



IR and FX Newsletter
January 2026

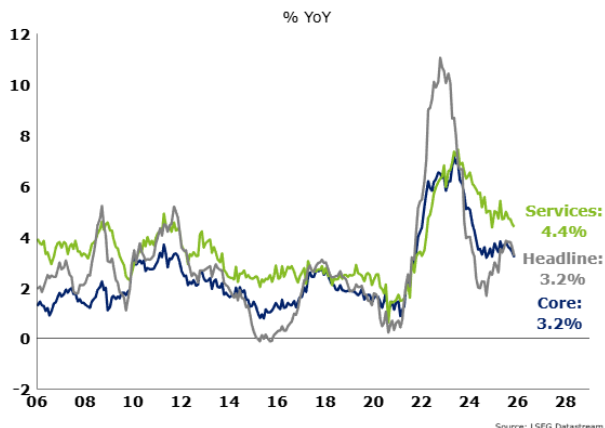


A Macro Economic View

We expect a marginal slowdown in UK economic growth in 2026 compared with last year. 2025 was the second consecutive year of stop-start growth, with a significant slowdown in the second half of the year as business and consumer surveys pointed to weak underlying momentum. We expect growth to remain sluggish over winter and spring, before a gradual pickup in the summer months as lower inflation and interest rates take hold, alongside a gradual recovery in global trade. However, consumers and businesses remain cautious about future geopolitical shocks, while the UK labour market is set to loosen further.

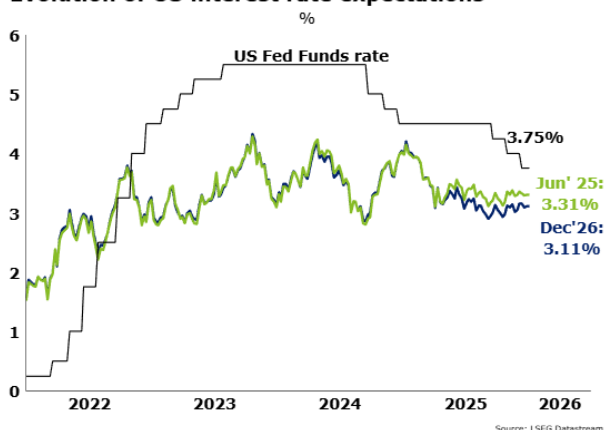
The UK's headline inflation rate eased by more than expected in November to 3.2% but remains well above the 2.6% seen in March. Despite this softening, positive real wage growth continues to ensure higher-than-average levels of services inflation (adjoining chart). However, the freezing of some utility prices and cuts to energy bills announced in the budget should bring headline inflation down this year, which we expect to reach the 2% target by next autumn. The Bank of England cut rates to 3.75% in December, which should support economic growth this year. We expect two further 25 basis point cuts this year.

UK: Headline & alternative measures of inflation



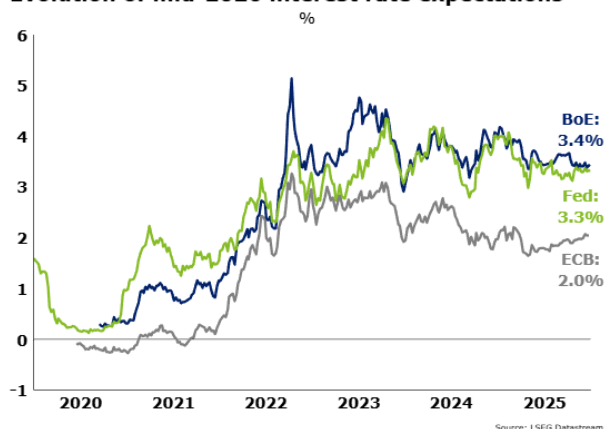
The US economy grew faster-than-expected in the first half of last year, driven by investment in AI infrastructure. More recently, however, PMI data for the US pointed to a softening of activity for the second consecutive month in December. Consumer confidence has deteriorated since spring last year, reflecting concerns over a weakening labour market and higher inflation, which remains elevated from the low of 2.3% in April. The government shutdown in the final quarter of 2025 also likely contributed to declining sentiment. The Federal Reserve cut interest rates to 3.5% - 3.75% in December and markets expect two further interest rate cuts by the end of this year (adjoining chart).

Evolution of US interest rate expectations



PMI data in December indicated continued growth in the euro area, marking one full year of expansion. Despite this, the pace of German growth continued to soften, accompanied by declining business and investor confidence over recent months. Previous announcements of fiscal expansion is expected to support economic growth this year, however. PMI data from France suggest a stabilisation of activity following political uncertainty in recent months. Growth in the euro area as a whole remains sluggish compared to historical trend and, with inflation at near target-levels (adjoining chart), markets expect little change in euro area interest rates for the remainder of the year.

