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IR and FX Newsletter

1 April 2026

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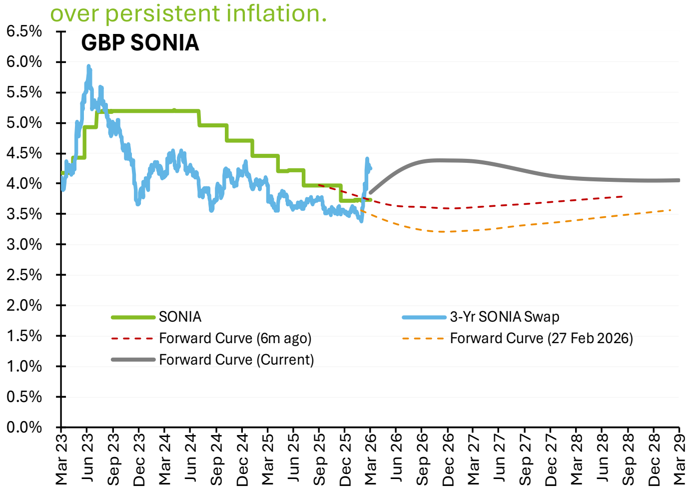
Interest Rate Markets

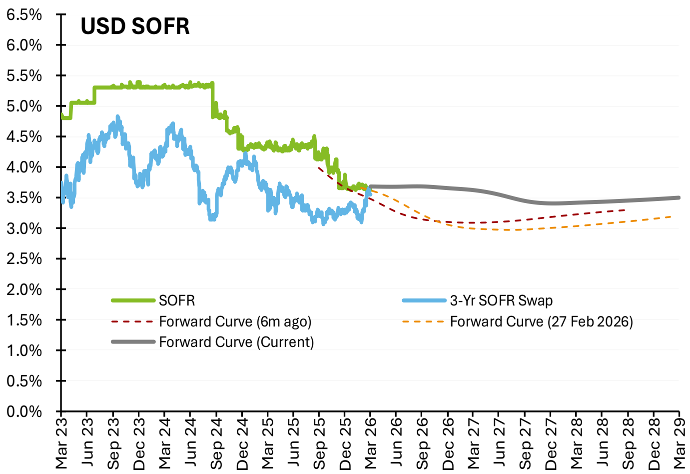
Interest rate markets have shifted notably over the past month, with both the UK and EuroZone now pricing in a series of rate hikes in response to renewed inflationary pressures. The conflict in the Middle East has driven up fuel costs, Brent is presently $119 per barrel(31 March 2026), prompting a reassessment of inflation risks and monetary policy outlooks. In the UK, markets are fully pricing in two rate hikes this year with a third hike deemed possible. Similarly, in the Eurozone, expectations have moved from a prolonged pause to three 25 bps hikes now anticipated. This marks a clear departure from the flat or slightly downward sloping forward curves seen last month, with both GBP and EUR curves now upward sloping. In contrast, the US interest rate curve remains flat, as inflation held steady at 2.4% in February but is expected to rise in March due to higher energy prices. UK CPI was unchanged at 3.00% in February, in line with expectations, but the overall shift in market sentiment highlights growing concerns over persistent inflation.



- The underlying SONIA has remained flat at 3.84% after a 25bps rate cut by BofE in December 2025.
- After holding rates on 19 March 2026, markets now price a 62.8% chance of a 25bps rate hike in the April meeting.
- The forward curve is steeply upward sloping in the short term, with markets pricing hikes of at least 50bps over the next year.
- At 31 March, the 3-year SONIA Swap rate is 4.17%, vs. 3.69% 6 months ago, and up 80.3bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	4.22%	4.17%	4.15%
Cap @ 4.25% (premium)*	£0.99m	£1.70m	£3.34m
Cap @ 4.50% (premium)*	£0.82m	£1.46m	£2.96m
Cap @ 4.75% (premium)*	£0.69m	£1.27m	£2.66m

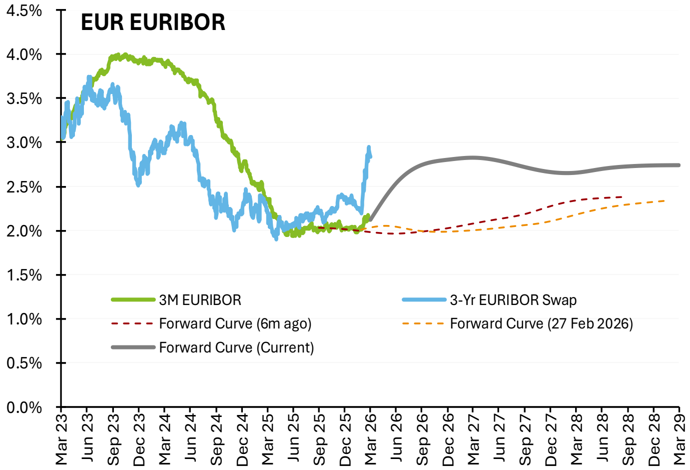
*£100m hedge notional



- The Fed began cutting rates in Sep 2025, with three 25bps cuts, leaving the current target range (3.50% - 3.75%). SOFR is flat at 3.63%.
- After holding rates on 19 March, markets expect (with 97% probability) the Fed to hold rates again in April.
- The forward curve is now flat, with markets not anticipating any rate changes in the near future.
- The 3-year SOFR Swap rate is now 3.54% vs. 3.27% 6 months ago, and up 36bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.59%	3.54%	3.57%
Cap @ 3.75% (premium)*	$0.71m	$1.28m	$2.76m
Cap @ 4.00% (premium)*	$0.52m	$1.02m	$2.33m
Cap @ 4.25% (premium)*	$0.40m	$0.83m	$1.99m

