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IR and FX Newsletter

2 November 2026

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A Macro View: UK activity improves despite inflation worries

UK Purchasing Managers' Indices (PMIs) pointed to the fastest expansion in activity since February, with the manufacturing sector growing at its strongest pace in two years. A resilient global economy and increased spending on AI and defence has supported recent activity. However, a weakening labour market and inflationary pressures from rising energy prices are likely to weigh on momentum. We therefore expect UK growth to moderate slightly over the coming quarters.

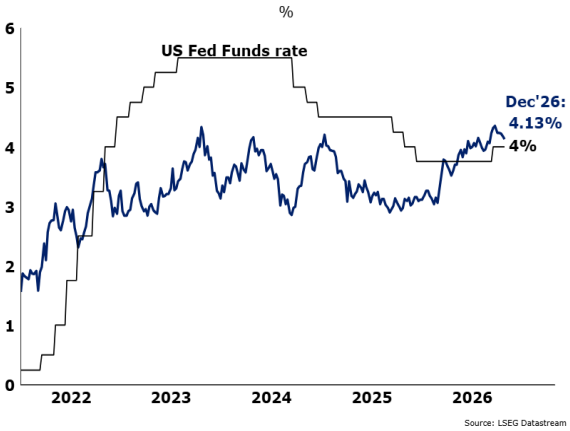
UK headline inflation increased for the third consecutive month in September, to 3.5%, and is expected to rise further over the final quarter of this year. Elevated oil and gas prices have been the main driver of the increase in inflation since the outbreak of conflict between the US and Iran. The latest data, however, provide some early indications of higher energy costs beginning to diffuse through to other goods and services in the consumer inflation basket. Against this backdrop, financial markets expect the Bank of England to raise interest rates by 25 basis points this week, to 4%.

UK: Headline & alternative measures of inflation



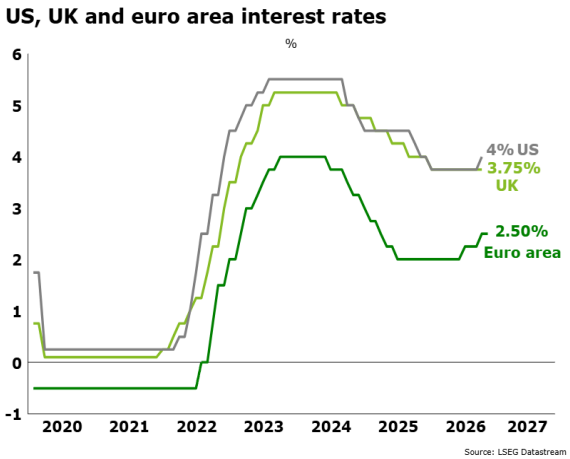
The US recorded robust GDP growth in the third quarter, driven by strong consumer spending and tech-related business investment. PMI data for October indicate a continued strong pace of expansion in business activity heading into the final quarter of this year. Activity increased across both services and manufacturing, supported by rising domestic demand and precautionary stock building. Strong demand also encouraged a rise in employment. However, selling prices increased sharply as businesses look to pass higher energy costs on to customers. Inflation increased further above the Federal Reserve's 2% target in September, to 3.7%, largely driven by rising fuel prices. Financial markets expect the Fed to raise rates by a further 25 basis point rise in December, to a range of 4 – 4.25% (adjoining chart).

Evolution of US interest rate expectations



Euro area PMI data indicated that activity expanded for a fourth consecutive month in October, albeit at a slower pace than in September. Rising defence and infrastructure spending, alongside sustained upturn in export sales, supported German manufacturing activity. Meanwhile, activity in France returned to contraction in October, reversing September's growth rebound amid rising economic and political pressures. Input costs across the Euro area continued to rise, reflecting rising energy, fuel and transportation prices in light of the ongoing disruption to global energy production. Euro area inflation increased to 3.8% in September, from 3.2% in August. A rising inflation outlook has led financial markets to expect that the European Central Bank will increases rates by a further 25 basis points in December, to 2.75%.

