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IR and FX Newsletter

March 2026



A Macro View: Good start to 2026 but UK outlook remains weak

UK Purchasing Managers Indices (PMI) reported a further acceleration of corporate activity in February to its highest level since April 2024, marking a positive start to 2026. However, external headwinds and a softening labour market mean we continue to forecast a marginal slowdown in UK activity this year. We expect sluggish growth in winter and spring before a gradual pickup in the summer month as lower inflation and interest rates take hold.

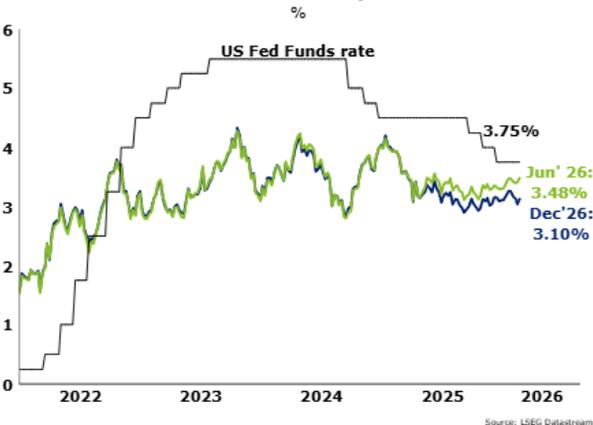
The UK's headline inflation fell notably to 3.0% in January, from 3.4% in December. We expect a further decline towards the Bank of England's 2% target rate over the coming months, due to a combination of lower food prices, the freezing of some utility prices and cuts to energy bills announced in the November budget. Positive real wage growth continues to ensure higher-than-average levels of services inflation (adjoining chart). Falling headline inflation, alongside a further softening in the labour market, should create room for continued gradual monetary policy easing. We expect two further 25-basis-point cuts this year.

UK: Headline & alternative measures of inflation



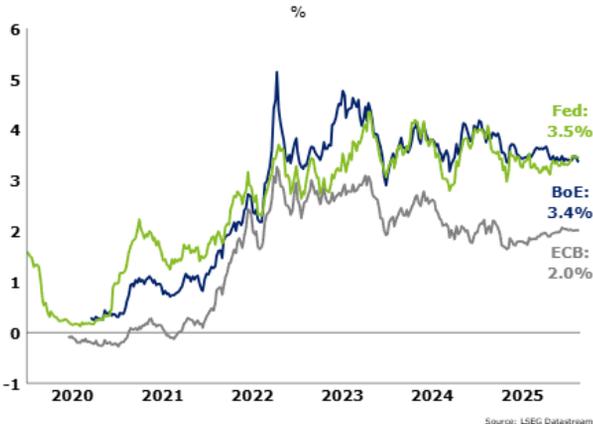
The US economy slowed in the final quarter of last year, primarily due to lower public spending caused by the federal government shutdown. More recently, PMI data in February indicated the softest pace of expansion in activity for ten months amid falling customer demand. Consumer confidence remains subdued, reflecting concerns over a weakening labour market and higher inflation, which remains elevated compared to last April's low. 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 indicated continued growth in euro area activity in February, driven by the fastest German growth in four months. Greater public spending on infrastructure and defence is expected to support a pickup this year. Investor confidence in Germany has also improved recently. French activity remains sluggish following heightened political uncertainty in recent months. Overall, with euro area inflation at near target-levels, markets expect little change in interest rates for the remainder of the year (adjoining chart).

