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IR and FX Newsletter

1 September 2026

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A Macro View: UK activity improves despite inflation worries

Global activity has remained resilient despite ongoing geopolitical headwinds,. UK Purchasing Managers Indices (PMI) pointed to a further improvement in UK corporate activity in August, driven by a sustained turnaround in the service sector while manufacturing production slowed. Despite the improvement in activity, businesses reported continued input prices pressures as a result of higher energy costs caused by the ongoing conflict in the Middle East. High uncertainty and the continued business impetus for cost control, consistent with findings from the latest Deloitte CFO survey, are key drivers weighing on order books. Looking ahead, we continue to forecast a slowdown in UK growth for the remainder of this year amid ongoing external headwinds and a softening labour market.

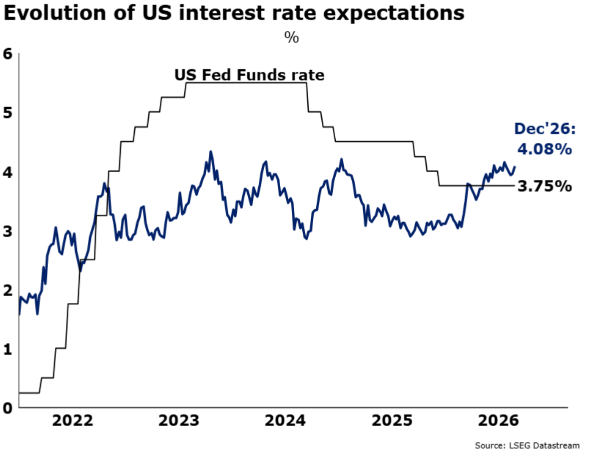
UK headline inflation increased to 2.9% in the year to July, driven by an increase in the government's cap on energy prices for the third quarter. Inflation is expected to remain elevated throughout the second half of this year, reflecting high oil and gas prices from a re-escalation of conflict in the Middle East. Positive real-wage growth continues to underpin higher-than-average levels of service inflation (adjoining chart). The Bank of England held interest rates steady in July while it assesses the longer-term inflationary implication 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.

Following the slowdown in US economic growth in the second quarter of this year, recent PMI data indicated a sharp improvement in business activity in July and August. The service sector was the key driver of momentum, while manufacturing output moderated amid raw material shortages, supply chain delays and rising input prices. While inflation eased for a second consecutive month to 3.5%, it remains significantly above the Federal Reserve's 2% inflation target due to the ongoing conflict in the Middle East. As such, markets expect the Federal Reserve to raise interest rates by 25 basis points by the end of 2026, from the current range of 3.5%-3.75% (adjoining chart).

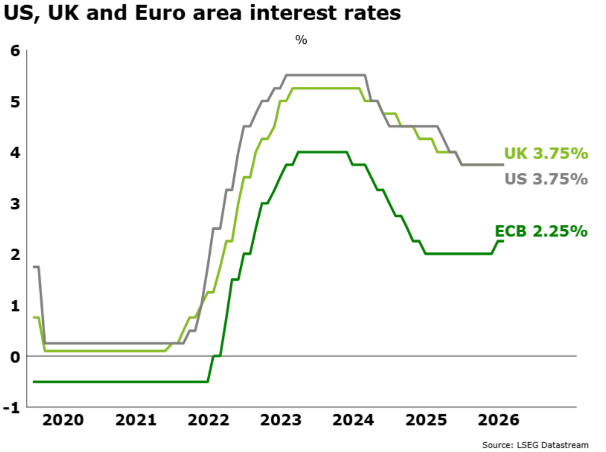
Euro area PMI data indicated growth for a second consecutive month in August, supported by the strongest expansion in the manufacturing sector in over four years due to continued momentum in Germany. Hiring also improved modestly last month amid rising output and new orders. However, input costs remain elevated and business sentiment remains subdued compared with the start of the year, reflecting continued disruption to global energy production. Euro area inflation increased further to 3.3% in August and is expected to remain above the 2% target level throughout the remainder of 2026. Financial markets expect the European Central Bank to raise interest rates next week by 25 basis points, the second rate rise this year, taking the ECB's main deposit rate to 2.5% (adjoining chart).

UK: Headline & alternative measures of inflation

Evolution of US interest rate expectations



US, UK and Euro area interest rates



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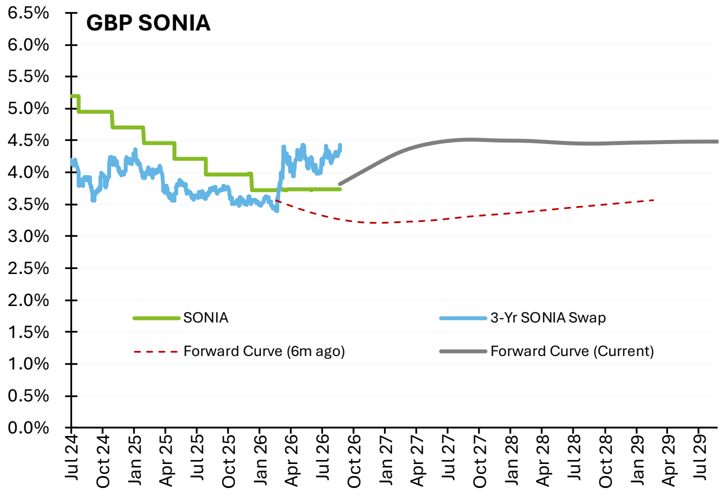
Interest Rate Markets

