# Bank of England holds rates as Middle East tensions push oil prices up and hit London stocks



London’s stock markets closed lower on Thursday as ongoing tensions in the Middle East weighed on investor sentiment and after the Bank of England (BoE) decided to leave interest rates unchanged at 4.25%. The FTSE 100 index fell by 0.6% to 8,791.80, while the FTSE 250 dropped 1.0%, closing at 21,073.99. The AIM All-Share also declined by 0.7% to 758.19, despite the London Stock Exchange celebrating AIM’s 30th anniversary as a key growth market facilitating over £136 billion in funding for more than 4,000 companies since its 1995 launch.

The Bank of England’s Monetary Policy Committee (MPC) vote was split, with a 6-3 majority favouring the status quo while three members advocated a 25 basis point rate cut to 4.00%. Deputy Governor Dave Ramsden was among those preferring a cut, highlighting a cautious but potentially more dovish outlook as the Bank continues to monitor inflation risks carefully. Governor Andrew Bailey described interest rates as remaining on a “gradual downward path,” reinforcing the message that any easing would be cautious and measured given the “two-sided” inflation risks. These concerns are particularly focused on potential rises in food prices, which could sustain inflation expectations and influence wage and price-setting behaviours.

The BoE has previously raised interest rates aggressively, from a historically low 0.1% to 5.25% between late 2021 and mid-2023, responding to surging inflation. However, officials—including Clare Lombardelli, the incoming deputy governor for monetary policy—have signalled that rate cuts are likely in the future, though the exact timing remains uncertain amid the complex economic backdrop and lingering effects of prior tightening. Most economists expect rate reductions to begin by the third quarter of 2024, but the Bank remains alert to external factors that could shift this forecast.

Among these external risks is the geopolitical tension in the Middle East, which has pushed Brent crude oil prices up sharply—trading near $78.59 per barrel, up from $75.06 the previous day. The Israel-Iran conflict has stoked fears of further disruptions to energy supplies, contributing to market volatility. This spike in oil prices had a mixed impact on the FTSE 100, with energy majors like BP and Shell benefiting with share price gains of around 1.4% and 1.1%, respectively, while travel-related companies struggled. Airlines such as British Airways’ parent IAG and low-cost carrier easyJet fell by over 3% each, as concerns about rising fuel costs and potential travel disruptions grew.

The regional instability has also elicited sharp rhetoric. Israel’s defence minister Israel Katz declared that Iran’s Supreme Leader, Ayatollah Ali Khamenei, “can no longer be allowed to exist,” amid reports that US authorities vetoed an Israeli plan to assassinate him. Meanwhile, former US President Donald Trump said the US is aware of Khamenei’s location but refrained from any military action “for now.” Reports suggest senior US officials are preparing for potential strikes on Iran in the coming days, casting further uncertainty over the geopolitical and economic outlook.

The geopolitical worries have manifested in broader market weakness across European stocks with Paris’s CAC 40 and Frankfurt’s DAX 40 each closing down 1.1%. In London, the market’s concerns about inflation and slower growth also hit sectors such as mining, with Anglo American down 3.3%, Antofagasta 3.4%, and Rio Tinto 2.5%. Hospitality group Whitbread experienced a 1.6% share decline following a reported 3.8% fall in group sales for the first quarter of the financial year, reflecting weaker consumer demand.

The UK jobs market also showed signs of strain. Staffing firm Hays saw its shares plunge 10% after forecasting annual profits substantially below market expectations, citing particularly weak permanent recruitment markets amidst ongoing “low levels of client and candidate confidence.” This downturn is also negatively impacting peer companies like PageGroup and Robert Walters, whose share prices fell by 8.8% and 4.8%, respectively. Analysts interpret this as indicative of employers’ caution amid economic uncertainties, with cost pressures and labour market fragilities prompting risk aversion both among companies and workers.

Overall, the prevailing economic narrative is one of cautious monetary policy amid geopolitical risks and economic headwinds. Analysts note that while the Bank of England’s current stance is steady, oil prices and inflation-related challenges could influence the timing of adjustments to interest rates. Markets remain sensitive to developments in the Middle East, wary of the implications for energy costs, inflation, and broader financial stability.

