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IR and FX Newsletter

1 May 2026

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A Macro View: Energy shock clouds growth outlook

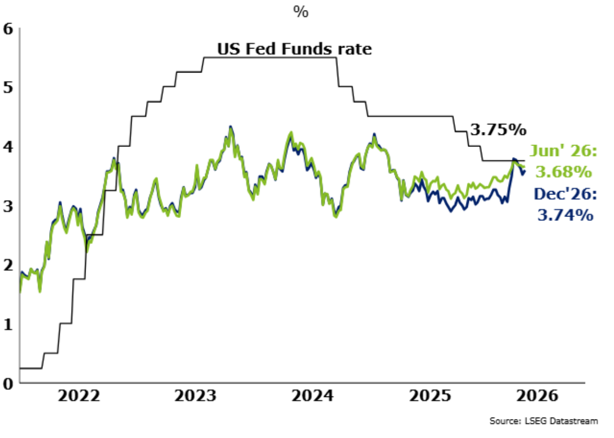
UK Purchasing Managers Indices (PMI) reported an acceleration of corporate activity in April, reflecting a short-term boost to purchases ahead of anticipated supply shortages and rising input costs linked to the conflict in the Middle East. Business confidence remains subdued. The impact of the conflict, in addition to a softening UK labour market, means that forecasters now expect slower UK growth this year, however the extent of the impact on the UK economy remains uncertain as the conflict continues.

UK headline inflation increased to 3.3% in the year to March, from 3.0% in February, driven by rising motor fuel prices. The conflict in the Middle East is expected to raise inflation over the remainder of this year due to a spike in oil and gas prices. Positive real wage growth also continues to ensure higher-than-average levels of services inflation (adjoining chart). The Bank of England held interest rates in late April as it continues to assess the inflationary impact from the disruption to global energy production against an expected weakening in business activity and a further softening of the labour market. Markets expect the bank to raise interest rates by the end of this year.

UK: Headline & alternative measures of inflation

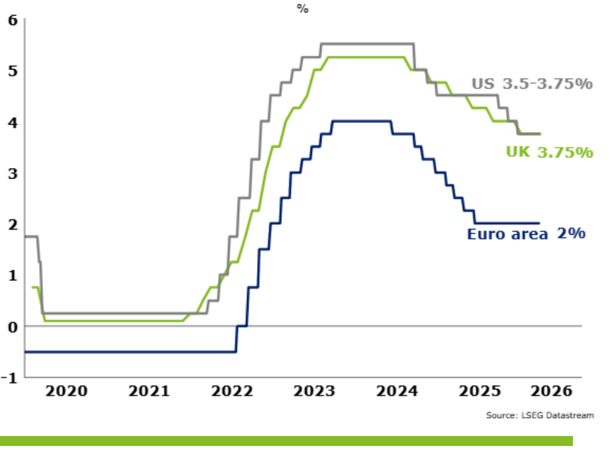
The latest US PMI data for April pointed to a continued expansion in business activity despite rising input prices and weaker demand following the disruption to shipping in the Strait of Hormuz. Downbeat consumer confidence reflects concerns over a weakening labour market and higher US inflation, which rose to 3.3% in March from 2.4% in February due to higher fuel prices. The Federal Reserve held interest rates at 3.5%–3.75% in April. Markets expect the Fed to maintain the headline interest rate at its current level throughout 2026 (adjoining chart).

Evolution of US interest rate expectations



PMI data indicated a contraction in euro area activity in April, the first in 16 months, in light of the disruption to global energy production. Both input and output costs rose sharply, while business confidence continued to deteriorate. Forecasters revised down expectations for German economic growth 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. The European Central Bank maintained the 2% interest rate at its latest meeting (adjoining chart). Markets now expect the ECB to raise interest rates at its next meeting in June.

US, UK and Euro area interest rates



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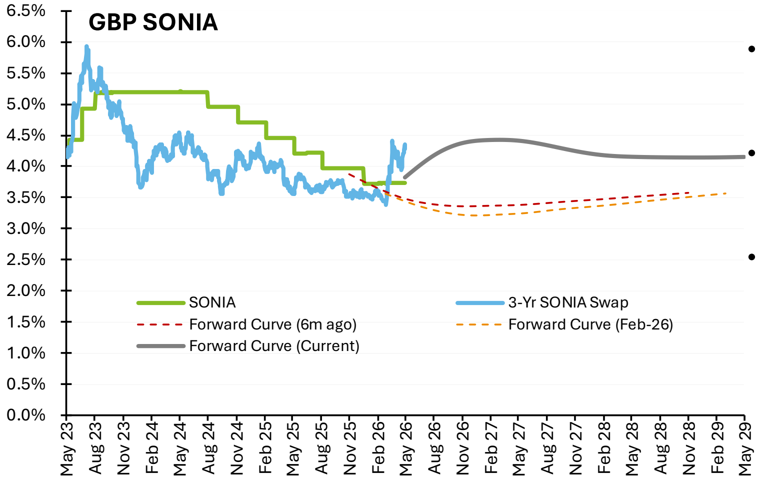
Interest Rate Markets

