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IR and FX Newsletter

4 August 2026

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A Macro View: UK activity remains subdued, price pressures ahead

UK Purchasing Managers Indices (PMI) pointed to a rebound in corporate activity in July, driven by the manufacturing sector. This follows two months of contractions caused by rising input costs and softer order books in light of the conflict in the Middle East. Consumer confidence also improved in July and retail sales strengthened in recent months, supported by the warm weather and the FIFA World Cup. The latest Deloitte CFO survey also reported a reduction in uncertainty; however geopolitical uncertainty continues to rank as the greatest business risk. Ongoing external headwinds and a softening labour market mean we continue to forecast a slowdown in UK growth in the coming quarters.

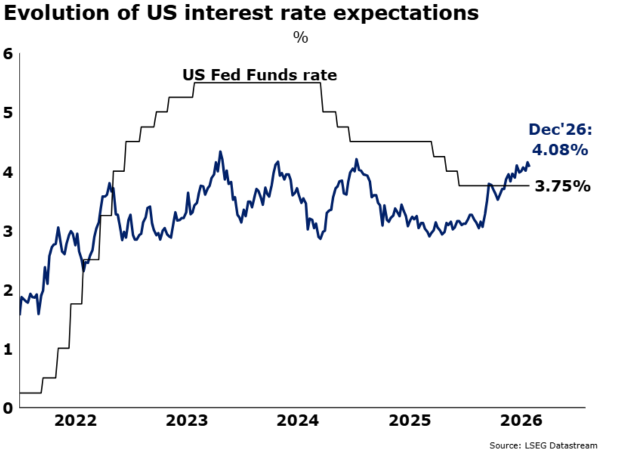
UK headline inflation eased to 2.6% in the year to June, driven by lower petrol prices following the ceasefire announcement between the US, Israel and Iran. However, inflation is expected to rise over the second half of this year amid rising oil and gas prices due to a re-escalation of hostilities in the Middle East, alongside an increase in the government's cap on energy prices for the third quarter. The Bank of England held interest rates in July while it assesses the longer-term inflationary impacts from the conflict against subdued business activity and a continued softening of the labour market. Markets expect a 25-basis point rise in interest rates by the end of 2026.

The US economy slowed in the second quarter due to lower government spending and rising imports. Strong consumer spending and significant AI investment were key drivers of growth. More recently, July PMI data indicated a continued expansion of activity, supported by greater hospitality spending during the Fifa World Cup. However, businesses reported mounting price pressures amid import tariffs and the ongoing shipping disruption in the Strait of Hormuz. US inflation eased in June, to 3.5%, but remains above pre-conflict levels. The Federal Reserve maintained interest rates at 3.5%–3.75% last month. Markets expect the Fed to raise interest rates by 25 basis points by the end of 2026 in light of higher inflation (adjoining chart).

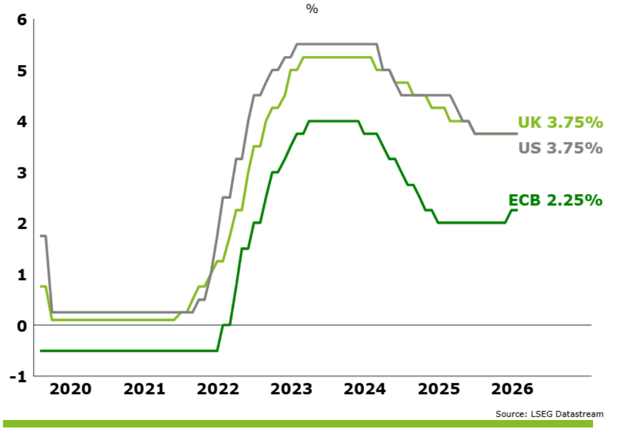
Euro area PMI data for July indicated a return to growth, following three months of contraction. Output expanded across both the service and manufacturing sectors, while employment also returned to growth for the first time this year. However, input prices remain elevated and business sentiment remains subdued compared with the start of the year, reflecting ongoing disruption to global energy production. Euro area inflation accelerated slightly to 2.9% in July and is expected to remain above the 2% target level throughout the rest of 2026. The European Central Bank held interest rates at 2.25% in its latest meeting after previously raising them in June (adjoining chart). Markets expect further rate rises by the end of the year.

