



IR and FX Newsletter
September 2025



A Macro View: Trade tensions reduce but uncertainties remain

The UK economy grew 1.1% in the first half of 2025, the fastest rate among the large, developed G7 economies. This is despite the headwinds of global trade uncertainty, heightened geopolitical tensions and previously announced tax rises that came into effect in April. More timely data from purchasing managers' indices (PMI) suggest continued positive momentum in economic activity in July and August, likely in response to the announcement of the UK-US trade deal. Consumers and businesses remain cautious, however, amid continued global uncertainty and a slowing labour market.

The UK's headline inflation rate increased to 3.8% in July, up from 2.6% in March (adjoining chart), driven by higher energy and food prices, as well as strong wage growth pushing up the price of services. The Bank of England expect inflation to peak at around 4% in the coming months, before easing in the fourth quarter and returning to the 2% target rate early next year. This outlook prompted the Bank to cut interest rates by 25 basis points in August, to 4%, and now financial markets expect limited further easing of monetary policy.

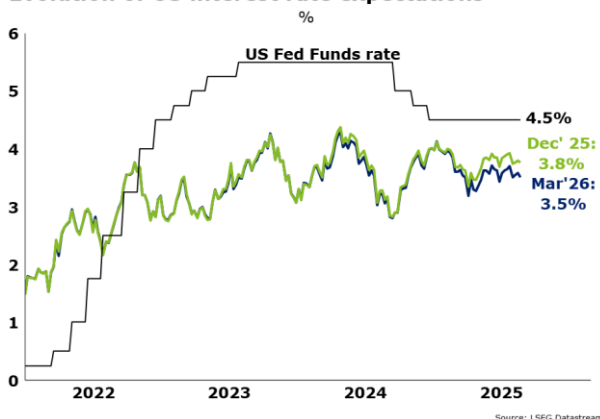
Following a contraction in the first quarter, the US economy rebounded in the second quarter as unusual trade flows muddled the economic picture. The US is expected to grow at a much slower pace this year compared with 2024, however. Following three consecutive months of improvement, consumer confidence fell in August amid inflation concerns. US inflation edged up from 2.3% in April to 2.7% in August, with anecdotal evidence suggesting US and foreign businesses have shouldered some of the tariff costs so far. Markets expect that the Fed will lower its target rate to around 3.8% by the end of 2025 (adjoining chart). Financial market volatility remains elevated as investors respond to the latest tariff announcements.

While monthly PMI data indicated growing momentum in the euro area over the summer months, activity remains subdued compared to the UK and US amid ongoing trade uncertainty and heightened geopolitical tensions. Despite Germany's current economic weakness, confidence in its 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 and inflation at target levels, markets expect little change in euro area interest rates for the remainder of the year (adjoining chart).

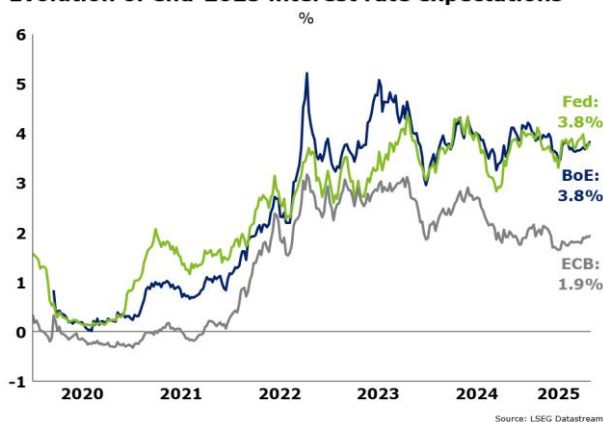
UK: Headline & alternative measures of inflation