Evolution of mid-2026 interest rate expectations



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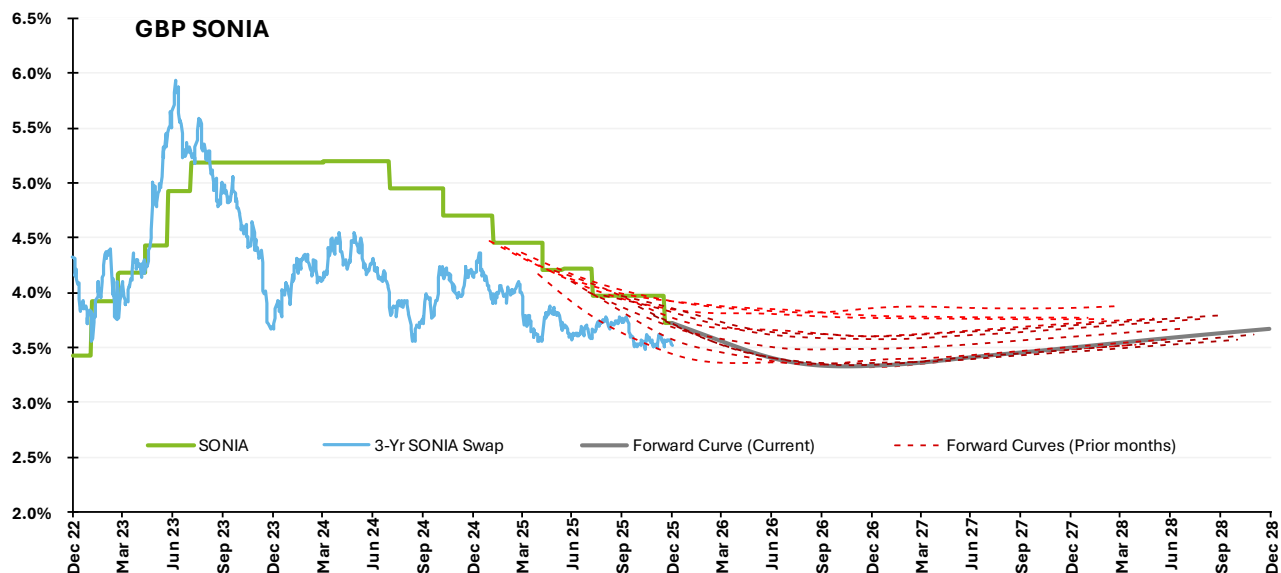


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Interest Rate Markets – UK

In December, the Bank of England voted (5-4) to cut their bank rate by 25bps, to 3.75%, after a pause in the rate cutting cycle at the prior November meeting. Swap rates however, having already priced in the cut, remained stable. All key inflation metrics in the UK fell at the November data print, with the headline CPI figure now at 3.2%, down from 3.6% in October, but far from the 2.0% target. Services inflation remains heightened at 4.40%. A single 25bp rate cut is presently priced into forward markets during H1 2026.



During the past 12 months the UK Swaps market projected that short term rates would fall, reflecting expectations of Bank of England rate cuts. With the exception of the April data, which incorporated views on the impact of the government's Spring Statement, the Swaps market was reasonably accurate in illustrating forthcoming central bank rate cuts. Views on the 'terminal' rate have varied over the year but are generally in the range of 3.5-4.0%.

- Underlying SONIA is currently 3.73%.
- The BoE has cut rates 6 times since their local peak during 2023/24, most recently by 25 bps at their December 2025 meeting. Markets expect, with 87% confidence that this level of 3.75% will be held through the next meeting in February.
- The current forward curve reflects a dip later this year before rising once again in 2027 and beyond.
- The 3-year SONIA Swap rate is currently 3.49%, vs. 3.56% 6 months ago, and flat month-on-month.

