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IR and FX Newsletter

October 2025

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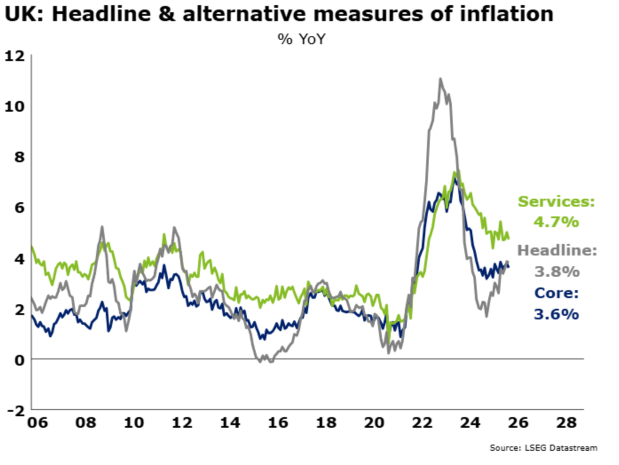
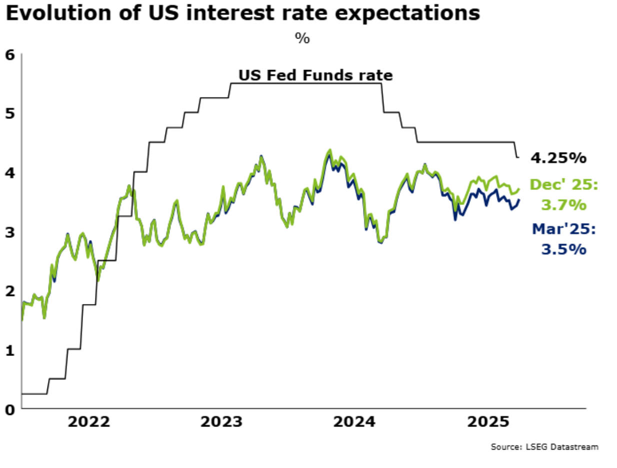
A Macro View: Growth relatively resilient but concerns remain

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.

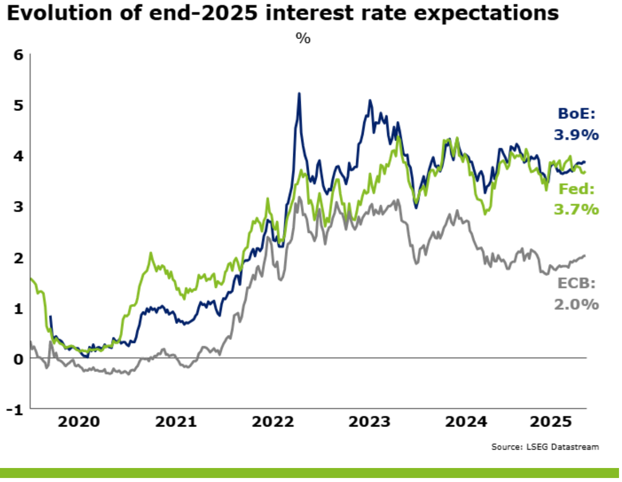
The UK's headline inflation rate remained stable at 3.8% in August, up from 2.6% in March (adjoining chart), driven by higher energy and food prices. We expect inflation to peak at around 4% in the coming months, before gradually slowing throughout 2026 but returning to the 2% target only in 2027. Financial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

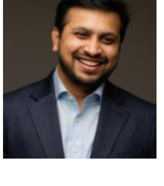


Despite better-than-expected growth in the first half, driven by investment in AI and stockpiling by US firms, the US economy is set to grow at a much slower pace this year than 2024. Consumer confidence fell for a second consecutive month in September amid concerns over inflation and risks of a softening 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).