Evolution of US interest rate expectations



Evolution of end-2025 interest rate expectations

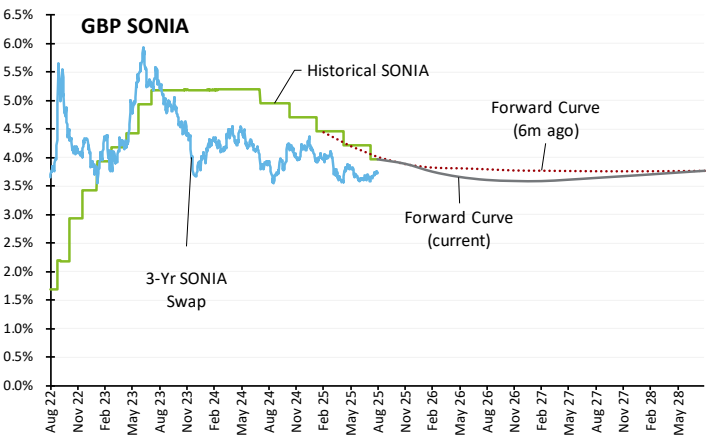


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Interest Rate Markets

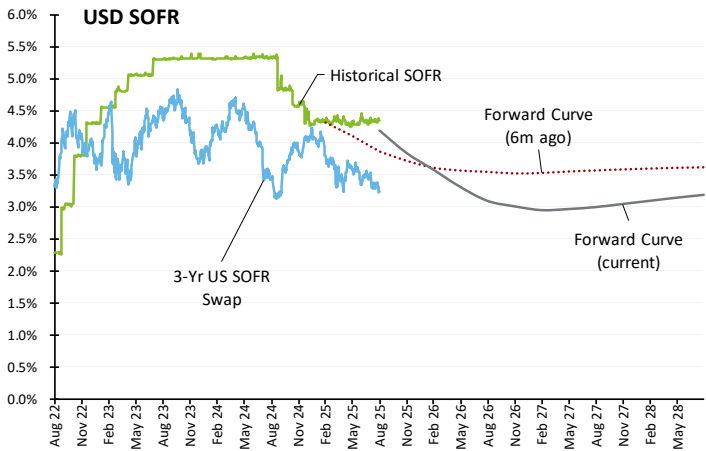
August opened with US Non-Farm Payrolls printing far below expectations; immediately driving US, UK and Eurozone swap rates down 20, 10 and 5 basis points respectively. Since that initial reaction, markets have been split in their evolution with the US markets dropping further, the Eurozone stabilising and the UK reversing, rising through August. These diverse developments reflect the differing attitude to economic growth and price stability in each region. As Euro inflation sat at, or below, target for the past 3 months, the interest rate environment is similarly level in its projection. This differs from the US economy where rate cuts amounting to 1% are anticipated in 2026; and in the UK where just a single cut remains expected, and not fully priced in until Q2 2026.



- The underlying SONIA is 3.97%, following a 25 bp rate cut by the BofE MPC in August.
- Markets expect no change (99% confidence) to this underlying bank rate at the upcoming 18 September meeting and expectations for any further cuts this year have now diminished to less than 32%.
- The 3-year SONIA Swap rate is currently 3.70%, vs. 3.95% 6 months ago, but up 8 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.70%	3.70%	3.77%
Cap @ 4.25% (premium)*	£0.19m	£0.55m	£1.78m
Cap @ 4.50% (premium)*	£0.12m	£0.41m	£1.48m
Cap @ 4.75% (premium)*	£0.09m	£0.35m	£1.25m

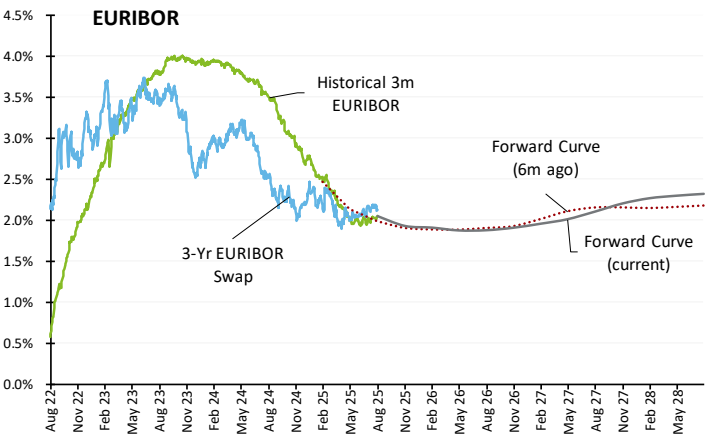
*£100m hedge notional



- SOFR sits in the midrange of Fed Funds' current target rate range of 4.25%-4.50%, at 4.34%.
- The 17 September Fed meeting reflects a near 90% chance of a 25 bp cut.
- The 3-year SOFR Swap rate is now 3.26% vs. 3.75% 6 months ago, and down heavily at minus 28 basis points month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	3.36%	3.26%	3.30%
Cap @ 3.75% (premium)*	\$0.46m	\$0.84m	\$2.05m
Cap @ 4.00% (premium)*	\$0.29m	\$0.60m	\$1.66m
Cap @ 4.25% (premium)*	\$0.17m	\$0.43m	\$1.36m

