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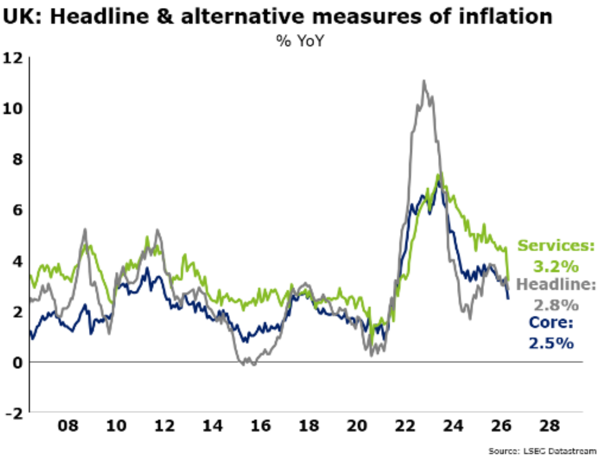
IR and FX Newsletter

1 June 2026

A Macro View: UK activity falters amid energy shock

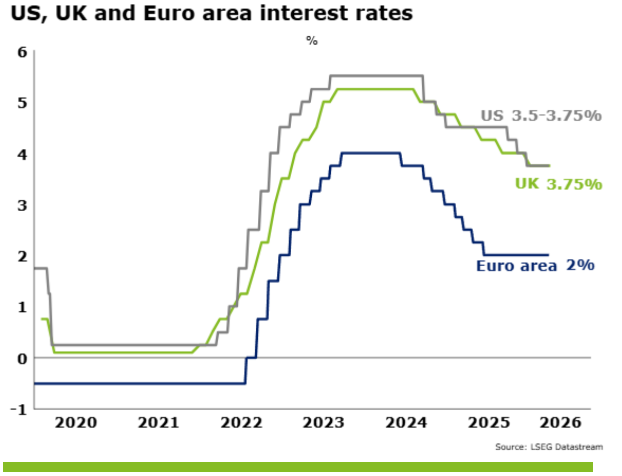
The UK economy saw unexpectedly resilient economic growth in the first quarter of 2026, supported by a front-loading of activity in light of the conflict in the Middle East. More recently, UK Purchasing Managers Indices (PMI) reported a decline in corporate activity in May, the first contraction since April last year, reflecting rising input costs and softer order books. Business confidence remains subdued. The impact of the conflict, in addition to a softening UK labour market, means that forecasters expect a slowdown in UK growth this year.

UK headline inflation eased to 2.8% in the year to April, down from 3.3% in March, due to a fall in the government's cap on energy bills that was determined prior to conflict in the Middle East. Petrol prices continued to increase, however, and inflation is expected to rise over the second half of this year due to a spike in oil and gas prices caused by disruption to global energy production. The Bank of England held interest rates in late April as it continues to assess the longer-term inflationary impacts from the conflict against a weakening of business activity and a further softening of the labour market. Markets expect the bank to raise interest rates by the end of 2026.



The latest US PMI data for May indicated that business activity continued to grow, despite rising input prices and weaker demand following the disruption to shipping in the Strait of Hormuz. Consumer confidence remains downbeat, reflecting concerns over a slowing labour market and rising inflation, which rose to 3.8% in April from 3.3% in March due to higher energy prices. Markets expect the Federal Reserve to maintain its benchmark interest rate at its current level of 3.5%–3.75% throughout 2026 (adjoining chart), before gradually increasing rates in 2027.

PMI data indicated a second consecutive month of contraction in euro area activity in May, reflecting the disruption to global energy production. Both input and output costs rose sharply, while business confidence continued to weaken. Forecasters expect subdued economic growth in Germany this year, delaying the recovery of the EU's largest economy despite plans for increased public spending on defence and infrastructure. Euro area inflation rose to 3% in April and is expected to remain above the 2% target level this year. Markets expect the European Central Bank to raise interest rates at its next meeting in June from the current rate of 2% (adjoining chart).



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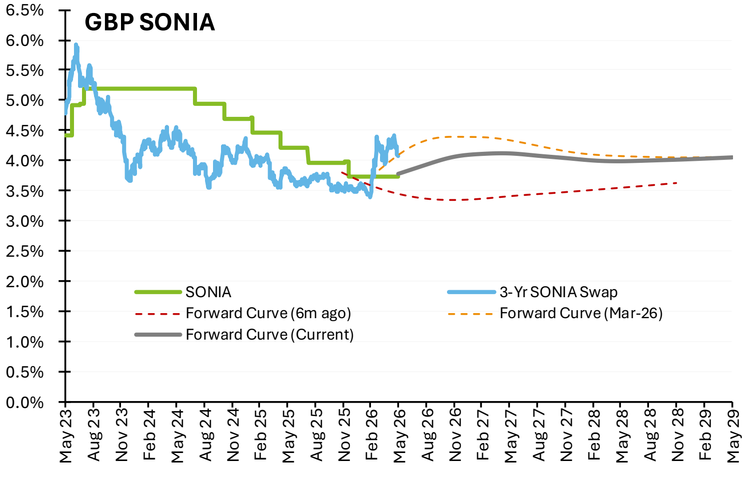
Interest Rate Markets