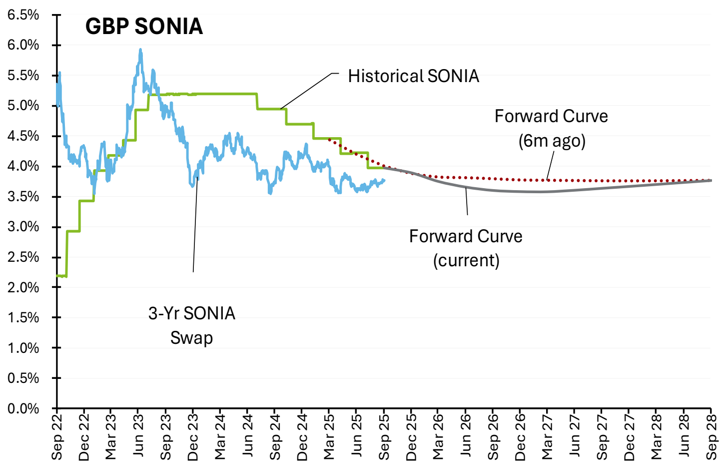


Debapratim De
Director, Economic Research
dde@deloitte.co.uk

Thomas Avis
Economist, Economic Research
twavis@deloitte.co.uk

Interest Rate Markets

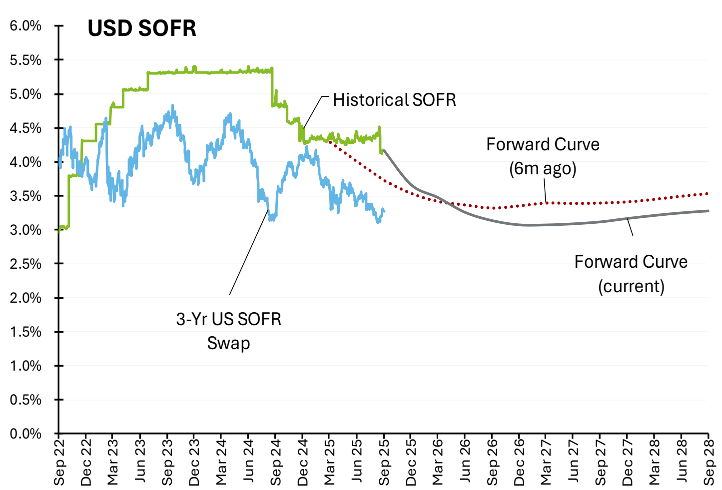
Interest rates in the UK have remained largely flat in September, with inflation reaching 3.8% in August (a level not seen since January 2024), pushing forecasted rate cuts to Q2 2026 and beyond. In the US, the Federal Reserve implemented its first rate cut in nine months in September, reducing the target range by 25 basis points to 4.00-4.25%. The market is now pricing in expectations of further cuts totalling a full percentage point over the next 12 months. Meanwhile, the Eurozone inflation increased slightly in September to 2.20%, which was widely expected. The European Central Bank (ECB) has made several rate cuts totalling 200 bps since June 2024, with current expectations pointing to no additional rate cuts for 2025 and 2026.



- The underlying SONIA remains flat at 3.97%, following a decision by the BofE MPC to hold rates in September.
- Markets expect no change (93% confidence) to this underlying bank rate at the upcoming 6 November meeting and expectations for any further cuts this year have now diminished to less than 21%.
- The 3-year SONIA Swap rate is currently 3.72%, vs. 3.93% 6 months ago, but up 1.1 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.72%	3.72%	3.79%
Cap @ 4.25% (premium)*	£0.18m	£0.52m	£1.69m
Cap @ 4.50% (premium)*	£0.11m	£0.39m	£1.40m
Cap @ 4.75% (premium)*	£0.08m	£0.30m	£1.17m

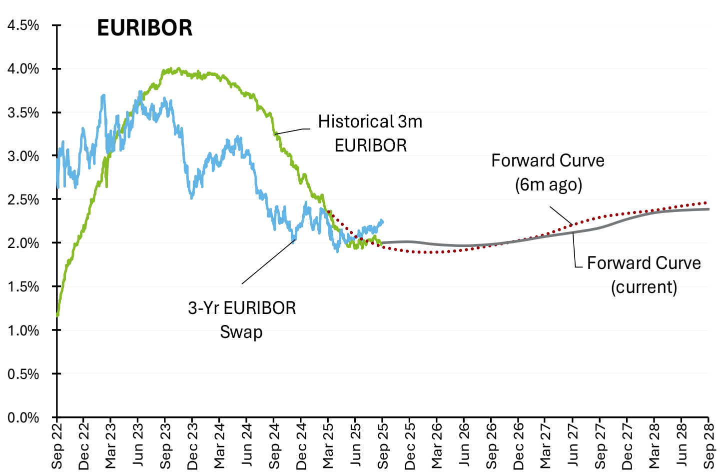
*£100m hedge notional



- SOFR sits in the midrange of Fed Funds' current target rate range of 4.00%-4.25%, at 4.16%, following a cut of 25 bps at their meeting in September.
- The 29 October Fed meeting reflects a 92.5% chance of a further 25 bp cut.
- The 3-year SOFR Swap rate is now 3.27% vs. 3.64% 6 months ago, but up 2.0 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.32%	3.27%	3.30%
Cap @ 3.75% (premium)*	$0.34m	$0.73m	$1.92m
Cap @ 4.00% (premium)*	$0.19m	$0.51m	$1.55m
Cap @ 4.25% (premium)*	$0.11m	$0.37m	$1.29m

