



IR and FX Newsletter
February 2026



A Macro View: Good start to 2026 but UK outlook remains weak

UK Purchasing Managers Indices (PMI) reported an acceleration of corporate activity in January to its highest level since April 2024, marking a positive start to 2026. However, external headwinds and a softening labour market mean we continue to forecast a marginal slowdown in UK growth this year. We expect sluggish growth in winter and spring before a gradual pickup in the summer months as lower inflation and interest rates take hold. A slow recovery in global trade should also support UK growth later this year.

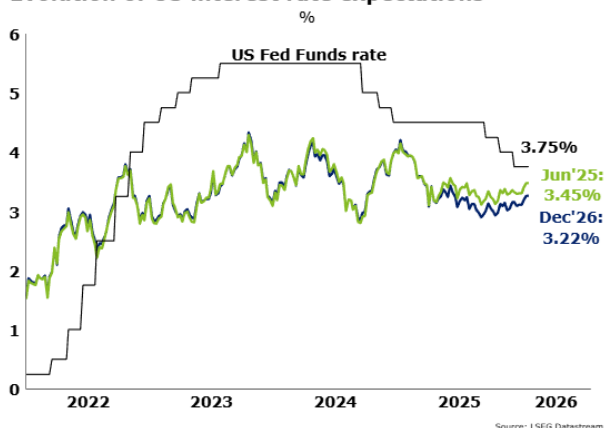
The UK's headline inflation rose by more than expected in December to 3.4%, remaining well above the 2.6% seen in March. Positive real wage growth continues to ensure higher-than-average levels of services inflation (adjoining chart). However, the freezing of some utility prices and cuts to energy bills announced in the November budget should bring headline inflation down this year, with an expectation of reaching the 2% target by autumn. That, alongside a further softening in the labour market should create room for easing of monetary policy. Deloitte's Economic Advisory team expects two further 25-basis-point cuts this year.

UK: Headline & alternative measures of inflation



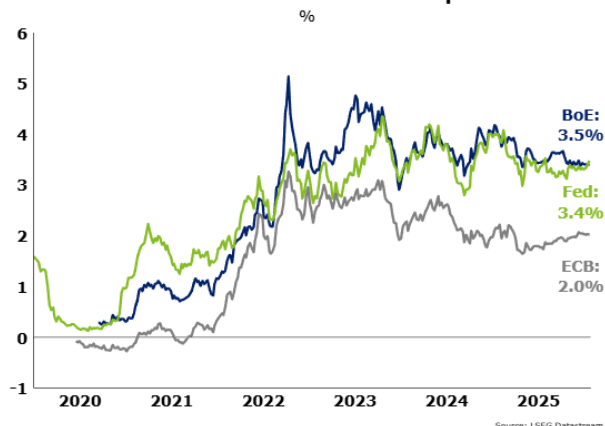
The US economy grew faster-than-expected in the first three quarters of last year, driven by investment in AI infrastructure. More recently, however, PMI data for the US points to a softer pace of expansion over the past two months. Consumer confidence has deteriorated, reflecting concerns over a weakening labour market and higher inflation, which remains elevated compared to last April's low of 2.3%. The government shutdown in the final quarter of 2025 also likely contributed to a weakening in sentiment. The Federal Reserve cut interest rates to 3.5% – 3.75% in December and markets expect two further interest rate cuts by the end of this year (adjoining chart).

Evolution of US interest rate expectations



PMI data indicated continued growth in euro area activity in January following a full year of expansion in 2025, driven by faster German growth. Greater public spending on infrastructure and defence is expected to support a pickup this year. Investor confidence in Germany has also improved over recent months to its highest level in almost five years. France has seen a slowing in activity following elevated levels of political uncertainty in recent months. Overall, with euro area inflation at near target-levels (adjoining chart), markets expect little change in interest rates for the remainder of the year.

Evolution of mid-2026 interest rate expectations



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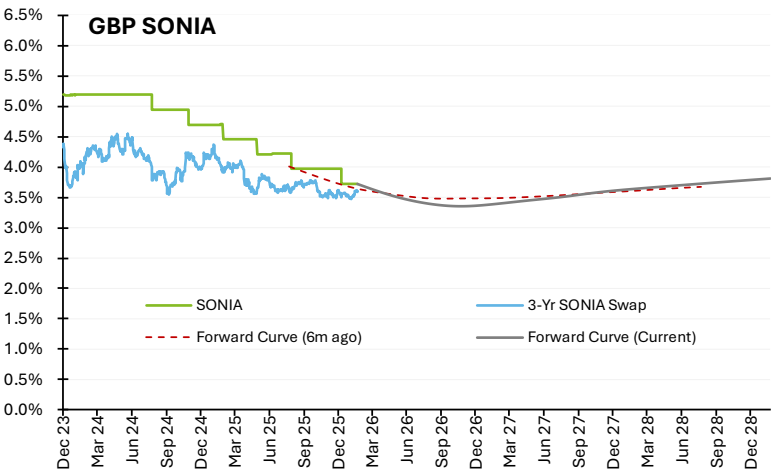


