

**Deloitte.**



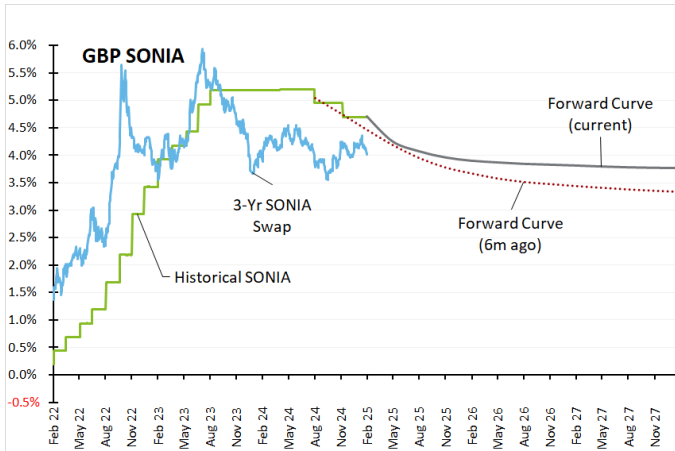
IR and FX Newsletter  
February 2025



# Interest Rate Markets

The Fed held interest rates steady at their January 2025 meeting, as expected, while the ECB implemented a 25bps rate cut. Chair Powell's press conference reinforced the Fed's commitment to a data-dependent approach, stating that the FOMC is in no hurry to adjust rates, and cuts hinge on inflation or labour market deterioration. He emphasized the current policy stance remains restrictive.

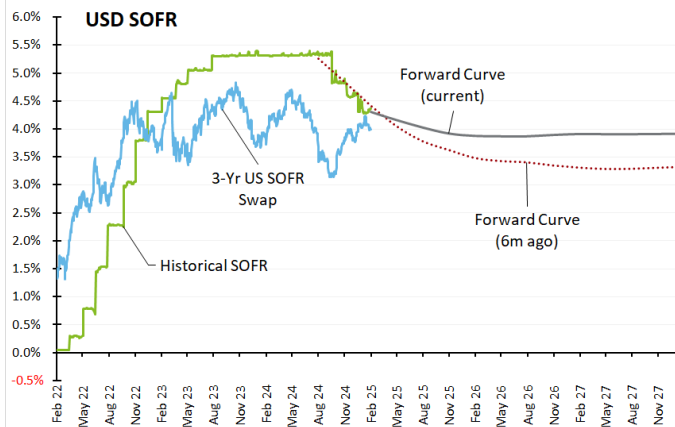
The Bank of England (BOE), scheduled to meet on February 6th, is expected to cut rates by 25bps. Looking ahead to the next round of policy meetings, market expectations indicate the ECB will cut rates by an additional 25bps while both the Fed and the BofE are more likely to hold rates steady.



- The underlying SONIA is 4.70%.
- The BOE held rates at 4.75% at their policy meeting on 19 December. Market consensus indicates an 86% probability of a 25bps interest rate cut at the next meeting on 6th February.
- The 3-year SONIA Swap rate is 3.96%, vs. 3.81% 6 months ago, down ~12bps month-on-month.
- The forward curve now prices in two rate cuts in H1 2025, before flattening out for the long-term.

	2-year	3-year	5-year
Swap rate (mid level)	4.03%	3.96%	3.89%
Cap @ 4.50% (premium)*	£0.41m	£0.92m	£2.22m
Cap @ 4.75% (premium)*	£0.30m	£0.74m	£1.90m
Cap @ 5.00% (premium)*	£0.23m	£0.61m	£1.66m

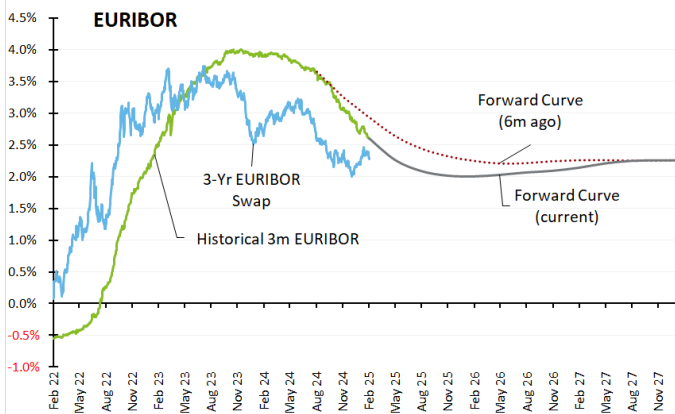
\*£100m hedge notional



- SOFR is inside the Fed Funds current target rate range of 4.25%-4.50%, at 4.36%, following a decision to hold rates on January 29.
- Market expectations are leaning towards a hold at its upcoming March 19th meeting with an 84% probability.
- The 3-year SOFR Swap rate is 3.97% vs. 4.46% 6m ago, though just 3bps lower MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.99%	3.97%	3.96%
Cap @ 4.50% (premium)*	\$0.38m	\$0.89m	\$2.22m
Cap @ 4.75% (premium)*	\$0.28m	\$0.72m	\$1.90m
Cap @ 5.00% (premium)*	\$0.22m	\$0.59m	\$1.65m

\*\$100m hedge notional



- 3-month EURIBOR is 2.61%.
- The ECB cut rates at their policy meeting by 25bps on 30th January, to 2.75%.
- Market consensus indicates an 95% probability of another 25bps interest rate cut at the next meeting on 6th March.
- The 3-year EURIBOR Swap rate is currently 2.19%, vs. 2.58% 6 months ago, although 6bps higher MoM.