*$100m hedge notional



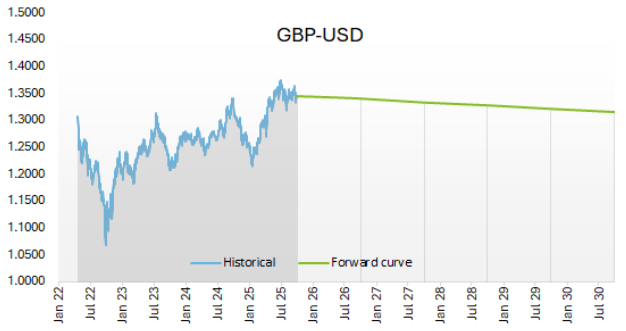
- 3-month EURIBOR is 2.00%.
- The ECB has held rates since July, a trend which has continued through their 11 September meeting and markets have increased the expectation of a further rate hold to 99% at the meeting on 30 October.
- The current forward curve displays only a small downward shape before gradually climbing by the end of 2026 and beyond.
- The 3-year EURIBOR Swap rate is currently 2.24%, vs. 2.00% 6 months ago, up 9 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	2.16%	2.24%	2.39%
Cap @ 2.00% (premium)*	€0.41m	€1.03m	€2.74m
Cap @ 2.25% (premium)*	€0.22m	€0.71m	€2.15m
Cap @ 2.50% (premium)*	€0.12m	€0.51m	€1.72m

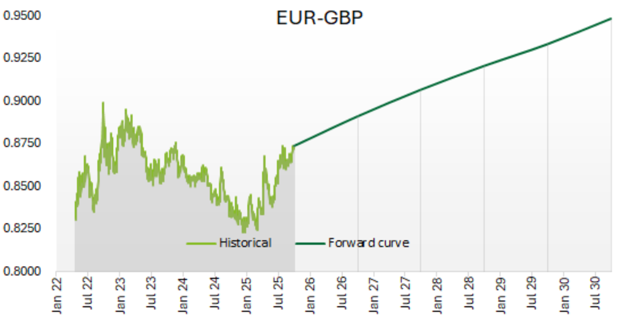
*€100m hedge notional

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 30 September 2025

Currency Markets



- Sterling weakened by 0.75% in September to 1.34.
- A level of uncertainty remains, with no clear directionality, as increased option volatility and resulting premia rose slightly MoM.
- With expectations for the Fed to cut rates, while the Bank of England potentially settles at or around 3.75-4.00%, there is 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.



- Driven by persistent UK inflation concerns and the Euro's perceived safe-haven appeal, the EUR strengthened against the GBP, closing the month at 0.874.
- 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.
- Whilst option premia has reduced slightly in short tenors, they have continued to rise for longer term hedging over the month.

GBP-USD Spot Rate: 1.344	6mo	12mo	18mo
Forward rate	1.342	1.340	1.336
GBP Put Option* (ATMS**)	$2.87m	$4.29m	$5.46m
GBP Put Option* (5% OTMS***)	$0.90m	$2.01m	$3.02m
* GBP 100m Put option premium			
the-money Spot rate:	1.344		
% Out-of-the-money vs Spot rate:	1.277		

EUR-GBP Spot Rate: 0.874	6mo	12mo	18mo
Forward rate	0.883	0.891	0.899
GBP Put Option* (ATMS**)	€ 2.78m	€ 4.42m	€ 5.81m
GBP Put Option* (5% OTMS***)	€ 0.70m	€ 1.77m	€ 2.81m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.874		
*** 5% Out-of-the-money vs Spot rate:	0.918		

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 30 September 2025

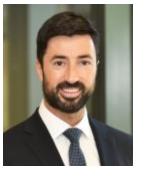
Hedging Advisory and Derivatives Execution team

Hedging Strategy Advice

Outsourced Derivative Execution

Financial Market Knowledge

Derivative Pricing Expertise

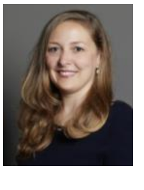


Paolo Esposito
Lead Director

+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