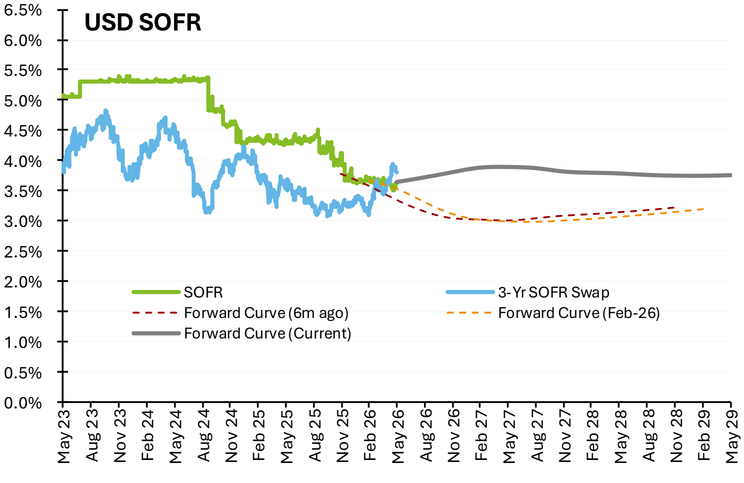
June kicks off with the ECB meeting on the 11th and a probable rate hike of 25 bps, the first rise for the Eurozone in nearly 3 years; a series of cuts had brought Euro rates down to 2.00%, where they have sat for the past 12 months. The ECB meeting differs from the UK's BofE MPC and the US Fed meetings because it takes place before the final May inflation print; as a result, the decision will be informed by flash data (provisional estimate released on 2 May) and April's higher readings'. The Fed and the BofE each meet later in the month, after their respective inflation figures, plus employment and key payroll data. While both central banks are anticipated to hold rates this month, the timing of financial announcements may open the door for the advancing of rate hike decisions currently tabled for later this summer. Notably, long term US rates (>30y) have reached levels not seen since the GFC, pointing at structurally higher inflation risk.



- SONIA continues unchanged this year at 3.73%, with markets pricing a 92% chance of another hold in rates at the upcoming BofE MPC meeting on 18 June.
- The rise in the front end of the forward curve has softened from the heightened volatility seen in early March, though rate hikes are still priced in for later this year.
- The 3-year SONIA Swap rate is 4.02%, vs. 3.46% 6 months ago, but down 20bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	4.02%	4.02%	4.07%
Cap @ 4.25% (premium)*	£0.56m	£1.14m	£2.65m
Cap @ 4.50% (premium)*	£0.44m	£0.95m	£2.31m
Cap @ 4.75% (premium)*	£0.36m	£0.80m	£2.04m

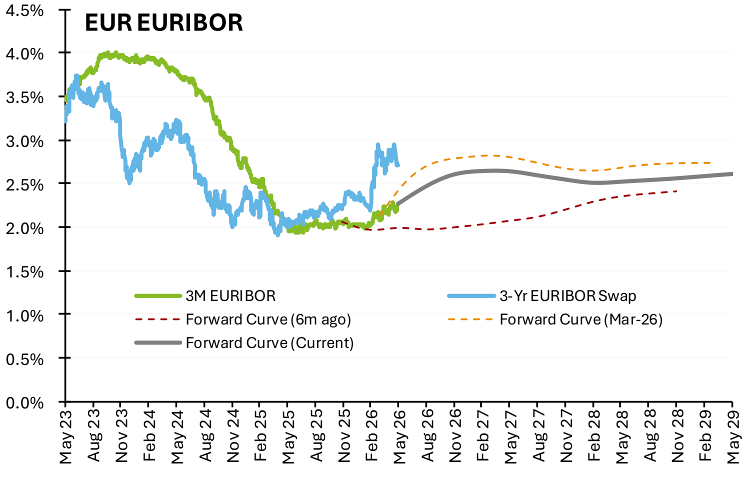
*£100m hedge notional



- The Fed has left its current target range of 3.50% - 3.75% in place since December 2025. Markets expect (with 96% probability) the Fed to hold rates again during the next meeting on 17 June.
- SOFR is currently at 3.62% and pricing of Swaps is flat across short-to-medium term tenors with a premium of c. 20bps reflecting 1 rate hike expected in 2026.
- The 3-year SOFR Swap rate is currently 3.80% vs. 3.17% 6 months ago, and up 18bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.81%	3.80%	3.81%
Cap @ 4.00% (premium)*	$0.60m	$1.15m	$2.48m
Cap @ 4.25% (premium)*	$0.48m	$0.94m	$2.10m
Cap @ 4.50% (premium)*	$0.40m	$0.78m	$1.79m