UK: Headline & alternative measures of inflation

Evolution of US interest rate expectations



US, UK and Euro area interest rates



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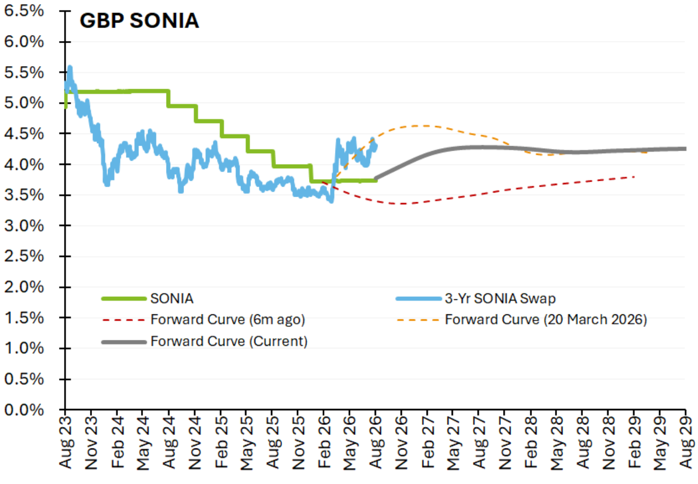
Interest Rate Markets

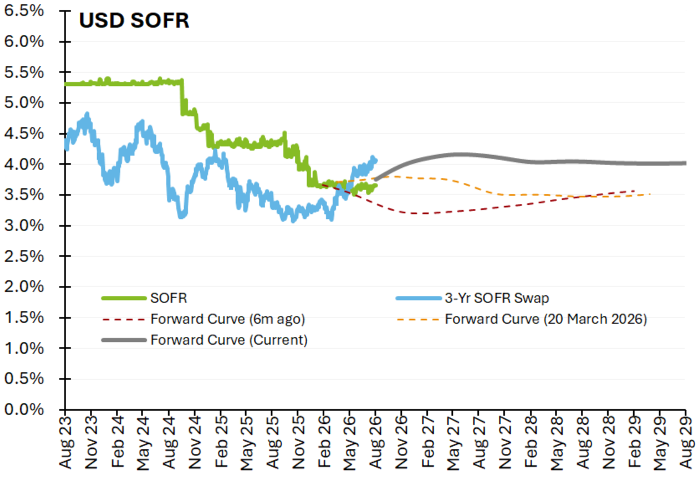
Inflation eased across the US, UK and Eurozone during June and July, but remains above Central Bank targets and continues to influence market expectations. Despite softer headline inflation readings, policymakers maintained a cautious and increasingly hawkish tone, reinforcing a 'higher-for-longer' interest rate outlook. This has driven a notable rise in front-end swap rates across all three markets, with 3-year SONIA, SOFR and EURIBOR swap rates increasing by 20-30bps over the past month. While volatility has moderated compared to Q2, forward curves suggest continued uncertainty over the pace and extent of any additional tightening. Of particular note is the levels of US rate projections now vs. their levels in mid-March; when forward rates were peaking in Europe and the UK after the initial US intervention in the Middle East and the resulting spike in Oil prices, which have now subsided from their highs of over USD125/bbl to c. USD85/bbl currently.



- SONIA continues unchanged this year at 3.73%. The BoE voted by a majority of 6-3 to maintain the Bank Rate at 3.75% at its meeting ending on 29 July, with markets pricing an 80% chance of another hold in rates at the upcoming BofE MPC meeting on 17 September.
- The rise in the front end of the forward curve has softened from the heightened volatility seen in early March, though a single rate hike is still expected later this year.
- The 3-year SONIA Swap rate is 4.17%, vs. 3.57% 6 months ago, and up 26bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	4.14%	4.17%	4.23%
Cap @ 4.25% (premium)*	£0.69m	£1.36m	£3.01m
Cap @ 4.50% (premium)*	£0.54m	£1.13m	£2.61m
Cap @ 4.75% (premium)*	£0.44m	£0.95m	£2.27m

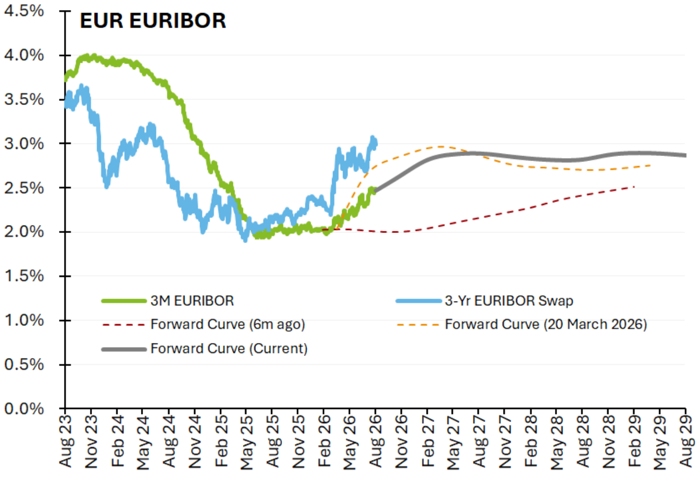
*£100m hedge notional



- The Federal Reserve's Federal Open Market Committee (FOMC) held the federal funds target range at 3.50% – 3.75% at its 29 July, with the committee noting economic activity expanded at a solid pace despite elevated uncertainty, with strong productivity growth and capital investment.
- SOFR is currently 3.66% with markets pricing a 68% probability of a rate hike at the 16 Seprember meeting, with a 32% expectation for a hold in rates.
- The 3-year SOFR Swap rate is currently 4.03% vs. 3.40% 6 months ago; and up 20bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	4.04%	4.03%	4.05%
Cap @ 4.00% (premium)*	$0.82m	$1.49m	$3.06m
Cap @ 4.25% (premium)*	$0.62m	$1.19m	$2.56m
Cap @ 4.50% (premium)*	$0.47m	$0.96m	$2.17m