	2-year	3-year	5-year
Swap rate (mid level)	2.17%	2.19%	2.25%
Cap @ 2.75% (premium)*	€0.18m	€0.57m	€1.68m
Cap @ 3.00% (premium)*	€0.12m	€0.44m	€1.40m
Cap @ 3.25% (premium)*	€0.08m	€0.35m	€1.16m

\*€100m hedge notional

## What can be done in the current Interest Rate markets?



### Borrowers can fix rates below the current floating rate:

Not only is there no additional cost to fix floating rate exposure, but the current shape of the forward curve still allows borrowers to fix rates at levels below the current floating rate:

- SONIA 3m is 4.70% and a vanilla 5y Swap is 3.89%. On a GBP 100m financing, swapping to fix reduces interest costs in year 1 by **GBP 0.81m**.
- SOFR 3m at 4.36% and a vanilla 5y Swap is 3.96%. On a USD 100m financing, swapping to fix reduces interest costs in year 1 by **USD 0.40m**.
- EURIBOR 3m at 2.61% and a vanilla 5y Swap is 2.25%. On a EUR 100m financing, swapping to fix reduces interest costs in year 1 by **EUR 0.36m**.



### Longer-term hedges remain an attractive proposition:

While the forward curves are not as downward sloping as was seen through much of 2024, there is still limited-to-no premium associated with hedging longer tenors, as would be typical in a 'normal' rate environment:

- |             |                |                |               |
|-------------|----------------|----------------|---------------|
| • GBP swap: | 2-year: 4.03%, | 3-year: 3.96%, | 5-year: 3.89% |
| • USD swap: | 2-year: 3.99%, | 3-year: 3.97%, | 5-year: 3.96% |
| • EUR swap: | 2-year: 2.17%, | 3-year: 2.19%, | 5-year: 2.25% |



### Pre-hedging:

Pre-hedging future debt (assumed closing is in 6 months) allows for locking in swap rates in advance with limited premium over spot-starting trades:

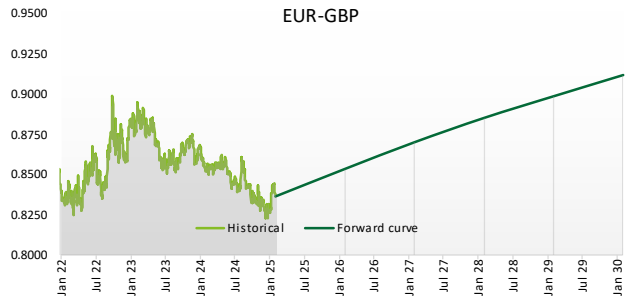
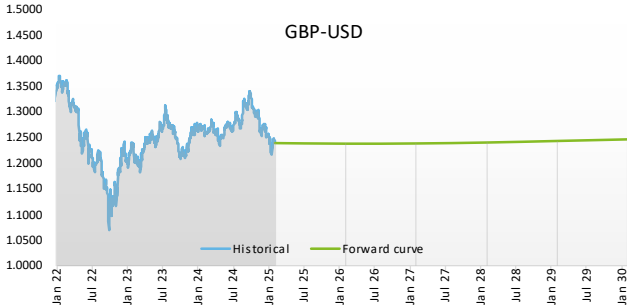
- GBP 5-year Swap starting in 6 months: 3.83%
- USD 5-year Swap starting in 6 months: 3.94%
- EUR 5-year Swap starting in 6 months: 2.24%



### Funding of Hedging costs can be done at favourable rates

Hedging costs for Option products (such as Caps) are typically paid upfront, however these costs can be deferred over time. This cost deferral can often be done via the derivative desks at favourable rates (at SONIA, SOFR or EURIBOR, without application of the similar financing margins); further, debt covenants are not so impacted from this cost deferral.

# Currency Markets



- GBP-USD has strengthened marginally during January on the back of expected near term rate cutting from the BOE.
- Option premia decreased by up to 5.3% MoM, depending on the protection levels sought.
- Forward FX rates remain flat out through 5 years for GBP sellers, suggesting little deviation between interest rate environments across both countries over the medium term.

- The EUR-GBP Spot rate has strengthened by 0.88% MoM as markets digest the ECB rate cut.
- Option premia decreased by up to 9.0% MoM, depending on the protection levels sought.
- Favourable forward exchange rates for EUR sellers persist over the 5-year horizon, driven by expectations of a sustained interest rate differential, with the BOE maintaining relatively higher rates compared to the ECB, which is expected to set rates below those in the UK.

<b>GBP-USD Spot Rate: 1.240</b>	6mo	12mo	18mo
Forward rate	1.238	1.238	1.238
GBP Put Option* (ATMS**)	\$2.85m	\$4.06m	\$4.89m
GBP Put Option* (5% OTMS***)	\$1.01m	\$2.04m	\$2.81m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.240		
*** 5% Out-of-the-money vs Spot rate:	1.178		

<b>EUR-GBP Spot Rate: 0.836</b>	6mo	12mo	18mo
Forward rate	0.845	0.853	0.863
GBP Put Option* (ATMS**)	€2.30m	€3.83m	€5.08m
GBP Put Option* (5% OTMS***)	€0.42m	€1.29m	€2.18m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.836		
*** 5% Out-of-the-money vs Spot rate:	0.878		

Data source: Refinitiv and ICE Data ICE Data Derivatives, as of 31<sup>st</sup> January 2025

## 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](mailto:pesposito@deloitte.co.uk)



**Mark Beckett**  
Director

+44 20 7303 7849  
[mbeckett@deloitte.co.uk](mailto:mbeckett@deloitte.co.uk)



**Svenja Schumacher**  
Director

+44 20 7007 9363  
[scschumacher@deloitte.co.uk](mailto:scschumacher@deloitte.co.uk)



This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please [click here](#) to learn more about our global network of member firms.