*$175m hedge notional



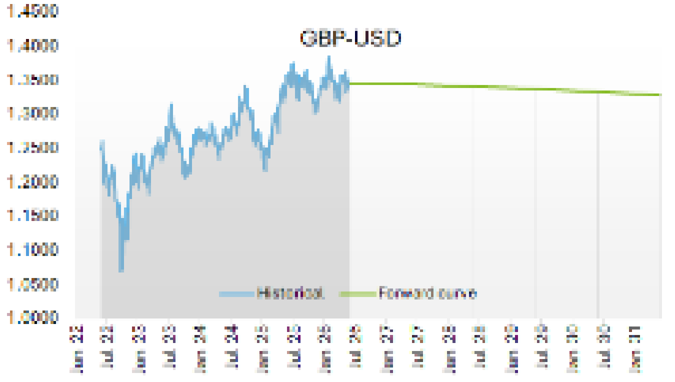
- 3-month EURIBOR has elevated to 2.27% reflecting the 97% probability of a rate hike by the ECB on 11 June.
- Markets expect an additional 1-2 hikes later in the year.
- The terminal rate, the estimated peak rate within the current tightening cycle, in the EuroZone is just over 2.60%.
- The 3-year EURIBOR Swap rate is currently 2.54% vs. 2.08% 6 months ago, but down 11 bps MoM.

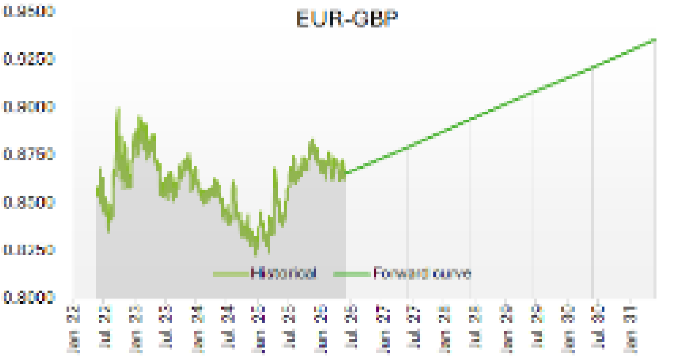
	2-year	3-year	5-year
Swap rate (mid level)	2.54%	2.54%	2.60%
Cap @ 2.75% (premium)*	€0.35m	€0.75m	€1.78m
Cap @ 3.00% (premium)*	€0.24m	€0.58m	€1.46m
Cap @ 3.25% (premium)*	€0.18m	€0.46m	€1.22m

*€100m hedge notional

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 29 May 2026

Currency Markets





- Sterling ended May down 1% against the USD from the end of April. During the month, the currency pair swung 3.5 Cents, or 2.6%, which is relatively benign and is a driver for the decreased option costs vis-à-vis one month ago.
- At the beginning of May, hedging via Forwards would reduce the spot rate by over 70 pips in the 1-year or by 180 pips for 2 years. These forward points have dropped over the month to -26 and -55 for 1- and 2-year trades, respectively.
- This cut to Vol and the reduction in negative forward points is particularly useful for clients looking to arrange hedges to sell GBP in the future.

- EUR-GBP spot levels are maintaining a relatively tight band, generally hovering in the 0.862-0.872 range. This low volatility is broadly typical of the currency pair.
- This coming month might, however, see increased movement in the EUR-GBP FX rate since the ECB is heavily anticipated to raise its bank rate on 11 June by 25bps. In doing so the interest rate differential will fall and the corresponding forward points will decrease.
- This change in the rate differential is heavily priced into the FX rate; meaning that if the ECB instead elects to Hold is deposit rate at 2.00% we may then see a sharp drop in the strength of the EUR.

GBP-USD Spot Rate: 1.346	6mo	12mo	18mo
Forward rate	1.345	1.343	1.342
GBP Put Option* (ATMS**)	$2.66m	$3.96m	$4.97m
GBP Put Option* (5% OTMS***)	$0.76m	$1.78m	$2.65m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.346		
*** 5% Out-of-the-money vs Spot rate:	1.279		

EUR-GBP Spot Rate: 0.866	6mo	12mo	18mo
Forward rate	0.873	0.880	0.887
GBP Put Option* (ATMS**)	€ 1.89m	€ 3.16m	€ 4.22m
GBP Put Option* (5% OTMS***)	€ 0.39m	€ 1.11m	€ 1.85m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.866		
*** 5% Out-of-the-money vs Spot rate:	0.909		

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 29 May 2026

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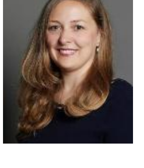

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