*$100m hedge notional



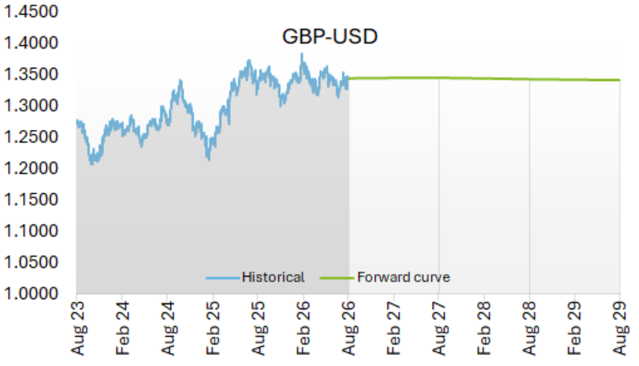
- 3-month EURIBOR has remained elevated at 2.48% in July. The ECB held rates at its meeting on 23 July, after raising interest rates by 25bps at its meeting on 11 June.
- Despite the recent hold, market expectations have shifted, with markets now pricing a 70% probability of a rate hike at the next ECB meeting (10 September).
- Medium to longer-term swap rates remain relatively flat, allowing investors to hedge longer-term exposures at similar rates.
- The 3-year EURIBOR Swap rate is currently 2.81% vs. 2.22% 6 months ago, up 29bps month-on-month.

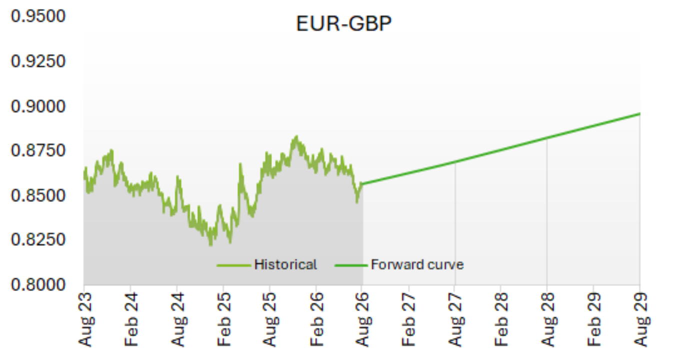
	2-year	3-year	5-year
Swap rate (mid level)	2.78%	2.81%	2.85%
Cap @ 2.75% (premium)*	€0.57m	€1.13m	€2.44m
Cap @ 3.00% (premium)*	€0.40m	€0.87m	€1.98m
Cap @ 3.25% (premium)*	€0.30m	€0.69m	€1.64m

*€100m hedge notional

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 3 August 2026

Currency Markets





- Over the last month, Sterling strengthened modestly against the US dollar, with GBP-USD rising from 1.3271 on 1 July to 1.3447 on 3 August, although the pair remained volatile and briefly peaked at 1.3539 in mid-July.
- This Sterling appreciation against the US dollar came as softer-than-expected US inflation data reduced expectations for immediate policy tightening, weighing on the dollar.
- While the Federal Reserve maintained a hawkish stance and markets continue to price a higher-for-longer rate environment, the near-term moderation in US inflation helped GBP-USD move higher over the month.

- Over the last month, EUR has remained relatively flat compared to last month, after a mid-month fall to 0.8465 before reversing back towards month-end.
- With markets anticipating a relatively similar monetary policy trajectory from the Bank of England and European Central Bank, neither currency established a sustained directional advantage over the prior month.
- 1-year forward rate is currently 0.869 compared to the current spot rate of 0.857, reflecting a forward premium for EUR-GBP of approximately 1.4% (compared to 1.9% last year).

GBP-USD Spot Rate: 1.345	6mo	12mo	18mo
Forward rate	1.346	1.346	1.345
GBP Put Option* (ATMS**)	$2.52m	$3.81m	$4.79m
GBP Put Option* (5% OTMS***)	$0.69m	$1.70m	$2.55m
* GBP 100m Put option premium			
** At-the-money Spot rate:		1.345	
*** 5% Out-of-the-money vs Spot rate:		1.277	

EUR-GBP Spot Rate: 0.857	6mo	12mo	18mo
Forward rate	0.863	0.869	0.876
GBP Put Option* (ATMS**)	€ 1.84m	€ 3.10m	€ 4.14m
GBP Put Option* (5% OTMS***)	€ 0.31m	€ 1.04m	€ 1.76m
* GBP 100m Put option premium			
** At-the-money Spot rate:		0.857	
*** 5% Out-of-the-money vs Spot rate:		0.900	

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 3 August 2026

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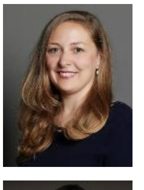

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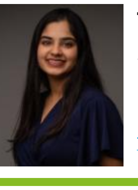

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