Evolution of mid-2026 interest rate expectations



Debapratim De
 Director, Economic Research

dde@deloitte.co.uk

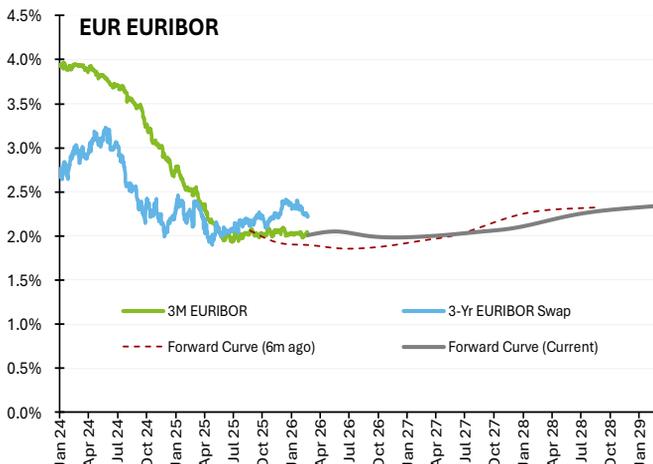
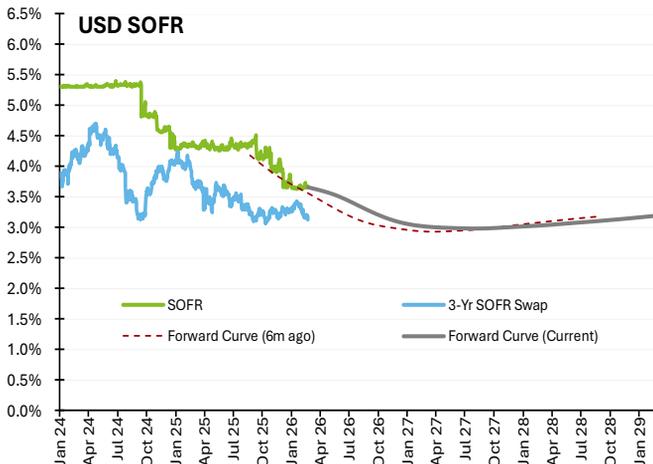
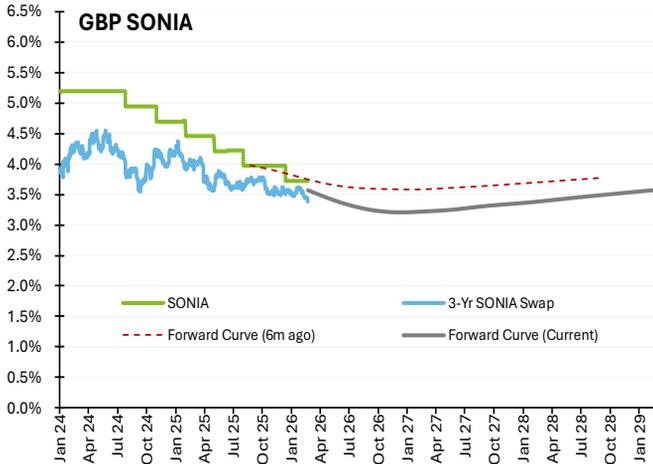


Thomas Avis
 Economist, Economic Research

twavis@deloitte.co.uk

Interest Rate Markets

In the UK, inflation remains above the Bank of England’s (BoE) target of 2.0%, having dropped by 0.4% in January to 3.0% compared to December’s levels of 3.4%. The current interest rate forward curve reflects a slight dip later this year, before rising once again in 2027 and beyond. In the US, headline inflation dropped from 2.70% in December to 2.40% in January. The Federal Reserve Board have held rates at the target range of 3.50% - 3.75% and are expected to do so again in March. Meanwhile, the European Central Bank (ECB), that implemented numerous rate cuts (totalling 200 bps) since June 2024, are now expected to hold rates steady for the foreseeable future; market expectations for the future rate outlook have now shifted to include a potential for rates rising in late 2026.



- The underlying SONIA has remained flat at 3.73% after a 25bps rate cut by BoE in December 2025.
- Markets expect, with 84.9% confidence that rates will be cut by 25bps at the next meeting on 19 March. Markets are currently split whether a 2nd rate cut will materialise in H2 2026.
- The 3-year SONIA Swap rate is currently 3.36%, vs. 3.72% 6 months ago, and down 21.6bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	3.32%	3.36%	3.50%
Cap @ 4.00% (premium)*	£0.13m	£0.46m	£1.60m
Cap @ 4.25% (premium)*	£0.09m	£0.35m	£1.34m
Cap @ 4.50% (premium)*	£0.06m	£0.27m	£1.12m

*£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 3.64%.
- After holding rates on 28 January, markets expect the Fed to hold rates again at its next meeting on 18 March, with current pricing reflecting this at 94% probability.
- The 3-year SOFR Swap rate is now 3.16% vs. 3.26% 6 months ago, and down 21.4bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.20%	3.16%	3.23%
Cap @ 3.75% (premium)*	\$0.18m	\$0.51m	\$1.60m
Cap @ 4.00% (premium)*	\$0.10m	\$0.36m	\$1.31m
Cap @ 4.25% (premium)*	\$0.06m	\$0.28m	\$1.10m

