# Bank of England holds rates amid Middle East conflict and rising oil prices



London’s financial markets closed lower on Thursday amid heightened geopolitical tensions in the Middle East and a cautious stance from the Bank of England, which opted to leave interest rates unchanged at 4.25%. The FTSE 100 index finished down 0.6%, with the FTSE 250 and AIM All-Share also slipping, reflecting market anxieties over the economic impact of the ongoing Israel-Iran conflict. The Bank’s Monetary Policy Committee (MPC) voted 6-3 to maintain rates, a slightly more dovish distribution than anticipated, with three members favouring a modest cut. This decision underscores the Bank’s cautious approach amid persistent inflation uncertainties and global risks.

The Bank of England’s statement highlighted “two-sided” risks to inflation and urged a gradual, careful withdrawal of monetary restraint to avoid destabilising economic recovery. Governor Andrew Bailey reaffirmed that interest rates remain on a “gradual downward path,” signalling a pace of loosening that remains measured. Analysts noted the retention of this careful language as pivotal for market confidence. ING commented that while the split vote is not a strong signal, the Bank is likely to pursue rate cuts later in the year, possibly in August, unless external shocks, such as rising oil prices, intervene.

Oil prices indeed rose sharply on fears that the Middle East conflict could worsen, with Brent crude climbing above $78 a barrel, up from around $75 the previous day. Citibank analysts forecast that disruption of approximately 1.1 million barrels per day of Iranian oil exports could push prices further into the mid-to-high $70 range. This spike benefits energy giants like BP and Shell, which saw gains in their share prices, but weighs heavily on airlines such as British Airways’ parent IAG and easyJet due to higher fuel costs and potential travel disruptions.

The geopolitical situation remains fraught and complex. Israel’s Defence Minister Israel Katz made incendiary remarks calling for the removal of Iran’s Supreme Leader, Ayatollah Ali Khamenei, citing his hostility toward Israel. The U.S. President Donald Trump has stated that although the U.S. is aware of Khamenei’s location, it will not take immediate action against him “for now.” Meanwhile, senior U.S. officials reportedly prepare for the possibility of military strikes on Iran, with Russian officials issuing stern warnings about the heightened risk of a broader regional conflict and even nuclear catastrophe. This has injected a layer of uncertainty that permeates financial markets and policy circles alike.

European stock indices suffered broader declines alongside London’s markets, with Paris’s CAC 40 and Frankfurt’s DAX each down by about 1.1%. Asian markets followed suit, reflecting global apprehension over the potential fallout of the escalating conflict. Financial commentators have noted that this geopolitical unrest, combined with ongoing tariff tensions and a weakening U.S. dollar, complicates the navigation of monetary policy for central banks worldwide. Recent unexpected interest rate moves by Norway and Switzerland illustrate the volatility and unpredictability central banks face.

In the UK, the conflict’s economic repercussions were evident beyond oil price volatility. Mining stocks, sensitive to inflation and growth concerns, declined notably. Retail and service sectors also showed strain; Whitbread reported a drop in group sales, with particular weakness in accommodation and food services. Staffing firm Hays warned of weaker-than-expected profit results, citing a tough jobs market where businesses hesitate to increase permanent hires amidst economic caution. This sentiment was echoed by analysts who see broader implications for recruitment groups that rely heavily on permanent placements.

Against this backdrop of geopolitical flux and cautious monetary policy, investors are grappling with an economic landscape that presents both inflationary pressures and growth risks. The Bank of England’s cautious tone, combined with rising energy costs and volatile markets, points to a delicate balancing act ahead. How policymakers and markets respond to these intertwined challenges will shape the economic trajectory in the months to come.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.independent.co.uk/news/business/bank-of-england-ayatollah-ali-khamenei-dave-ramsden-donald-trump-russ-mould-b2773365.html), [[5]](https://www.apnews.com/article/8838e511334ba17c5e5495e7b13b48f7)
* Paragraph 2 – [[1]](https://www.independent.co.uk/news/business/bank-of-england-ayatollah-ali-khamenei-dave-ramsden-donald-trump-russ-mould-b2773365.html), [[2]](https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2025/may-2025), [[6]](https://www.reuters.com/business/finance/oil-war-tariffs-tear-up-markets-central-bank-roadmap-2025-06-19/)
* Paragraph 3 – [[1]](https://www.independent.co.uk/news/business/bank-of-england-ayatollah-ali-khamenei-dave-ramsden-donald-trump-russ-mould-b2773365.html), [[3]](https://www.reuters.com/business/energy/citi-sees-oil-prices-75-78bbl-if-war-disrupts-11-mln-bpd-irans-oil-exports-2025-06-19/), [[6]](https://www.reuters.com/business/finance/oil-war-tariffs-tear-up-markets-central-bank-roadmap-2025-06-19/)
* Paragraph 4 – [[1]](https://www.independent.co.uk/news/business/bank-of-england-ayatollah-ali-khamenei-dave-ramsden-donald-trump-russ-mould-b2773365.html), [[4]](https://www.ft.com/content/41a767ac-2641-4f0d-a9ed-829db77b7a3a), [[7]](https://www.time.com/7295939/russia-iran-israel-us-war-nuclear-catastrophe-trump-putin-khamenei/)
* Paragraph 5 – [[1]](https://www.independent.co.uk/news/business/bank-of-england-ayatollah-ali-khamenei-dave-ramsden-donald-trump-russ-mould-b2773365.html), [[5]](https://www.apnews.com/article/8838e511334ba17c5e5495e7b13b48f7), [[6]](https://www.reuters.com/business/finance/oil-war-tariffs-tear-up-markets-central-bank-roadmap-2025-06-19/)
* Paragraph 6 – [[1]](https://www.independent.co.uk/news/business/bank-of-england-ayatollah-ali-khamenei-dave-ramsden-donald-trump-russ-mould-b2773365.html)
* Paragraph 7 – [[1]](https://www.independent.co.uk/news/business/bank-of-england-ayatollah-ali-khamenei-dave-ramsden-donald-trump-russ-mould-b2773365.html)