US, UK and euro area interest rates



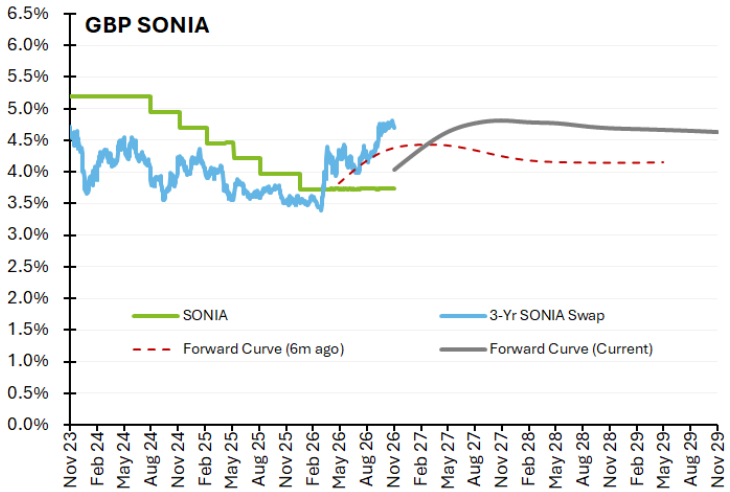


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Interest Rate Markets

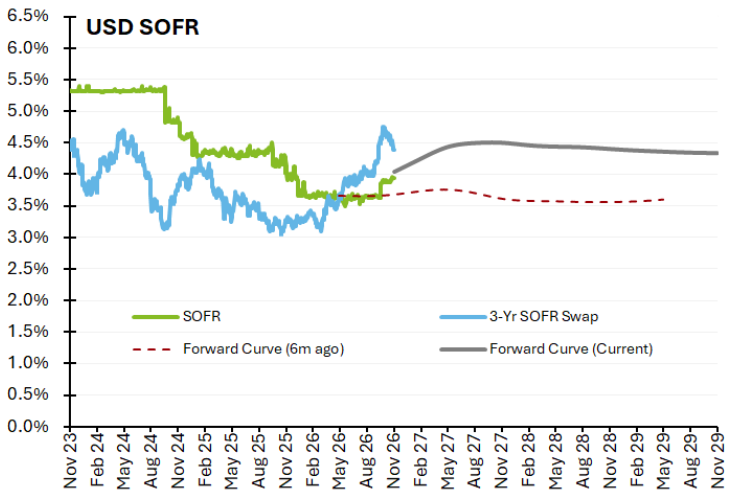
Market rate hike expectations remained elevated during October as higher energy prices reinforced concerns that inflation could remain above target for longer. In the UK, persistent headline inflation, which rose to 3.5% in September, sustained expectations of a near-term rate increase. Meanwhile resilient US activity and continued inflationary pressures kept the prospect of further Federal Reserve tightening in focus. In Europe, fiscal and political concerns added to market pressure, most visibly in France, where widening OAT–Bund spreads highlighted concerns over budget delivery and debt sustainability. Together, these factors maintained elevated UK, US and Eurozone swap curves with an elevated level of volatility.



- SONIA continues unchanged this year at 3.74%. The BoE voted by a majority of 6-3 to maintain the Bank Rate at 3.75% at its meeting ending on 17 September.
- Market pricing implies a 99% likelihood of a 25bps rate increase at the BoE's MPC meeting on 5 November. In total, markets are pricing in four additional rate hikes by December 2027, including the expected increase this November.
- The 3-year SONIA Swap rate is 4.63%, vs. 4.24% 6 months ago, and down 4bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	4.61%	4.63%	4.63%
Cap @ 5.00% (premium)*	£0.64m	£1.30m	£2.85m
Cap @ 5.25% (premium)*	£0.52m	£1.12m	£2.53m
Cap @ 5.50% (premium)*	£0.43m	£0.97m	£2.26m

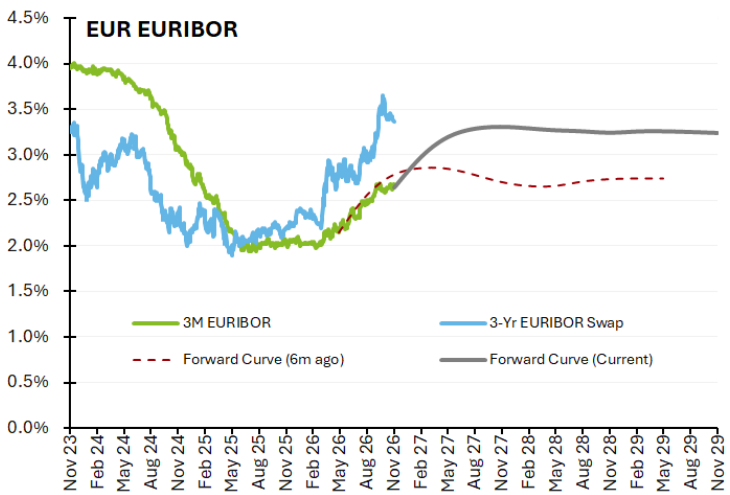
*£100m hedge notional



- The Federal Reserve's Federal Open Market Committee held the Federal Funds target range at 3.75%–4.00% on 28 October, after raising rates in the September meeting.
- SOFR is currently 3.94% with markets pricing a 77% probability of a rate hike at the 9 December meeting, with a 23% expectation for a hold in rates. Markets have priced further two rate hikes in the next 12 months, signalling that rates are likely to remain elevated until inflation is on a clearer path back to its 2% target
- The 3-year SOFR Swap rate is currently 4.37% vs. 3.69% 6 months ago; and similar month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	4.37%	4.37%	4.36%
Cap @ 4.75% (premium)*	$0.64m	$1.23m	$2.60m
Cap @ 5.00% (premium)*	$0.49m	$1.02m	$2.23m
Cap @ 5.25% (premium)*	$0.39m	$0.84m	$1.92m