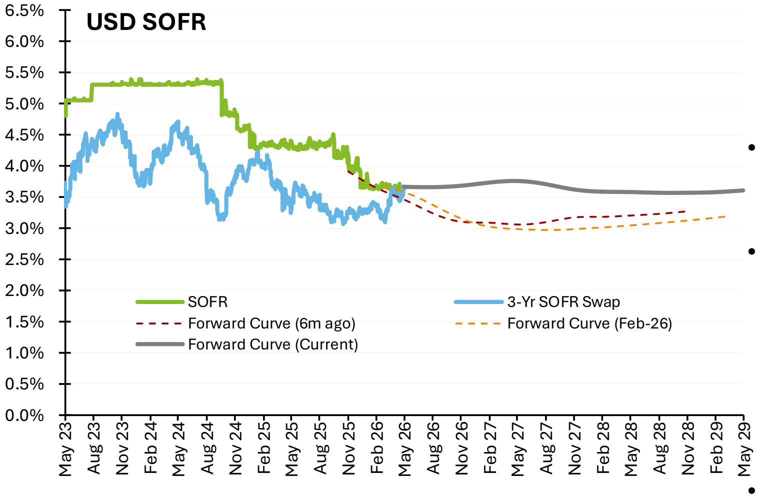
Interest rate markets remain volatile, with both the UK and Eurozone now pricing in a series of rate hikes as inflationary pressures re-emerge. Oil prices have surged to $126 per barrel (highest since 2022), reinforcing upside risks to inflation and prompting a reassessment of monetary policy outlooks. In the Eurozone, April inflation printed at 3.0% (up from 2.6% last month and above expectations), supporting a clear shift in market pricing towards multiple rate hikes. In the UK, inflation rose to 3.3% in March 2026 from 3.0% in February and BofE Governor Andrew Bailey hinted this may hit 6% later this year, markets price additional tightening over the year. In contrast, the US curve remains flatter with the Fed less hawkish despite inflation rising to 3.30% in March 2026 after 2.40% in January/February (the highest in two years).



- The underlying SONIA has remained flat at 3.73% after a 25bps rate cut by BofE in December 2025.
- After holding rates on 30 April 2026, markets now price a 51% chance hold in the June meeting, with 49% expecting a 25bps rate hike.
- The forward curve is upward sloping in the short term, with markets pricing hikes of at least 67bps over the next eighteen months.
- The 3-year SONIA Swap rate is 4.22%, vs. 3.49% 6 months ago, and down 5bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	4.25%	4.22%	4.22%
Cap @ 4.25% (premium)*	£0.83m	£1.47m	£3.05m
Cap @ 4.50% (premium)*	£0.67m	£1.23m	£2.66m
Cap @ 4.75% (premium)*	£0.54m	£1.05m	£2.35m

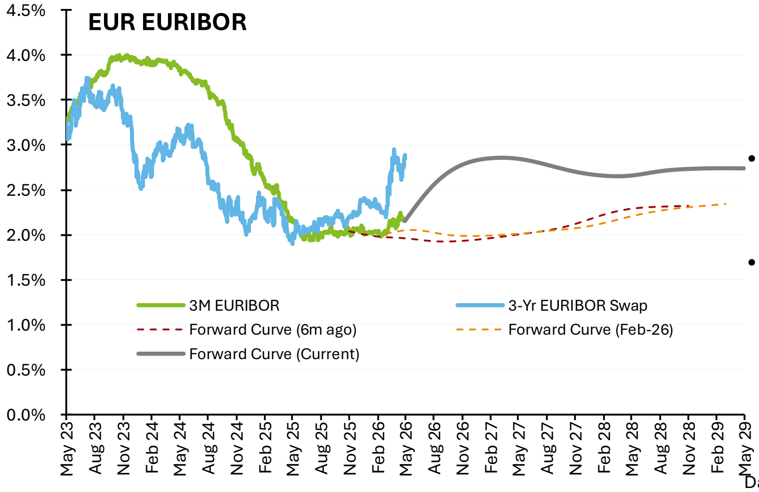
*£100m hedge notional



- The Fed began cutting rates in September 2025, with three 25bps cuts, leaving the current target range of 3.50% - 3.75%. After holding rates on 30th April, markets expect (with 98% probability) the Fed to hold rates again in June.
- SOFR is currently at 3.63%. The forward curve is now pricing in one rate hike of 25bps in the next eighteen months.
- The 3-year SOFR Swap rate is currently 3.64% vs. 3.31% 6 months ago, and up 10bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.67%	3.64%	3.67%
Cap @ 3.75% (premium)*	$0.63m	$1.20m	$2.67m
Cap @ 4.00% (premium)*	$0.45m	$0.94m	$2.21m
Cap @ 4.25% (premium)*	$0.34m	$0.75m	$1.88m

