



IR and FX Newsletter
November 2025



A Macro View: Growth relatively resilient but concerns remain

Real economy data show global growth was relatively resilient in the first half of this year, despite heightened trade policy uncertainty and geopolitical tensions. The UK economy grew 1.1% in the first half of 2025, the fastest pace among the large, developed G7 economies, partly due to one-off factors such as stockpiling by US firms, which supported UK exports, and greater housing market activity ahead of a change in the stamp duty regime in April. Purchasing managers' indices (PMI) suggest continued positive momentum in the third quarter. However, consumers and businesses remain cautious about future geopolitical shocks and potential tax rises in the upcoming autumn budget.

The UK's headline inflation rate remained stable at 3.8% in August, up from 2.6% in March (adjoining chart), driven by higher energy and food prices. We expect inflation to peak at around 4% in the coming months, before gradually slowing throughout 2026 but returning to the 2% target only in 2027. Financial markets now expect the Bank to hold interest rates at 4% for the remainder of this year, before continuing further easing in 2026.

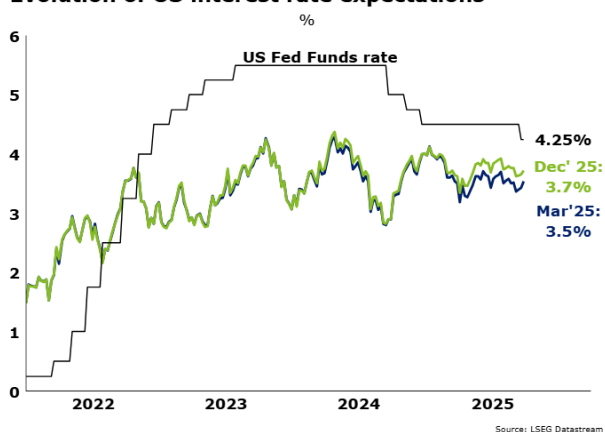
Despite better-than-expected growth in the first half, driven by investment in AI and stockpiling by US firms, the US economy is set to grow at a much slower pace this year than 2024. Consumer confidence fell for a second consecutive month in September amid concerns over inflation and risks of a softening labour market. US inflation is up from 2.3% in April to 2.9% in August. Despite this, the Federal Reserve cut interest rates in September for the first time this year, citing rising downside risks to employment. The Fed also projected two further rate cuts this year, with markets expecting the Fed to lower its target rate to around 3.7% by the end of 2025 (adjoining chart).

PMI data indicated four consecutive months of growth in the euro area, with the latest monthly data driven by rising activity in Germany. However, euro area activity remains subdued compared to the US and UK, amid ongoing trade uncertainty and heightened geopolitical tensions. Confidence in Germany's medium-term prospects has improved in recent month following announcements of fiscal expansion earlier this year. Meanwhile, activity in France deteriorated in September amid recent political uncertainty over the government's fiscal consolidation plans. Given sluggish growth and inflation at target levels, markets expect little change in euro area interest rates for the remainder of the year (adjoining chart).

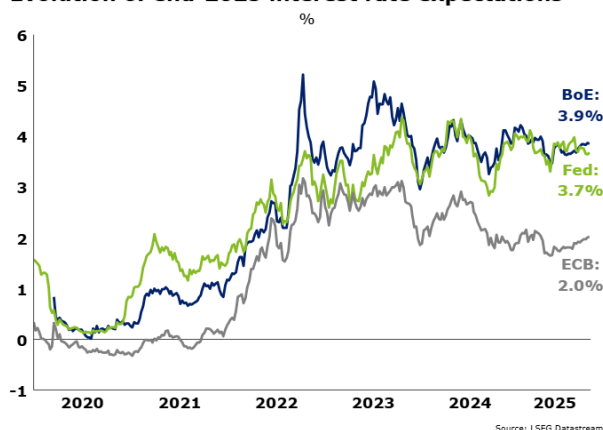
UK: Headline & alternative measures of inflation