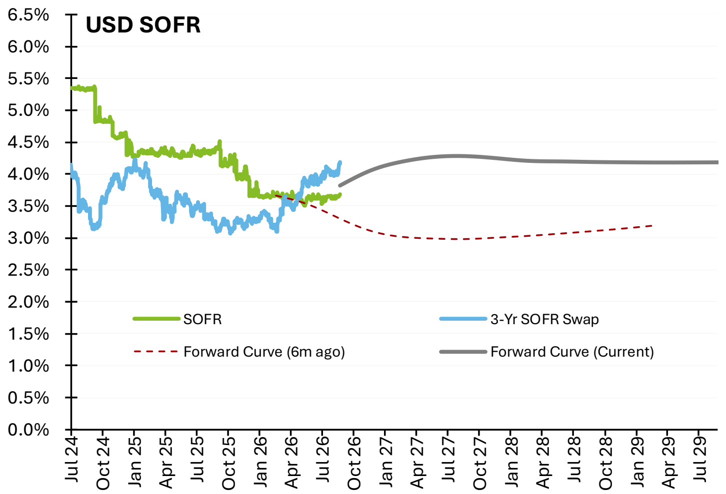
Inflation developments diverged across major economies during August. Eurozone inflation increased to 3.3% in August from 2.9% in July, while UK inflation rose 0.3% to 2.9%, reflecting ongoing energy-driven and Services price pressures. In contrast, US inflation eased marginally to 3.4% in July from 3.5% previously. Despite the softer US inflation reading, recent comments from Federal Reserve Chair Kevin Warsh reinforced a hawkish policy stance, with markets increasing expectations of further tightening as policymakers continue to emphasise that inflation remains above target. As a result, investors remain focused on whether recent energy-related inflation pressures prove temporary or lead to a more prolonged period of restrictive monetary policy across the major economies.



- 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 29 July, with markets pricing an 85% chance of another hold in rates at the upcoming BofE MPC meeting on 17 September.
- The rise in the front end of the forward curve has softened from the heightened volatility seen in early March, though a single rate hike is still expected later this year.
- The 3-year SONIA Swap rate is 4.38%, vs. 3.37% 6 months ago, and up 11bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	4.33%	4.38%	4.44%
Cap @ 4.25% (premium)*	£0.86m	£1.63m	£6.25m
Cap @ 4.50% (premium)*	£0.68m	£1.36m	£3.01m
Cap @ 4.75% (premium)*	£0.55m	£1.15m	£2.63m

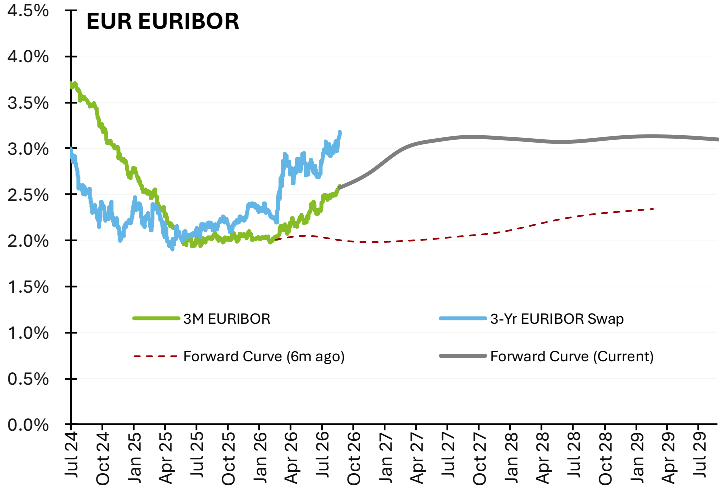
*£100m hedge notional



- The Federal Reserve's Federal Open Market Committee (FOMC) held the federal funds target range at 3.50% – 3.75% at its 29 July, with the committee noting economic activity expanded at a solid pace despite elevated uncertainty, with strong productivity growth and capital investment.
- SOFR is currently 3.65% with markets pricing a 57% probability of a rate hike at the 16 Seprember meeting, with a 43% expectation for a hold in rates.
- The 3-year SOFR Swap rate is currently 4.17% vs. 3.15% 6 months ago; and up 14bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	4.16%	4.17%	4.19%
Cap @ 4.00% (premium)*	$0.93m	$1.64m	$3.29m
Cap @ 4.25% (premium)*	$0.69m	$1.30m	$2.75m
Cap @ 4.50% (premium)*	$0.52m	$1.04m	$2.32m