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Interest Rate Markets

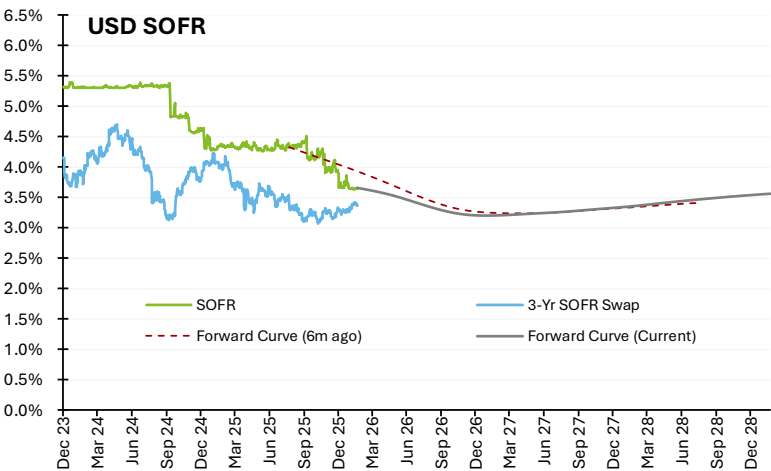
In the UK, inflation rose slightly in December, by 0.2% compared to November, reaching 3.4%, and remains above the Bank of England’s (BoE) target of 2.0%. The current interest rate forward curve reflects a slight dip later this year before rising once again in 2027 and beyond. Across the Atlantic, headline inflation in the US remained at 2.70% for December. The Federal Reserve Board, last week, held rates at the target range of 3.50% - 3.75% and are expected to do so again in March. Meanwhile, the European Central Bank (ECB), that implemented numerous rate cuts totalling 200 bps since June 2024, are now expected to hold rates steady for the foreseeable future; market expectations for the future rate outlook have now shifted to include a potential for rates rising in late 2026.



- The underlying SONIA has remained flat at 3.73% after a 25bps rate cut by BoE in December 2025.
- Markets expect, with 96.6% confidence that this level of 3.75% will be held at the next meeting on 5 February. A single 25bp rate cut is presently priced into forward markets during H1 2026.
- The 3-year SONIA Swap rate is currently 3.56%, vs. 3.63% 6 months ago, and up 8 bps month-on-month.

	2-year	3-year	5-year
Swap rate (mid level)	3.50%	3.56%	3.70%
Cap @ 4.00% (premium)*	£0.18m	£0.59m	£1.89m
Cap @ 4.25% (premium)*	£0.12m	£0.45m	£1.56m
Cap @ 4.50% (premium)*	£0.09m	£0.35m	£1.31m

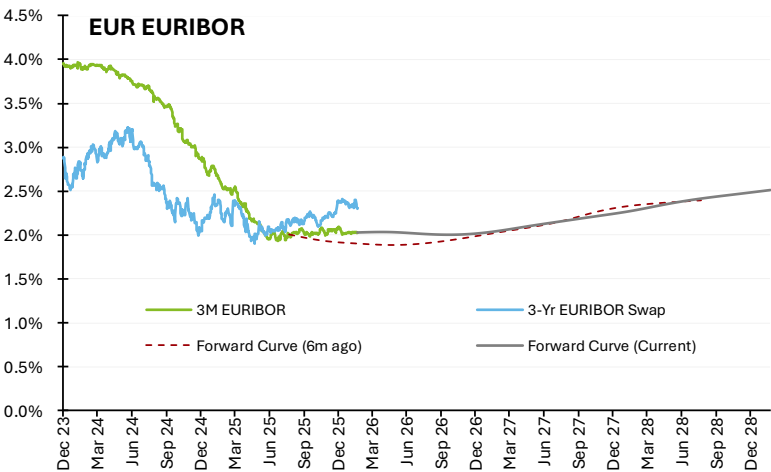
*£100m hedge notional



- The Federal Reserve (Fed) began cutting rates from Sep 2025, with three 25bps cuts leaving the current target range at 3.50% - 3.75%, with SOFR now at 3.64%.
- After holding rates on 28 January, market sentiment indicates that the Fed is likely to hold rates again at its next meeting on 18 March, with current pricing reflecting this at 82% probability.
- The 3-year SOFR Swap rate is now 3.38% vs. 3.43% 6 months ago, but up 8 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	3.35%	3.38%	3.50%
Cap @ 3.75% (premium)*	\$0.24m	\$0.64m	\$1.94m
Cap @ 4.00% (premium)*	\$0.14m	\$0.46m	\$1.57m
Cap @ 4.25% (premium)*	\$0.09m	\$0.35m	\$1.30m