*$100m hedge notional



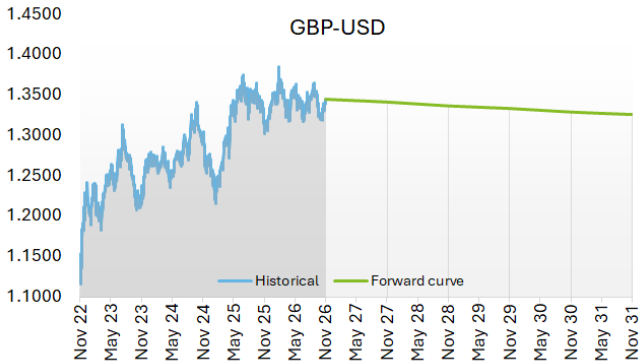
- 3-month EURIBOR increased to 2.68% in October despite the ECB holding rates steady at its meeting on 29 October.
- Markets are now pricing a 68% probability of a rate hike at the next ECB meeting (17 December), with a 32% expectation of no change in rates. Markets are pricing a total of two to three rate hikes in the next twelve months.
- The 3-year EURIBOR Swap rate is currently 3.19% vs. 2.72% 6 months ago, down 1.3bps month-on-month.

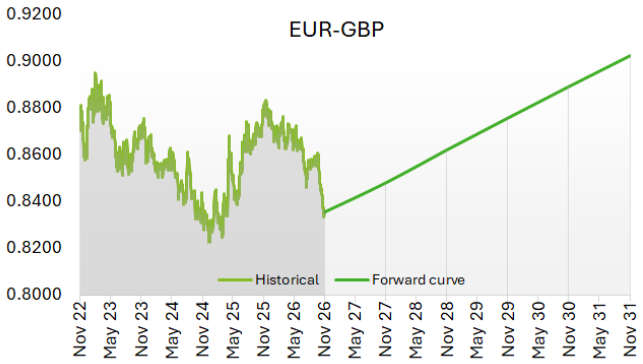
	2-year	3-year	5-year
Swap rate (mid level)	3.15%	3.19%	3.20%
Cap @ 3.50% (premium)*	€0.50m	€1.08m	€2.34m
Cap @ 3.75% (premium)*	€0.39m	€0.89m	€2.00m
Cap @ 4.00% (premium)*	€0.31m	€0.74m	€1.72m

*€100m hedge notional

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 2 November 2026

Currency Markets





- Sterling strengthened against the US dollar during October, with GBP/USD rising from approximately 1.3199 on 1 October to 1.3445 on 2 November, an increase of around 1.9%.
- Sterling was supported by a more hawkish UK rate outlook as September CPI rose to 3.5% and markets priced a greater probability of near-term Bank of England tightening. Softer labour demand and the growth impact of elevated energy costs remain potential constraints on further sterling gains..
- Strong US activity and persistent inflation provided offsetting support for the dollar. The Fed held rates at 3.75% – 4.00% in October but retained a tightening bias, leaving GBP/USD sensitive to incoming inflation and employment data..
- The Euro weakened by approximately 1.9% against sterling, with EUR/GBP declining from around 0.8518 on 1 October to 0.8355 on 2 November.
- The move was consistent with a wider expectation of UK–Euro-area interest-rate differential development. The ECB held its deposit rate at 2.50% in October and highlighted both upside inflation risks and downside growth risks from higher energy prices.
- The one-year EUR/GBP forward is approximately 0.8480 versus spot of 0.8355, equivalent to around +125 pips or a 1.5% Euro forward premium to Sterling.

GBP-USD Spot Rate: 1.345	6mo	12mo	18mo
Forward rate	1.343	1.341	1.339
GBP Put Option* (ATMS**)	$2.53m	$3.88m	$4.88m
GBP Put Option* (5% OTMS***)	$0.68m	$1.70m	$2.56m
* 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: 0.836	6mo	12mo	18mo
Forward rate	0.841	0.848	0.856
GBP Put Option* (ATMS**)	€ 1.69m	€ 2.85m	€ 3.79m
GBP Put Option* (5% OTMS***)	€ 0.26m	€ 0.91m	€ 1.60m
* GBP 100m Put option premium			
** At-the-money Spot rate:		0.836	
*** 5% Out-of-the-money vs Spot rate:		0.877	

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 2 November 2026

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