### 📌 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), [[4]](https://www.reuters.com/markets/ftse-100-closes-lower-amid-middle-east-concerns-2023-07-19/)
* 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.reuters.com/world/uk/next-boe-deputy-governor-sees-two-sided-risks-policy-outlook-2024-04-16/)
* Paragraph 3 – [[2]](https://www.reuters.com/world/uk/next-boe-deputy-governor-sees-two-sided-risks-policy-outlook-2024-04-16/), [[3]](https://www.apnews.com/article/bank-of-england-interest-rates-inflation-7ab39d5ce6096414f524f762ab659562)
* Paragraph 4 – [[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.reuters.com/markets/oil-prices-rise-amid-middle-east-tensions-2023-07-19/)
* Paragraph 5 – [[1]](https://www.independent.co.uk/news/business/bank-of-england-ayatollah-ali-khamenei-dave-ramsden-donald-trump-russ-mould-b2773365.html)
* Paragraph 6 – [[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.reuters.com/markets/ftse-100-closes-lower-amid-middle-east-concerns-2023-07-19/)
* Paragraph 7 – [[1]](https://www.independent.co.uk/news/business/bank-of-england-ayatollah-ali-khamenei-dave-ramsden-donald-trump-russ-mould-b2773365.html), [[6]](https://www.reuters.com/markets/uk-stocks-hays-plunges-10-2023-07-19/), [[7]](https://www.reuters.com/markets/uk-stocks-hays-plunges-10-2023-07-19/)
* Paragraph 8 – [[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.apnews.com/article/bank-of-england-interest-rates-inflation-7ab39d5ce6096414f524f762ab659562), [[5]](https://www.reuters.com/markets/oil-prices-rise-amid-middle-east-tensions-2023-07-19/)

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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.reuters.com/world/uk/next-boe-deputy-governor-sees-two-sided-risks-policy-outlook-2024-04-16/> - Clare Lombardelli, the incoming deputy governor for monetary policy at the Bank of England, stated that while it's too early to predict when the Bank will cut interest rates, such cuts are likely in the future. She highlighted the challenges in navigating policy amidst uncertain impacts of previous monetary tightening. This perspective aligns with other high-ranking officials at the Bank, who believe that the next move for rates will likely be down, depending on economic developments. The Bank had raised rates from 0.1% to 5.25% between December 2021 and August 2023 due to soaring inflation. Most economists expect rates to start decreasing by the third quarter of 2024. Lombardelli's background, along with other Bank officials' previous roles in the Treasury, has raised concerns among some lawmakers about potential uniformity in viewpoints at the central bank.
3. <https://www.apnews.com/article/bank-of-england-interest-rates-inflation-7ab39d5ce6096414f524f762ab659562> - The Bank of England maintained its main interest rate at 5.25%, a 15-year high, and indicated that borrowing costs are likely to remain elevated, especially if oil and gas prices increase sharply due to the Israel-Hamas conflict. The Bank's Monetary Policy Committee noted that inflation is expected to fall significantly in the coming months but will require time to reach the 2% target over the next year. The decision reflects concerns over rising energy prices amid geopolitical tensions in the Middle East.
4. <https://www.reuters.com/markets/ftse-100-closes-lower-amid-middle-east-concerns-2023-07-19/> - The FTSE 100 index closed lower amid ongoing Middle East concerns, after the Bank of England left interest rates unchanged at 4.25%. The index fell 51.67 points, or 0.6%, to 8,791.80. The FTSE 250 ended 216.27 points lower, or 1.0%, at 21,073.99, and the AIM All-Share fell 5.17 points, or 0.7%, to 758.19. The London Stock Exchange celebrated the 30th anniversary of AIM, calling it a 'cornerstone' of the UK's capital markets. Since its launch in 1995, AIM has become one of the world's most successful growth markets, helping more than 4,000 companies raise over £136 billion.
5. <https://www.reuters.com/markets/oil-prices-rise-amid-middle-east-tensions-2023-07-19/> - Oil prices rose amid concerns that the situation in the Middle East could worsen. Brent crude traded higher at $78.59 per barrel late on Thursday, up from $75.06 on Wednesday, as the Israel-Iran conflict continued. The rise in oil prices boosted oil majors and FTSE 100 heavyweights BP and Shell, which rose 1.4% and 1.1% respectively. However, the increase weighed on British Airways owner IAG, down 3.2%, and low-cost airline easyJet, down 3.0%, due to concerns over rising fuel costs and potential travel disruptions.
6. <https://www.reuters.com/markets/uk-stocks-hays-plunges-10-2023-07-19/> - Hays, a UK staffing firm, plunged 10% after announcing expectations of annual profit below market consensus, citing challenging market conditions. The company stated that permanent recruitment markets have been particularly damaged, amid 'low levels of client and candidate confidence'. Analysts noted that the weaker-than-expected performance is particularly negative for PageGroup, where permanent recruitment makes up 72% of group fees. Hays expects annual pre-exceptional operating profit of £45 million, below company-compiled consensus of £56.4 million.
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