



IR and FX Newsletter
1 October 2026



A Macro View: UK activity improves despite inflation worries

Following strong GDP growth in the first half of the year, Purchasing Managers' Indices (PMIs) indicated continued expansion in UK activity during the third quarter. However, inflationary pressures have intensified as higher energy prices, caused by the ongoing conflict in the Middle East, pushed up costs. Looking ahead, we expect UK growth to moderate over the remainder of this year amid persistent external headwinds and a softening labour market.

UK headline inflation increased further to 3.1% in the year to August and is expected to remain elevated throughout the second half of this year, reflecting high oil and gas prices from the ongoing conflict in the Middle East. So far, however, there is limited evidence of broader inflationary spillovers into other goods and services in the consumer inflation basket. The Bank of England held interest rates steady last month while it assesses the longer-term inflationary implications from the conflict against subdued business activity and a softening labour market. Markets expect a 25 basis point rise in interest rates by the end of 2026.

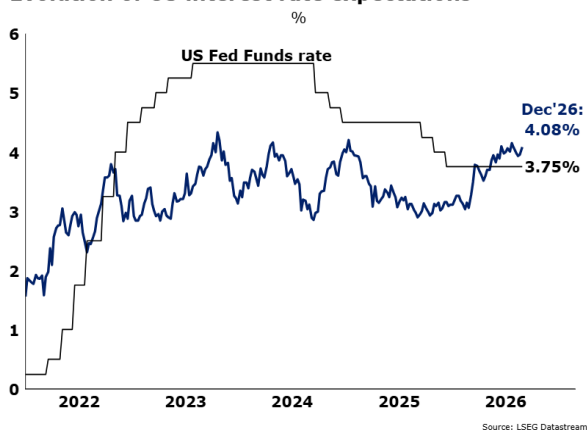
US activity accelerated in September at the fastest rate in over five years, according to recent PMI data. Both services and manufacturing activity continued to increase, which supported the rise in employment. However, order backlogs continued to intensify amid supply chain bottlenecks, adding to inflationary pressures. Despite US consumer price inflation remaining stable at 3.4% in August, inflation remains significantly above the Federal Reserve's 2% target due to higher energy prices linked to the ongoing conflict in the Middle East. Ongoing price pressures led the Federal Reserve to raise interest rates by 25 basis points in September, to a range of 3.75%-4%, with financial markets expecting a further 25 basis point rise by the year-end (adjoining chart).

Euro area PMI data indicated growth for a third consecutive month in September, with output rising at the fastest pace since April 2023. Rising AI and defence spending in Germany supported strong manufacturing growth, while momentum across the service sector continued to improve. Activity in France returned to growth for the first time this year. However, input costs continue to increase while business confidence for the year ahead remains subdued, reflecting continued disruption to global energy production. Euro area inflation increased to 3.2% in August and is expected to remain above the 2% target throughout the remainder of 2026. The European Central Bank raised rates in September for the second time this year, to 2.5% (adjoining chart). Financial markets expect the ECB to increase rates by a further 25 basis points by the end of this year.

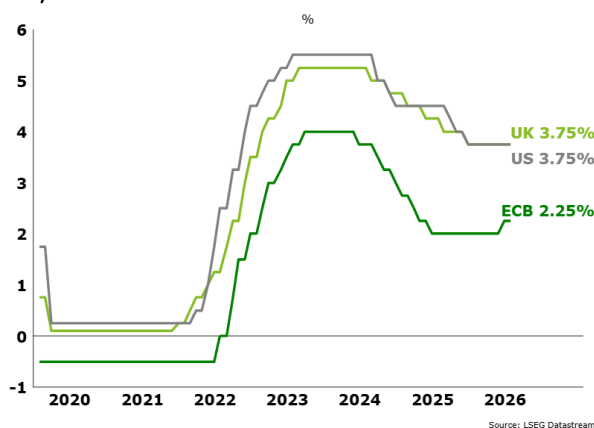
UK: Headline & alternative measures of inflation