Evolution of US interest rate expectations



Evolution of end-2025 interest rate expectations



Debapratim De
Director, Economic
Research

dde@deloitte.co.uk

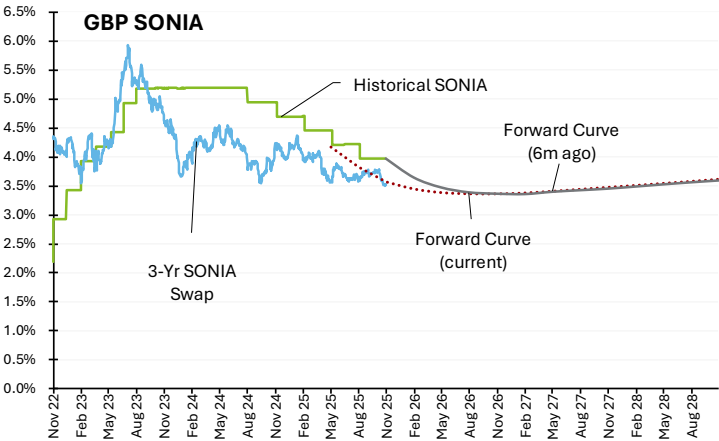


Thomas Avis
Economist, Economic
Research

twavis@deloitte.co.uk

Interest Rate Markets

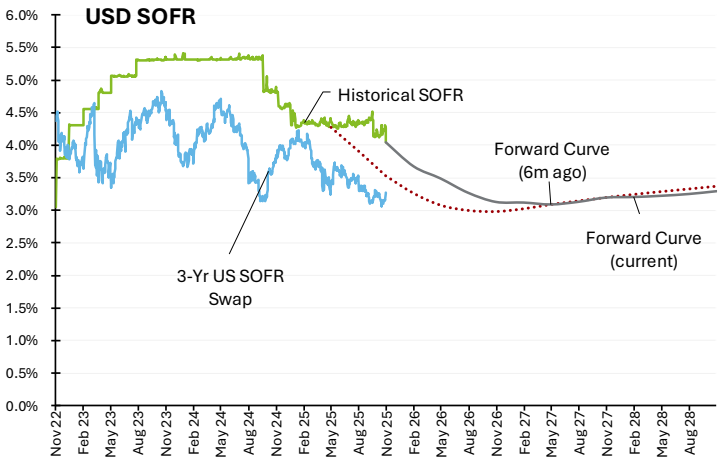
In the UK rates fell during October, with 3m SONIA dropping by 10 bps and the 3-year Swap rate by 21 bps. While Inflation remains high relative to target, it was unchanged at 3.8% in September, leaving the possibility for rate cuts as soon as Q1 2026. In the US, the Federal Reserve pushed ahead with its rate cutting cycle, reducing the target range by a further 25 basis points from its September cut to 3.75-4.00%. The market is now pricing in expectations of further cuts totalling a further 50 bps over the next 12 months following a rise in inflation to 3.01% in September, though the continued government shut down has led to an increase in volatility due to a lack of the usual data releases. Meanwhile, Eurozone inflation decreased slightly in October to 2.10%, bringing the level closer to target. The European Central Bank (ECB) has made several rate cuts totalling 200 bps since June 2024, with current expectations suggesting no further rate cuts through 2025 and 2026.



- The underlying SONIA has remained flat at 3.97% across the month of October.
- Though markets continue to expect no change to this underlying bank rate at the upcoming 6 November meeting, confidence has dropped from 93% last month to now 66% and expectations for any further cuts this year are now split.
- The 3-year SONIA Swap rate is currently 3.49%, vs. 3.56% 6 months ago, and down 21.4 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.49%	3.49%	3.57%
Cap @ 4.25% (premium)*	£0.12m	£0.40m	£1.43m
Cap @ 4.50% (premium)*	£0.08m	£0.31m	£1.19m
Cap @ 4.75% (premium)*	£0.05m	£0.24m	£1.00m