*$100m hedge notional



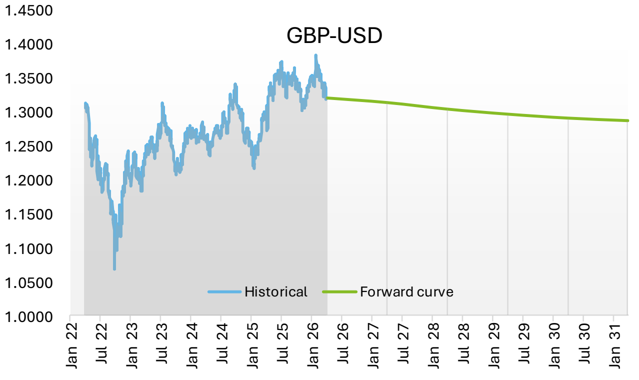
- 3-month EURIBOR is 2.13%.
- Since June 2024, the European Central Bank (ECB) has cut rates by 200 bps.
- Current expectations now point to three 25bps rate hikes over the coming months, a significant shift from the steady rates outlook before the Middle East conflict.
- Markets now anticipate a 58% chance of a 25bps rate hike in the ECB meeting in April.
- At 31 March, the 3-year EURIBOR Swap rate is currently 2.67% vs. 2.05% 6 months ago, and up 57 month-on-month.

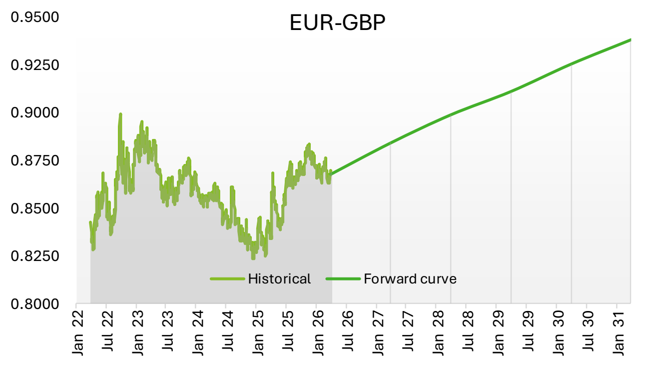
	2-year	3-year	5-year
Swap rate (mid level)	2.65%	2.67%	2.72%
Cap @ 2.75% (premium)*	€0.76m	€1.39m	€2.90m
Cap @ 3.00% (premium)*	€0.61m	€1.16m	€2.49m
Cap @ 3.25% (premium)*	€0.50m	€0.98m	€2.15m

*€100m hedge notional

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 31 March 2026

Currency Markets





- The GBP-USD spot rate has declined to 1.321, down from 1.348 last month, reflecting renewed dollar strength and heightened geopolitical risks.
- The forward curve is now downward sloping; following months of limited forward rate differential from Spot. 6-month, 12-month, and 18-month forward rates are at 1.319, 1.314, and 1.309 respectively, formed from a divergence in the respective Interest Rate outlooks.
- Option premiums have increased, with at-the-money GBP put options priced at $2.31m (6m), $3.24m (12m), and $4.00m (18m) for a notional of GBP 100m, reflecting elevated volatility and hedging demand amid ongoing uncertainty.

- The EUR-GBP spot rate has weakened to 0.868, down from 0.876 last month, and has been more volatile over the month.
- Forward rates are now 0.876 (6m), 0.884 (12m), and 0.891 (18m).
- While the slope of the Forward rates in the chart above continues to look steep, the interest rate differential between EUR and GBP environments has actually narrowed relatively; given both economic zones anticipate similar rate hikes over the coming year with the UK starting from a higher base (3.75% vs 2.00% in the EuroZone).

GBP-USD Spot Rate: 1.321	6mo	12mo	18mo
Forward rate	1.319	1.314	1.309
GBP Put Option* (ATMS**)	$3.15m	$4.58m	$5.81m
GBP Put Option* (5% OTMS***)	$1.17m	$2.28m	$3.34m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.321		
*** 5% Out-of-the-money vs Spot rate:	1.255		

EUR-GBP Spot Rate: 0.868	6mo	12mo	18mo
Forward rate	0.876	0.884	0.891
GBP Put Option* (ATMS**)	€ 2.25m	€ 3.56m	€ 4.68m
GBP Put Option* (5% OTMS***)	€ 0.55m	€ 1.39m	€ 2.23m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.868		
*** 5% Out-of-the-money vs Spot rate:	0.911		

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 31 March 2026

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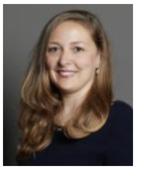

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