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Market View

Central banks divided amid geopolitical pressures

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At a glance

Central banks hold rates as supply chain disruptions persist

Division among central bank members reaches multi-decade highs

Banks' future paths influenced by inflation risks and weaker growth

Ever since the conflict broke out in Iran, investors have been trying to get a sense of how central banks will navigate the ongoing supply shock caused by the war, which has disrupted trade through the Strait of Hormuz.

Central banks met shortly after the war began, but the length and scale of the conflict were unclear, driving them to hold rates steady and adopt a wait-and-see approach while assessing how economies may respond to enduring supply shocks.

It has been two months since the start of the conflict, but encouragingly, an announced ceasefire in early April remains in place and negotiations continue. This has given central banks a clearer sense of the trade-offs between growth and inflation. One key variable is how quickly oil supply and other commodities will flow through the waterway, which remains subject to blockades, and what the subsequent knock-on effects may be for production and consumers around the world. In recent days, reports have suggested that hostilities may resume, which has pushed energy costs higher.

Supply disruptions surface across sectors

Disruptions to energy and shipping routes are beginning to filter through to specific industries, affecting everything from travel to advanced manufacturing.

On 28 April, the International Air Transport Association warned that a jet fuel shortage is already leading to flight cancellations in Asia and could expand to Europe by the end of May, just ahead of the peak summer period.¹ Booking Holdings, the parent company of Booking.com, saw shares fall after the company trimmed its 2026 full-year growth outlook due to the ongoing Middle East conflict disrupting travel demand.²

Helium, which plays an important role in the AI supply chain and data centre build-out, is also feeling knock-on effects. Helium is used in multiple critical stages of chip manufacturing, and viable large-scale substitutes remain limited.³ Qatar accounts for roughly 30% of global high-purity helium supply, where it is collected as a byproduct of natural gas production. Following the attacks on the Ras Laffan industrial complex, some suppliers, including Air Liquide's Airgas subsidiary, declared force majeure, citing temporary disruptions that limited their ability to fulfil contracted supply volumes.⁴

Central banks navigate shifting inflation/growth balance

Against this backdrop, key global central banks met this week, providing insight into how they plan to steer policy. The Federal Reserve (Fed) kept rates steady as expected but saw the largest dissent among its members since 1992.⁵ While Chairman Jerome Powell stated that “nobody’s calling for a hike right now”⁶ as policy is in a good place, members are now debating how explicit the Fed should be about the direction of future policy moves. This resulted in three members saying that they “did not support an easing bias.” At the meeting on 29 April, which is Powell’s last as chairman, he said he plans to stay on as governor until the Department of Justice investigation has concluded. He can hold this position until January 2028, setting the scene for more division at the Fed should Kevin Warsh be sworn in as the next chair.⁷

Unsurprisingly, both the Bank of England (BoE) and the European Central Bank (ECB) kept rates steady at their April meetings despite inflation rising in the region – European economies are more affected than the US by the closure of the Strait of Hormuz given the continent’s reliance on imported energy.

The BoE held rates steady at 3.75% in an 8-1 vote, setting out three potential scenarios for how the economy would respond to various energy cost assumptions. The most severe assumption would see rates increase materially from current levels. However, the other two scenarios show that modest rate increases could be an option. Looking ahead, Governor Andrew Bailey said that future policy decisions will “depend on the size and duration of the energy price shock”, focusing on the persistence of second-round effects.⁸

The ECB similarly stressed that “the longer the war continues and the longer energy prices remain high, the stronger the likely impact on broader inflation and the economy.”⁹ Eurozone bond yields have risen markedly since the end of February, resulting in tightening financial conditions. The ECB’s latest bank lending survey shows banks are being more discerning before lending, given the uncertain economic outlook. This is a key consideration for all central banks as government bond yields have risen sharply, so future rate hikes could tighten financial conditions further, creating downside risks to growth.

The Bank of Japan (BoJ) also met earlier this week, where members voted 6-3 to keep rates steady, with three dissenting members voting to raise rates to 1%, arguing that the Middle East conflict would push inflation higher. We are more accustomed to seeing splits like this at the BoE, but such divisions are relatively rare in Japan. To put this into context, the last time the BoJ had multiple dissenters was in 2016, when it adopted negative interest rates.

In summary

The divisiveness seen across some central banks this week underscores the high degree of uncertainty that now defines global monetary policy.

After several years of repeated supply-side shocks, central banks are more alert to the risk of persistent inflation. Policy rates are much higher than they were during the last two shocks, which gives central banks more room to proceed cautiously rather than launch another

aggressive rate-hiking cycle. Compared to the last two shocks – Covid and Russia’s invasion of Ukraine – governments have provided less fiscal support to households, which will likely weigh on households and businesses. Taken together, this points to a global backdrop where higher inflation coincides with softer growth.

At current interest rate levels, central banks have the flexibility to monitor developments before making abrupt policy decisions. Energy costs are the key variable in determining central banks’ path forward. Should we see a bumpy but constructive path forward, central banks may choose to look past the immediate effects of this supply shock.

[1] [IATA - IATA Statement on Potential Jet Fuel Shortages](#)

[2] [Q1-26 BKNG Earnings Release](#)

[3] [The AI economy runs on helium. The Iran war just created a \\$650 billion problem | Fortune](#)

[4] [The AI economy runs on helium. The Iran war just created a \\$650 billion problem | Fortune](#)

[5] Deutsche Bank

[6] [Takeaways from Powell’s final news conference as Fed chair. - The New York Times](#)

[7] [Takeaways from Powell’s final news conference as Fed chair. - The New York Times](#)

[8] [UK interest rates held at 3.75% as Iran war uncertainty continues - follow latest - BBC News](#)

[9] [European Central Bank keeps rates on hold as inflation jumps](#)

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