Evolution of US interest rate expectations



US, UK and Euro area interest rates

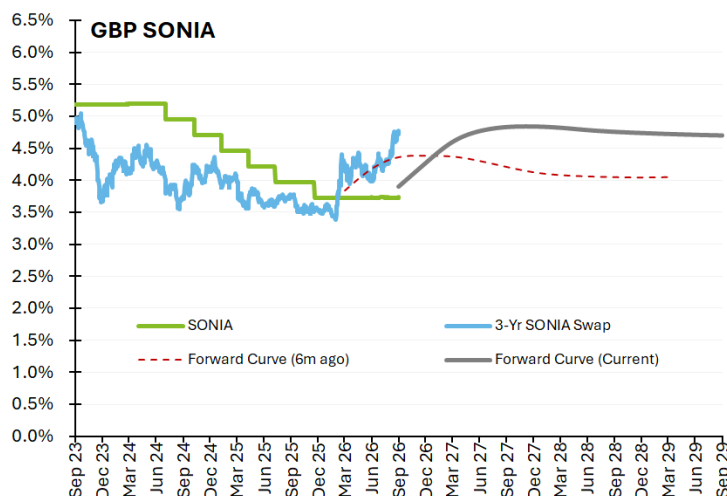


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Interest Rate Markets

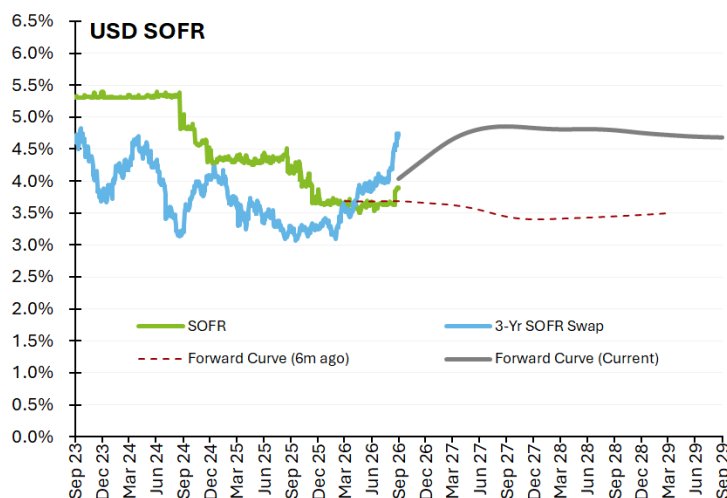
Market expectations of rate hikes increased over September as inflation remained above target across major economies and central banks maintained a cautious stance. UK inflation rose to 3.1% and Eurozone inflation increased to 3.3%, while US inflation remained elevated at 3.4%. Expectations were further influenced by Kevin Warsh's Federal Reserve 25bps rate increase in September; a sharp rise in global sovereign bond yields, to levels not seen since the early 2000's; plus elevated energy prices linked to Middle East geopolitical tensions and growing fiscal concerns in Europe. Together, these factors led investors to push back expectations of policy easing and drove swap rates sharply higher across the UK, US and Eurozone.



- SONIA continues unchanged this year at 3.73%. 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 95% likelihood of a 25bps rate increase at the BoE's MPC meeting on 5 November, with a 5% probability that rates will be left unchanged. In total, markets are pricing in four additional rate hikes by December 2027, including the expected increase in November.
- The 3-year SONIA Swap rate is 4.64%, vs. 4.18% 6 months ago, and up 49bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	4.60%	4.64%	4.67%
Cap @ 5.00% (premium)*	£0.69m	£1.34m	£2.85m
Cap @ 5.25% (premium)*	£0.57m	£1.16m	£2.53m
Cap @ 5.50% (premium)*	£0.49m	£1.02m	£2.27m

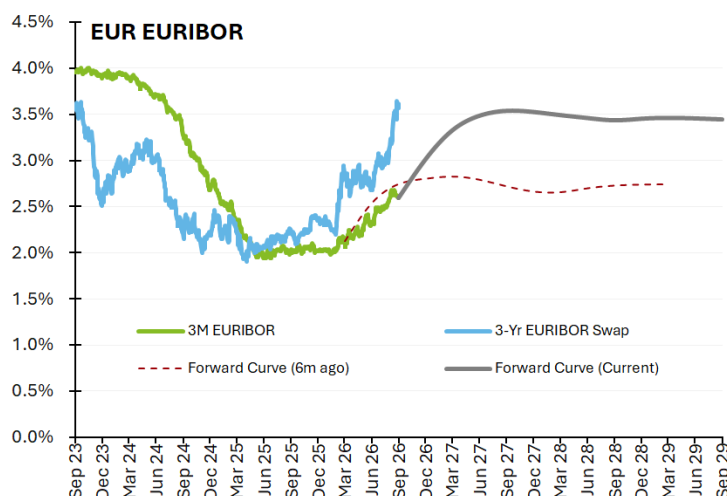
*£100m hedge notional



- The Federal Reserve's Federal Open Market Committee (FOMC) raised the federal funds target range to 3.75% – 3.40% at its 16 September meeting and signalled that rates are likely to remain elevated until inflation is on a clearer path back to its 2% target.
- SOFR is currently 3.90% with markets pricing a 55% probability of a rate hike at the 28 October meeting, with a 45% expectation for a hold in rates. Markets have priced further three rate hikes in the next 12 months.
- The 3-year SOFR Swap rate is currently 4.67% vs. 3.54% 6 months ago; and up 55bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	4.64%	4.67%	4.67%
Cap @ 4.75% (premium)*	\$0.82m	\$1.54m	\$3.15m
Cap @ 5.00% (premium)*	\$0.65m	\$1.28m	\$2.71m
Cap @ 5.25% (premium)*	\$0.52m	\$1.07m	\$2.36m

