in its monetary policy
- Option premia increased by up to 4.8% MoM, depending on the protection levels sought.
- Meanwhile FX Forward rates remain flat out through 5 years, with limited deviation between interest rate environments across both countries over the medium term.



- EUR-GBP fell 1.54% in June as the ECB cut rates and the BOE held firm.
- Option premia decreased by up to 16.1% MoM, depending on the protection levels sought.
- The widening interest rate differential between the EUR and GBP is pushing forward exchange rates far beyond historical spot levels seen over the past 10 years. This presents a compelling opportunity for EUR sellers and GBP buyers, who may benefit from locking in such EUR strength, rather than remaining unhedged.
- Forward premia will come down if the ECB pauses while the BofE cut their bank rates.

### GBP-USD Spot Rate: 1.370

	6mo	12mo	18mo
Forward rate	1.371	1.371	1.368
GBP Put Option* (ATMS**)	\$2.98m	\$4.25m	\$5.37m
GBP Put Option* (5% OTMS***)	\$0.87m	\$1.88m	\$2.83m

\* GBP 100m Put option premium

\*\* At-the-money Spot rate: 1.370

\*\*\* 5% Out-of-the-money vs Spot rate: 1.302

### EUR-GBP Spot Rate: 0.856

	6mo	12mo	18mo
Forward rate	0.865	0.873	0.880
GBP Put Option* (ATMS**)	€ 2.38m	€ 3.79m	€ 4.99m
GBP Put Option* (5% OTMS***)	€ 0.47m	€ 1.32m	€ 2.20m

\* GBP 100m Put option premium

\*\* At-the-money Spot rate: 0.856

\*\*\* 5% Out-of-the-money vs Spot rate: 0.898

Data source: Refinitiv and ICE Data ICE Data Derivatives, as of 30<sup>th</sup> June 2025

## Hedging Advisory and Derivatives Execution team



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