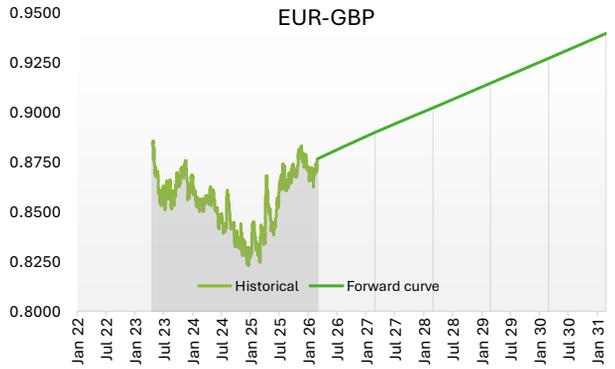
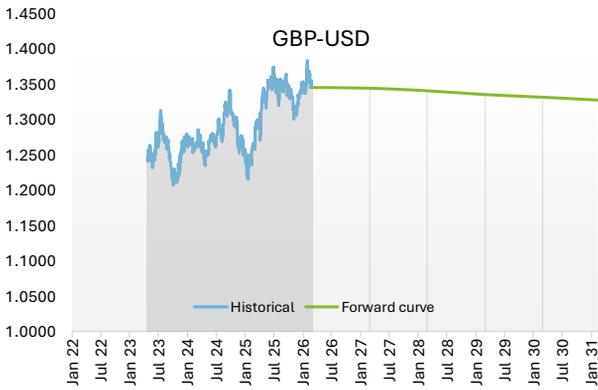
*\$100m hedge notional

- 3-month EURIBOR is 2.013%.
- Since June 2024 the European Central Bank (ECB) has cut rates 200 bps, with current expectations suggesting no further rate cuts through 2026.
- Market sentiment points towards rates being held (a 97.5% probability) by the ECB at its upcoming meeting on 19 March; with a stable outlook towards year-end before rising on through 2027.
- The 3-year EURIBOR Swap rate is currently 2.10% vs. 2.00% 6 months ago and down 10 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	2.03%	2.10%	2.24%
Cap @ 2.25% (premium)*	€0.19m	€0.63m	€1.96m
Cap @ 2.50% (premium)*	€0.11m	€0.45m	€1.54m
Cap @ 2.75% (premium)*	€0.08m	€0.33m	€1.23m

*€100m hedge notional

Currency Markets



- GBPUSD spot rate weakened to 1.346 by 2.51% compared to January
- The forward curve remains relatively flat in the short-term, before continuing on a downward trajectory beyond 2027.
- Conversely, the 1-year FX Forward market rate reflects a rate close to current Spot levels at c. GBP-USD 1.375.

- The EUR strengthened against the GBP by 1.28% last month, closing at 0.877, from 0.866 in January.
- Some market participants anticipate EUR to strengthen towards 0.900 through H1 2026 on the back of potential de-dollarisation.
- The interest rate differential between the Eurozone (c. 2%) and the UK (c. 3.40%) continues to generate EUR-GBP Forward rates that provide a stronger EUR Forward compared to the current Spot: for example, the 1-year Forward Rate at 0.890.

GBP-USD Spot Rate: 1.346	6mo	12mo	18mo
Forward rate	1.345	1.345	1.343
GBP Put Option* (ATMS**)	\$2.87m	\$4.19m	\$5.21m
GBP Put Option* (5% OTMS***)	\$0.88m	\$1.92m	\$2.86m
* 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: 0.877	6mo	12mo	18mo
Forward rate	0.884	0.890	0.896
GBP Put Option* (ATMS**)	€ 1.49m	€ 2.21m	€ 2.79m
GBP Put Option* (5% OTMS***)	€ 0.45m	€ 1.16m	€ 1.87m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.877		
*** 5% Out-of-the-money vs Spot rate:	0.920		

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 27 February 2026

Hedging Advisory and Derivatives Execution team



Hedging Strategy Advice



Outsourced Derivative Execution



Financial Market Knowledge



Derivative Pricing Expertise



Paolo Esposito
Lead Director

+44 20 7007 8964
pesposito@deloitte.co.uk



Mark Beckett
Director

+44 20 7303 7849
mbeckett@deloitte.co.uk



Svenja Schumacher
Director

+44 20 7007 9363
scschumacher@deloitte.co.uk



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