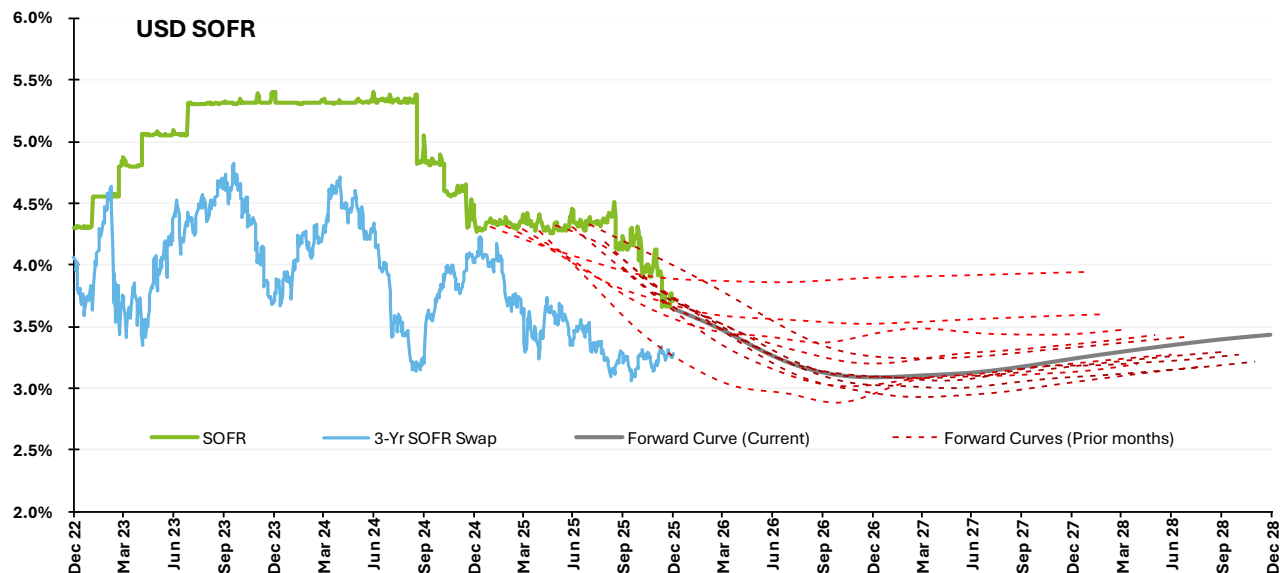
	2-year	3-year	5-year
Swap rate (mid level)	3.45%	3.49%	3.61%
Cap @ 4.00% (premium)*	£0.16m	£0.52m	£1.74m
Cap @ 4.25% (premium)*	£0.10m	£0.39m	£1.44m
Cap @ 4.50% (premium)*	£0.07m	£0.30m	£1.19m
*£100m hedge notional			

BoE Meeting Dates in 2026	Market Implied BoE Rate
05-Feb	3.72%
19-Mar	3.65%
30-Apr	3.52%
18-Jun	3.46%
30-Jul	3.39%
17-Sep	3.36%
05-Nov	3.32%
17-Dec	3.36%

- As is customary, the Bank of England is scheduled to meet 8 times during 2026, with the first of the year occurring on Thursday 5 February.
- While the markets anticipate a cut during H1 2026, this is not fully priced in until the June meeting when the implied rate drops further than 25 basis points from the current 3.75% level.
- A second 25 bp cut is not fully priced in at all during the year, indeed the probability of rates ending the year at 3.25% or lower is 50:50.
- There is a 2% chance that the Bank of England will have returned to a rate hiking cycle by their December meeting.

Interest Rate Markets – US

The US Federal Reserve, having held rates since December 2024, began a cutting cycle in September 2025 with 3x 25bps cuts leaving the current target range at 3.50-3.75%. Medium-term Swap rates have also fallen nearly 70bps over the year; now hovering close to their lowest levels since September 2024. The US government shutdown stopped the publishing of the inflation figures for October, but November's print showed a dip to 2.7% in the headline rate, though up from levels from the spring.



As can be seen from the chart above, over the past year the US Swaps market has been very inconsistent in its view on the trajectory of future US rates. Reviewing the past 12 month's data, steep cuts to rates were anticipated, though none materialised until September. In addition to the clear 'higher-for-longer' rate state, the projection of any future rates has been rather wide over the year ranging approximately between 2.9% and 4.0%.

- Underlying SOFR is currently 3.71%.
- From levels close to 5.50% during 2023/24, the Fed has cut rates 6 times, including by 25bps at their last meeting in December 2025. There is an 85% chance of rates being held steady at the upcoming January meeting, as priced by the financial markets.
- The forward curve suggests rates could fall as low as 3.1% around year-end, then climb again in 2027.
- The 3-year SOFR Swap rate is currently 3.28%, vs. 3.34% 6 months ago but up 10.4 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.25%	3.28%	3.39%
Cap @ 3.75% (premium)*	\$0.21m	\$0.62m	\$1.91m
Cap @ 4.00% (premium)*	\$0.12m	\$0.45m	\$1.57m
Cap @ 4.25% (premium)*	\$0.08m	\$0.36m	\$1.33m