*$100m hedge notional



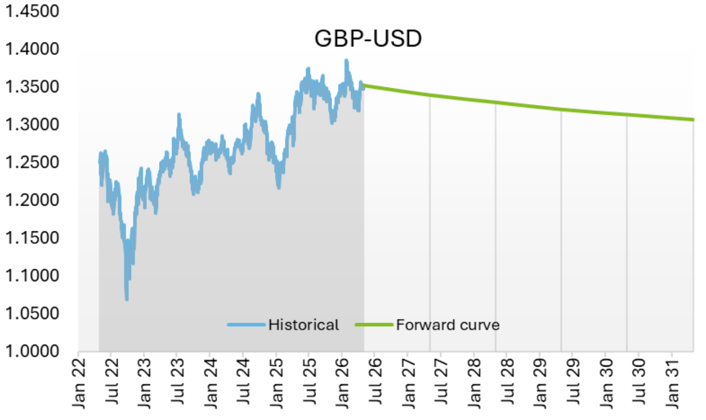
- 3-month EURIBOR is 2.13%.
- Since June 2024, the European Central Bank (ECB) has cut rates by 200 bps. Current expectations point up to three 25bps rate hikes over the coming months, a significant shift from the pre-middle east conflict outlook of steady rates through 2026.
- Markets now anticipate 72% chance of a rate hike in the ECB meeting on 11th June, with 28% chance of no change in rates, after holding rates in the 30th April meeting.
- The 3-year EURIBOR Swap rate is currently 2.68% vs. 2.08% 6 months ago, and flat MoM.

	2-year	3-year	5-year
Swap rate (mid level)	2.66%	2.68%	2.73%
Cap @ 2.75% (premium)*	€0.58m	€1.08m	€2.31m
Cap @ 3.00% (premium)*	€0.44m	€0.86m	€1.90m
Cap @ 3.25% (premium)*	€0.34m	€0.70m	€1.60m

*€100m hedge notional

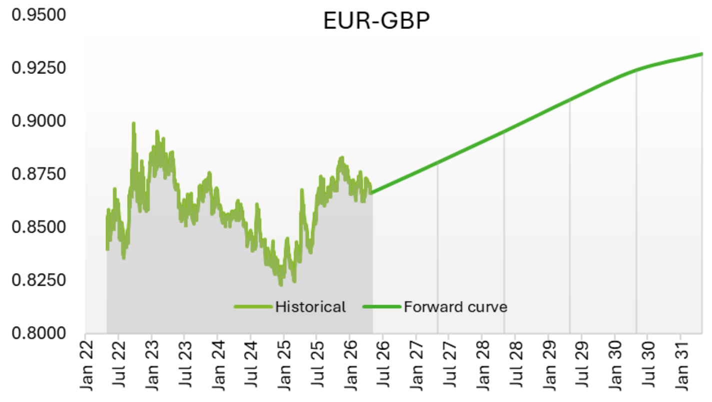
Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 30 April 2026

Currency Markets



- The GBP-USD spot rate rose over the month to 1.352, up from 1.321 CoB March, with dollar strengthening amid 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 1.344, 1.339, and 1.334 respectively, formed from a divergence in the respective Interest Rate outlooks.
- Option premiums meanwhile are broadly stable on the month; still pricing relatively high against historical levels given the global volatility still very much ongoing.

GBP-USD Spot Rate: 1.352	6mo	12mo	18mo
Forward rate	1.344	1.339	1.334
GBP Put Option* (ATMS**)	$2.91m	$4.39m	$5.55m
GBP Put Option* (5% OTMS***)	$0.92m	$2.05m	$3.04m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.352		
*** 5% Out-of-the-money vs Spot rate:	1.284		



- The EUR-GBP spot rate is in line with previous month, to 0.867, reflecting limited correlation to the impact on the USD.
- Forward rates are now 0.873 (6m), 0.881 (12m), and 0.889 (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, reflecting the latest inflation prints and the surge in oil prices (reaching $126/bbl during 30 April), with Eurozone inflation at 3.0% in Apr 2026 (up from 2.6%), UK inflation at 3.3% in Mar 2026 (up from 3.0%).

EUR-GBP Spot Rate: 0.867	6mo	12mo	18mo
Forward rate	0.873	0.881	0.889
GBP Put Option* (ATMS**)	€ 2.05m	€ 3.37m	€ 4.49m
GBP Put Option* (5% OTMS***)	€ 0.41m	€ 1.24m	€ 2.04m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.867		
*** 5% Out-of-the-money vs Spot rate:	0.910		

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 30 April 2026

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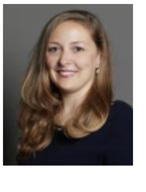

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