*$100m hedge notional



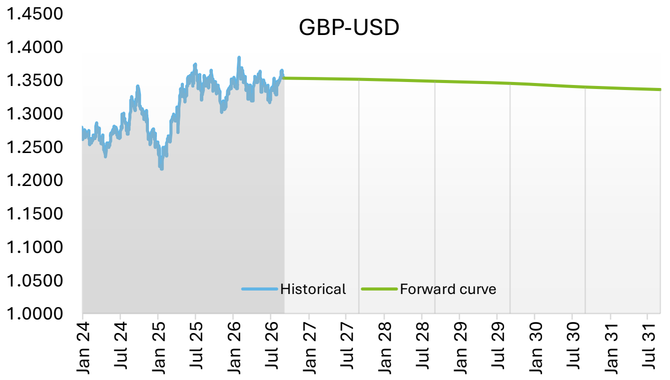
- 3-month EURIBOR has remained elevated at 2.57% in July. The ECB held rates at its meeting on 23 July, after raising interest rates by 25bps at its meeting on 11 June.
- Despite the recent hold, market expectations have shifted, with markets now pricing a 99% probability of a rate hike at the next ECB meeting (10 September). Medium to longer-term swap rates remain relatively flat, allowing investors to hedge longer-term exposures at similar rates.
- The 3-year EURIBOR Swap rate is currently 3.02% vs. 2.03% 6 months ago, up 21bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	2.97%	3.02%	3.06%
Cap @ 2.75% (premium)*	€0.77m	€1.47m	€2.99m
Cap @ 3.00% (premium)*	€0.54m	€1.11m	€2.41m
Cap @ 3.25% (premium)*	€0.39m	€0.86m	€1.98m

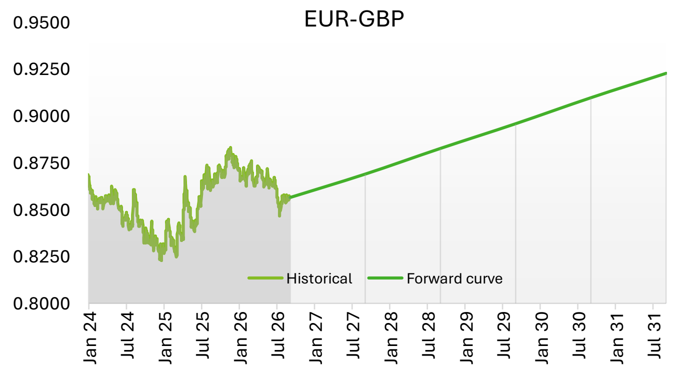
*€100m hedge notional

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 1 September 2026

Currency Markets



- Month-on month Sterling strengthened modestly against the US dollar, with GBP-USD rising from around 1.3428 on 03 August to 1.3515 as of 01 September, after touching a monthly high of 1.3649 on 25 August.
- While US inflation eased slightly, comments from Fed Chair Kevin Warsh reinforced expectations that US interest rates may remain higher for longer, increasing the probability of a September rate hike. In contrast, although UK inflation increased to 2.9%, Bank of England officials have continued to characterise recent energy-driven price pressures as unlikely to generate significant second-round inflation effects.
- Despite this, the possibility of a rise in the BoE rate later this year has helped Sterling retain its recent gains.



- EUR has remained relatively flat compared to month-end July '26.
- Markets are almost fully pricing a further ECB rate hike in September, contrasting with only the potential single hike by year-end in the UK. This divergence in policy expectations provided some support for the euro but was insufficient to drive a sustained move higher against Sterling.
- The 1-year forward rate is currently 0.869 compared to the current spot rate of 0.857, reflecting a forward premium for EUR-GBP of approximately 1.4% (compared to 1.9% last year), reflecting the narrower expected interest rate differential between the Eurozone and the UK.

GBP-USD Spot Rate: 1.354	6mo	12mo	18mo
Forward rate	1.353	1.352	1.351
GBP Put Option* (ATMS**)	$2.50m	$3.90m	$4.91m
GBP Put Option* (5% OTMS***)	$0.65m	$1.72m	$2.59m
* GBP 100m Put option premium			
** At-the-money Spot rate:		1.354	
*** 5% Out-of-the-money vs Spot rate:		1.286	

EUR-GBP Spot Rate: 0.857	6mo	12mo	18mo
Forward rate	0.862	0.869	0.876
GBP Put Option* (ATMS**)	€ 1.77m	€ 3.09m	€ 4.10m
GBP Put Option* (5% OTMS***)	€ 0.28m	€ 1.03m	€ 1.73m
* GBP 100m Put option premium			
** At-the-money Spot rate:		0.857	
*** 5% Out-of-the-money vs Spot rate:		0.899	

Data source: Refinitiv, ICE Data Derivatives and Deloitte Analysis, as of 1 September 2026

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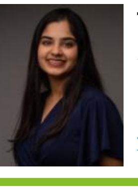

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