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## Bibliography

1. <https://www.independent.co.uk/news/business/bank-of-england-ayatollah-ali-khamenei-dave-ramsden-donald-trump-russ-mould-b2773365.html> - Please view link - unable to able to access data
2. <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2025/may-2025> - In May 2025, the Bank of England's Monetary Policy Committee voted to reduce the Bank Rate by 0.25 percentage points to 4.25%. The decision was influenced by ongoing inflationary pressures and global economic uncertainties. The Committee highlighted the need for a gradual and careful approach to withdrawing monetary policy restraint to ensure inflation returns sustainably to the 2% target. The vote was 5-4, with some members preferring a more aggressive rate cut, reflecting differing views on the appropriate monetary policy stance.
3. <https://www.reuters.com/business/energy/citi-sees-oil-prices-75-78bbl-if-war-disrupts-11-mln-bpd-irans-oil-exports-2025-06-19/> - Citibank analysts have projected that if the escalating conflict between Israel and Iran disrupts 1.1 million barrels per day of Iranian oil exports, Brent crude prices could rise to between $75 and $78 per barrel. This represents a 15% to 20% increase from pre-conflict levels. The analysis underscores the significant impact geopolitical tensions in the Middle East can have on global oil prices, highlighting the sensitivity of the oil market to regional conflicts and the potential for substantial price volatility.
4. <https://www.ft.com/content/41a767ac-2641-4f0d-a9ed-829db77b7a3a> - As tensions escalate following Israel's assault on Iran, U.S. President Donald Trump is deliberating whether to join the conflict, weighing potential risks of retaliatory actions by Tehran. Iran's Supreme Leader has warned of 'irreparable damage' if the U.S. intervenes, prompting American officials to consider a spectrum of threats, including missile and drone strikes on U.S. bases in the Middle East, cyberattacks, and disruptions in vital oil routes such as the Strait of Hormuz. The U.S. currently has approximately 40,000 military personnel spread across bases in the region, many of which are vulnerable to Iranian attacks.
5. <https://www.apnews.com/article/8838e511334ba17c5e5495e7b13b48f7> - Global stock markets declined amid growing concerns over the escalating conflict between Israel and Iran. The crisis, now in its seventh day following Israeli airstrikes on Iranian military and nuclear sites, has roiled financial markets and raised fears of disrupted oil supplies. European indices, including France’s CAC 40, Germany’s DAX, and the UK’s FTSE 100, all posted losses, while U.S. futures pointed lower. In Asia, Japan’s Nikkei fell 1.0%, though Nippon Steel shares rose after securing its U.S. Steel acquisition. Hong Kong and Shanghai markets also declined, while South Korea’s Kospi showed modest gains.
6. <https://www.reuters.com/business/finance/oil-war-tariffs-tear-up-markets-central-bank-roadmap-2025-06-19/> - Growing global uncertainties from U.S. tariffs, Middle East conflicts, and a weakening dollar are upending central bank policies and unsettling markets. Norway's unexpected rate cut and Switzerland's move to 0% borrowing costs highlight central banks' difficulty in navigating an unpredictable environment. The U.S. Federal Reserve remains cautious, with Chairman Jerome Powell admitting uncertainty over future rates. Investors face mounting risks as traditional economic models fail in the face of increased geopolitical tensions and volatile oil prices. The dollar, weakened by trade stress and rising government debt, complicates forecasts, while the Swiss franc strengthens, aggravating deflation pressures.
7. <https://www.time.com/7295939/russia-iran-israel-us-war-nuclear-catastrophe-trump-putin-khamenei/> - As tensions escalate between Iran and Israel, President Donald Trump is reportedly considering U.S. military strikes on Iran’s nuclear facilities, prompting strong warnings from Russia. Russian Deputy Foreign Minister Sergei Ryabkov cautioned that a U.S. intervention could destabilize the entire region, while Foreign Ministry spokesperson Maria Zakharova warned the world is 'millimeters' from nuclear disaster. Trump has demanded Iran's 'unconditional surrender,' a move firmly rejected by Iran’s Supreme Leader, Ayatollah Khamenei, who threatened severe consequences if the U.S. joins the conflict. Despite aggressive rhetoric, both nations have issued mixed signals regarding diplomatic resolutions.