*\$100m hedge notional



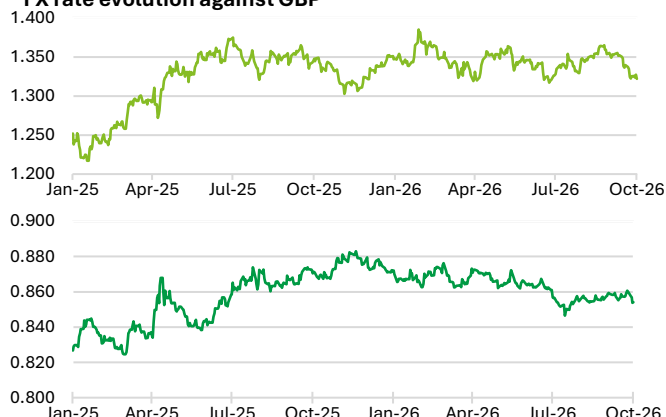
- 3-month EURIBOR has remained elevated at 2.59% in September. The ECB raised interest rates by 25bps at its meeting on 10 September.
- Markets are now pricing a 61% probability of a rate hold at the next ECB meeting (29 October), with a 39% expectation of a 25bps rate hike. Markets are pricing a total of three to four rate hikes in the next twelve months.
- The 3-year EURIBOR Swap rate is currently 3.35% vs. 2.69% 6 months ago, up 40bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	3.30%	3.35%	3.39%
Cap @ 3.50% (premium)*	€0.58m	€1.18m	€2.55m
Cap @ 3.75% (premium)*	€0.45m	€0.97m	€2.17m
Cap @ 4.00% (premium)*	€0.36m	€0.81m	€1.87m

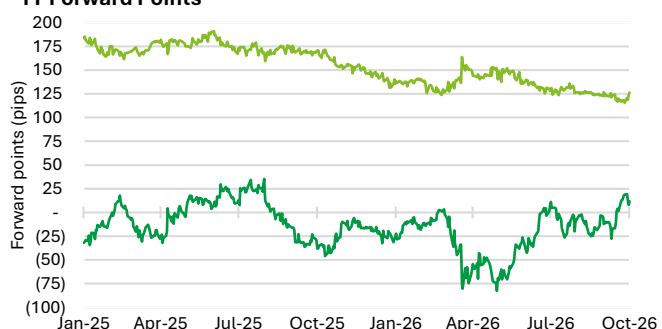
*€100m hedge notional

Currency Markets

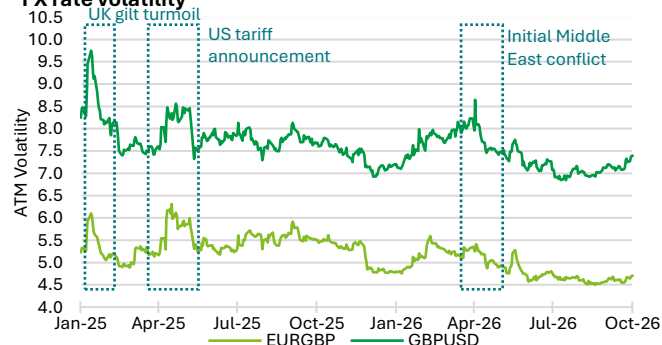
FX rate evolution against GBP



1Y Forward Points



FX rate volatility



- Month-on month Sterling weakened against the US dollar by 2.35%, with GBP-USD falling from around 1.355 on 31 August to 1.327 as of 30 September, after touching a monthly low of 1.320 on 24 September.
- EUR broadly traded sideways against the GBP through September, rising slightly to 0.859 on 17 September following the US rate hike announcement and reaching a monthly high of 0.8611 on 25 September amid broader bond market volatility and continued pressure on UK gilt yields.
- The 1-year EUR-GBP forward rate is currently 0.868 compared to the current spot rate of 0.855, a forward premium for EUR-GBP of approximately 1.6% (compared to 1.9% last year), reflecting the narrower expected interest rate differential between the Eurozone and the UK.
- The 1-year GBP-USD forward rate is currently 1.328 broadly in line with the spot rate of 1.327. This implies minimal forward points and allows GBP-USD exposures to be hedged without any premium.
- GBP-USD volatility increased modestly during September as stronger US activity, shifting rate expectations and pressure on UK gilt markets increased uncertainty around the currency outlook.
- EUR-GBP volatility remained comparatively subdued, consistent with the pair's relatively narrow trading range, although changes in the interest rate environment could trigger renewed volatility.
- Higher volatility increases option costs, making the timing, tenor and phasing of option-based hedges increasingly important.

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

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