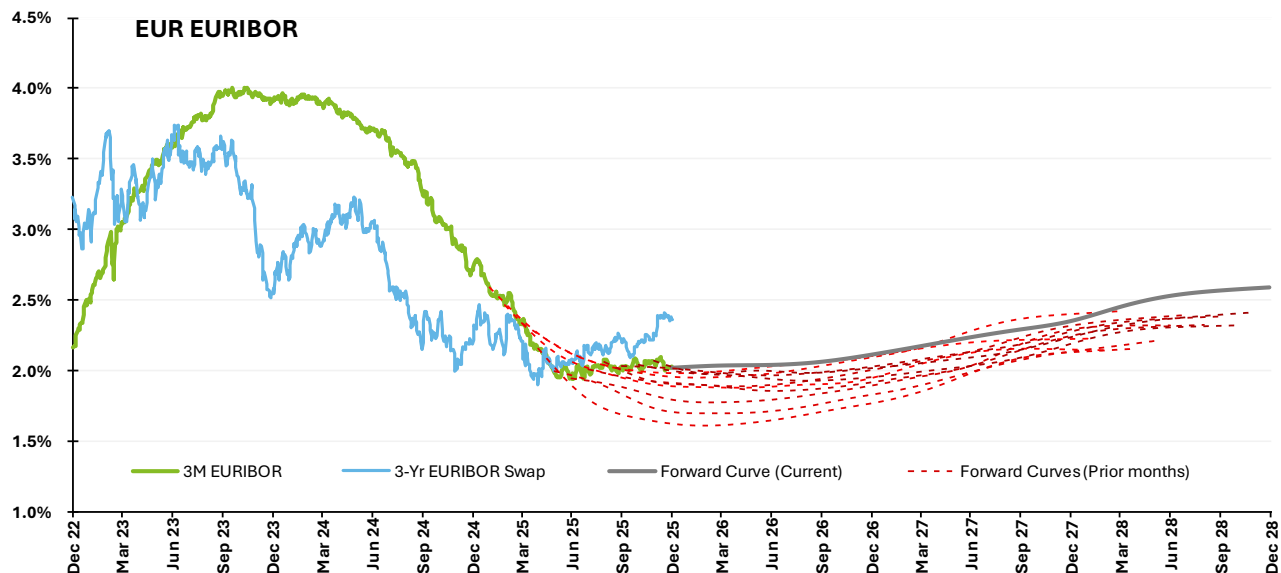
*\$100m hedge notional

Fed Meeting Dates in 2026	Market Implied Fed Target Rate
28-Jan	3.59%
18-Mar	3.50%
29-Apr	3.40%
17-Jun	3.32%
29-Jul	3.22%
16-Sep	3.11%
28-Oct	3.05%
09-Dec	3.01%

- The US Federal Reserve is expected to meet 8 times during 2026 as per usual; with the first meeting of the year occurring later this month on Wednesday 28 January; during which no change to the policy rate is expected.
- Markets are almost fully pricing in the next 25 bp cut at the April meeting, with a further cut priced in for September.
- Cuts beyond Q3 2026 are presently viewed as less than 50% likely.
- The US market currently holds a very low probability of raising rates above current levels; though this is, of course, not a certainty.

Interest Rate Markets – EuroZone

The ECB last cut the EuroZone's Deposit Rate back in June 2025, the last of 8 nearly sequential 25bp cuts; with the bank rates residing at 2.0% since. Euribor Swap rates have seemingly bottomed out for the time being with the last 6 months seeing an increase in hedging levels, as the likelihood of any further cuts to the bank rate has receded. This rise in cost of funds in the Eurozone is driven by stresses from the continued war in Ukraine, and the fact that inflation in Europe has been at, or around, the target 2.0% level for much of 2025.



The sentiment in the EuroZone has altered over the course of 2025. The steep and steady drop in underlying rates from mid-2024 to mid-2025 had looked to continue, with floating rates targeting close to 1.5%. That view has been replaced in recent months with a higher rate outlook. The medium-term rate projection in the EuroZone now expects floating rates to climb back up over 2.5%, with the core question being that of timing.