*\$100m hedge notional

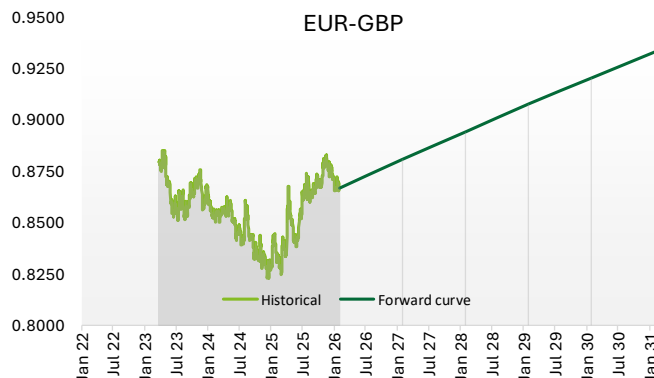
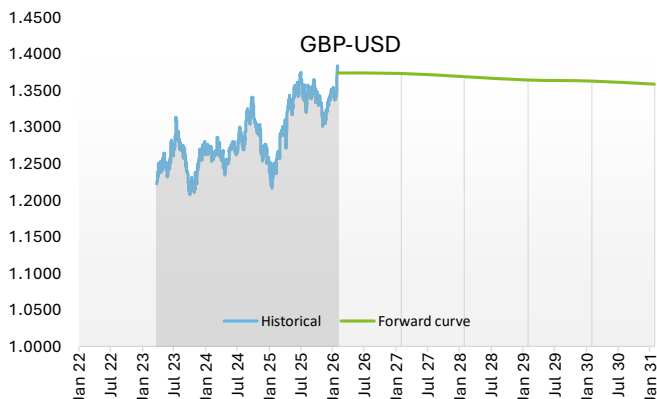


- 3-month EURIBOR is 2.026%.
- Since June 2024 the European Central Bank (ECB) has cut rates 200 bps, with current expectations suggesting no further rate cuts through 2026.
- Market sentiment points towards rates being held (a 98.5% probability) by the ECB at its upcoming meeting on 5 February; with a stable outlook towards year-end before rising on through 2027.
- The 3-year EURIBOR Swap rate is currently 2.17% vs. 2.07% 6 months ago and down 9 bps MoM.

	2-year	3-year	5-year
Swap rate (mid level)	2.07%	2.17%	2.36%
Cap @ 2.25% (premium)*	€0.24m	€0.75m	€2.31m
Cap @ 2.50% (premium)*	€0.15m	€0.54m	€1.84m
Cap @ 2.75% (premium)*	€0.10m	€0.40m	€1.48m

*€100m hedge notional

Currency Markets



- Sterling spot rate strengthened to 1.374, up 2.69 cents or 2.00% compared to December.
- The slight change to the short-term interest rate outlook in the UK vs the US slopes the FX Forward curve upwards over the 6 months.
- Conversely, the FX Forward market rate for year end 2026 reflects a year end rate close to current Spot levels at c. GBP-USD 1.374 and continues to slope downwards thereafter.

- The EUR weakened against the GBP by 0.54% last month, closing at 0.867, drifting down from over 0.87 in January and 0.883 late last year.
- Some market participants anticipate EUR to strengthen towards 0.895 through H1 2026 on the back of potential de-dollarisation.
- The interest rate differential between the Eurozone (c. 2%) and the UK market (c. 3.40%) continues to generate EUR-GBP Forward FX rates that provide a stronger EUR compared to the current Spot rate with, for example, the 1-year Forward Rate at 0.881.

GBP-USD Spot Rate: 1.374			
Forward rate	6mo 1.375	12mo 1.374	18mo 1.372
GBP Put Option* (ATMS**)	\$2.94m	\$4.30m	\$5.30m
GBP Put Option* (5% OTMS***)	\$0.84m	\$1.93m	\$2.87m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.374		
*** 5% Out-of-the-money vs Spot rate:	1.305		

EUR-GBP Spot Rate: 0.867			
Forward rate	6mo 0.874	12mo 0.881	18mo 0.887
GBP Put Option* (ATMS**)	€ 1.83m	€ 2.98m	€ 3.90m
GBP Put Option* (5% OTMS***)	€ 0.37m	€ 1.12m	€ 1.84m
* 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 January 2026

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