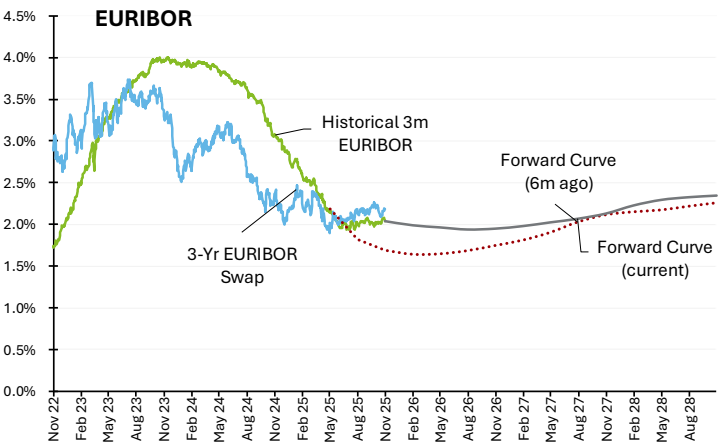
*£100m hedge notional



- SOFR sits above the top end of Fed Funds' current target rate range of 3.75%-4.00%, at 4.04% (31 Oct), following a cut of 25 bps at their meeting 2 days prior.
- The 10 December Fed meeting reflects a 67.9% chance of a further 25 bp cut.
- The 3-year SOFR Swap rate is now 3.31% vs. 3.50% 6 months ago, but up 7.0 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.36%	3.31%	3.36%
Cap @ 4.00% (premium)*	\$0.19m	\$0.50m	\$1.53m
Cap @ 4.25% (premium)*	\$0.11m	\$0.46m	\$1.26m
Cap @ 4.50% (premium)*	\$0.08m	\$0.29m	\$1.07m

*\$100m hedge notional

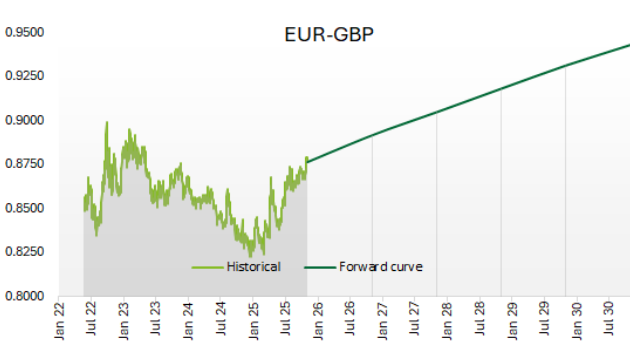
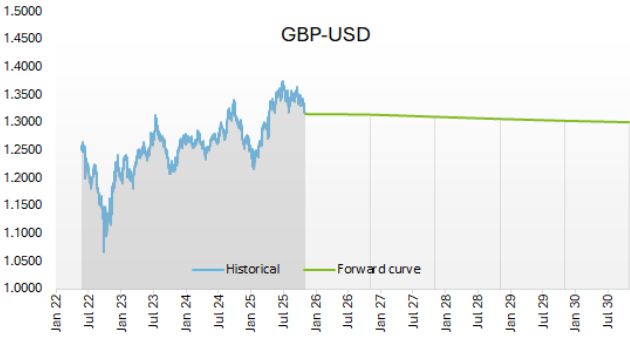


- 3-month EURIBOR is 2.05%.
- The ECB has held rates since July, a trend which has continued through their September and October meetings, with markets expecting with 95.4% confidence that this trend to continue at their December meeting.
- The current forward curve remains flat before gradually climbing by the end of 2026 and beyond.
- The 3-year EURIBOR Swap rate is currently 2.08%, vs. 1.90% 6 months ago, and down 1.4 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	2.00%	2.08%	2.23%
Cap @ 2.00% (premium)*	€0.37m	€0.96m	€2.62m
Cap @ 2.25% (premium)*	€0.19m	€0.66m	€2.06m
Cap @ 2.50% (premium)*	€0.11m	€0.47m	€1.64m

*€100m hedge notional

Currency Markets



- Sterling weakened by 2.1% in September to 1.315.
- Option volatility decreased, resulting in slightly lower premia MoM.
- 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 deviation in the interest rate outlook has begun to slope the forward rate curve downwards over the coming years.
- Persistently higher UK inflation and the Euro's perceived safe-haven appeal, the EUR strengthened against the GBP by 0.62% in the last month, closing the month at 0.877.
- 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: 1.315	6mo	12mo	18mo
Forward rate	1.315	1.314	1.312
GBP Put Option* (ATMS**)	\$2.70m	\$3.97m	\$4.99m
GBP Put Option* (5% OTMS***)	\$0.83m	\$1.84m	\$2.72m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.315		
*** 5% Out-of-the-money vs Spot rate:	1.249		

EUR-GBP Spot Rate: 0.877	6mo	12mo	18mo
Forward rate	0.885	0.892	0.899
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:	0.877		
*** 5% Out-of-the-money vs Spot rate:	0.921		

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 31 October 2025

Hedging Advisory and Derivatives Execution team



Hedging Strategy Advice



Outsourced Derivative Execution



Financial Market Knowledge



Derivative Pricing Expertise



Paolo Esposito
Lead Director

+44 20 7007 8964
pesposito@deloitte.co.uk



Mark Beckett
Director

+44 20 7303 7849
mbeckett@deloitte.co.uk



Svenja Schumacher
Director

+44 20 7007 9363
scschumacher@deloitte.co.uk



This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please [click here](#) to learn more about our global network of member firms.