*\$100m hedge notional

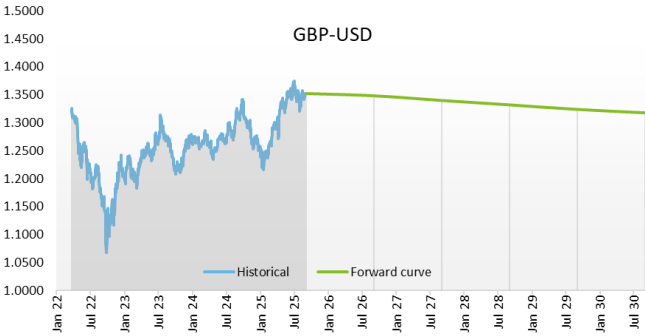


- 3-month EURIBOR is 2.047%.
- The ECB last cut interest rates by 25 bps at its 5 June meeting to 2.00%, and held them on 24 July.
- Markets have increased the expectation of a further rate hold to 99% at the meeting on 11 September.
- The current forward curve displays only a small downward shape before gradually climbing in 2027.
- The 3-year EURIBOR Swap rate is currently 2.03%, vs. 2.01% 6 months ago, though down 5 bps MoM.

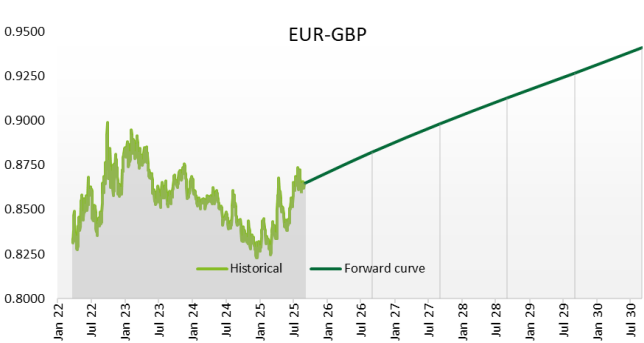
	2-year	3-year	5-year
Swap rate (mid level)	1.92%	2.03%	2.20%
Cap @ 2.00% (premium)*	€0.35m	€0.97m	€2.71m
Cap @ 2.25% (premium)*	€0.19m	€0.70m	€2.17m
Cap @ 2.50% (premium)*	€0.12m	€0.52m	€1.77m

*€100m hedge notional

Currency Markets



- While GBP-USD is still off its local highs seen in July, Sterling still strengthened nearly 2% in August to 1.35.
- There is uncertainty over how far the USD may drift, as increased option volatility and resulting premia rose significantly 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.



- Both the ECB and the Bank of England paused their rate cutting cycles in July/August and the EUR-GBP rate finishing flat on the month at 0.865.
- 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 costs have risen over the month despite rates remaining relatively static.

GBP-USD Spot Rate: 1.350	6mo	12mo	18mo
Forward rate	1.351	1.349	1.345
GBP Put Option* (ATMS**)	\$2.89m	\$4.34m	\$5.51m
GBP Put Option* (5% OTMS***)	\$0.89m	\$2.01m	\$3.02m
* GBP 100m Put option premium			
ie-money Spot rate:	1.350		
Out-of-the-money vs Spot rate:	1.283		

EUR-GBP Spot Rate: 0.865	6mo	12mo	18mo
Forward rate	0.874	0.883	0.891
GBP Put Option* (ATMS**)	€ 2.45m	€ 3.89m	€ 5.11m
GBP Put Option* (5% OTMS***)	€ 0.61m	€ 1.56m	€ 2.49m
* 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, ICE Data Derivatives and Deloitte Analysis, as of 29th August 2025

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