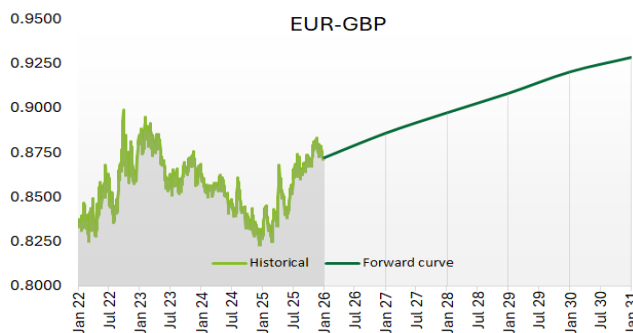
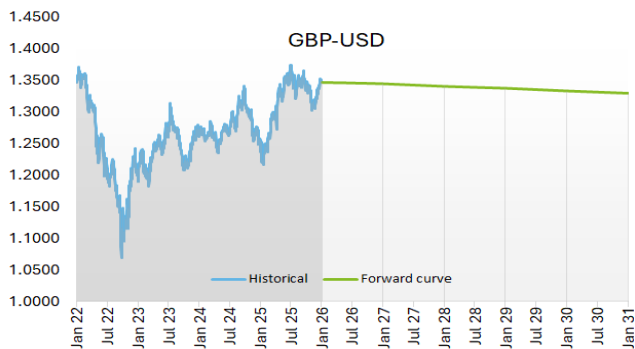
- The underlying 3m EURIBOR is 2.03%.
- The ECB, having cut rates by half since 2024, is now most likely to maintain its present level; though risk points to the upside with a 22% chance of rates being above current levels by year-end vs a zero probability of further cuts.
- The current forward curve no longer points to falling rates, instead anticipating a gradual rise starting later this year and continuing for the next couple of years.
- The 3-year EURIBOR Swap rate is presently 2.24%, vs. 1.93% 6 months ago, and up 10bps from 1 month ago.

	2-year	3-year	5-year
Swap rate (mid level)	2.12%	2.24%	2.42%
Cap @ 2.25% (premium)*	€0.29m	€0.88m	€2.61m
Cap @ 2.50% (premium)*	€0.18m	€0.65m	€2.11m
Cap @ 2.75% (premium)*	€0.12m	€0.48m	€1.71m
*€100m hedge notional			

ECB Meeting Dates in 2026	Market Implied ECB Depo Rate
05-Feb	2.00%
19-Mar	1.99%
30-Apr	1.98%
11-Jun	1.98%
23-Jul	1.98%
10-Sep	1.99%
29-Oct	2.00%
17-Dec	2.05%

- In line with other Central banks, the ECB is set to meet 8 times this year, with the next meeting arranged for Thursday 5 February.
- The markets anticipate the ECB sticking to its current 2.0% interest rate for the entire year.
- While a static rate over the year is deemed 71% likely, a year-end rate that is higher than current levels is priced with a 22% chance against only a 7% probability of rates ending the year lower than they started.
- The projection of higher rates in the medium-term are having an impact on Swap rates and causing Cap trades to become more expensive than previous, reflecting the greater uncertainty of future rate direction.

Currency Markets



- Sterling ended 2025 at 1.347, up 9.6 cents or 7.7% from 1.251 at the start of the year. Meanwhile the full swing for the currency pair over the year was 13% ranging between 1.216-1.375.
- While market projections from economists and analysts are notoriously inaccurate, the projections for GBP-USD for year-end 2026 suggest that the exchange rate will end the year where it began, at/close to 1.345.
- Similarly, the FX Forward market rate for year end, as driven predominantly by interest rate differentials, reflects a year end rate close to current Spot levels at c. GBP-USD 1.345.
- GBP weakened against the EUR over the course of 2025, starting the year at 0.827, and ending at 0.872, an increase of 4.4 cents or 5.3%. The range for the pair was not much wider through the year fluctuating between 0.825 and 0.883, a 7.1% swing.
- Analysts predict the EUR-GBP exchange rate will end 2026 approximate 1 cent higher than it began, at circa 0.883.
- The interest rate differential between the Eurozone (c. 2%) and the UK market (c. 3.65%) generates a Euro forward that is slightly stronger than market predictions, with the 1-year Forward Rate at 0.886.
- At year end, market volatility had dropped such that Option premia fell vis-à-vis prior months.

GBP-USD Spot Rate: 1.347	6mo	12mo	18mo
Forward rate	1.347	1.345	1.340
GBP Put Option* (ATMS**)	\$2.65m	\$4.03m	\$5.10m
GBP Put Option* (5% OTMS***)	\$0.71m	\$1.75m	\$2.66m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.347		
*** 5% Out-of-the-money vs Spot rate:	1.280		

EUR-GBP Spot Rate: 0.872	6mo	12mo	18mo
Forward rate	0.879	0.885	0.891
GBP Put Option* (ATMS**)	€ 2.01m	€ 3.23m	€ 4.23m
GBP Put Option* (5% OTMS***)	€ 0.41m	€ 1.15m	€ 1.87m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.872		
*** 5% Out-of-the-money vs Spot rate:	0.915		

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

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