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The Potential Relationship Between the Fed's Rate Cut and the Global Economy

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Abstract

The recent decision by the Federal Reserve Board to cut interest rates has been hotly debated due to growing uncertainty about the US economy. The article provides an in-depth analysis of the potential risks facing the US economy and discusses the need for the rate cut. Based on this, the project will delve into the combined effects of the Federal Reserve's interest rate cut on the US economy, and discuss the positive role it will play in reducing inflation. Finally, the paper also argues that the Fed's interest rate cut is likely to trigger risks in global financial markets and will slow the recovery of the world economy. Considering the limited impact of the U.S. rate cut on the Chinese economy, it is still needed to continue to pay attention to possible asset price bubbles while remaining vigilant.

Keywords

U.S. economy, Federal Reserve Board interest rate cuts, Chinese economy, inflation, world economy, Japanese interest rate hikes

1. Introduction

The global economy has stabilised since the 2008 economic crisis. However, due to the emergence of a new type of corona virus, the recovery of the world economy has been severely tested as never before, especially in advanced economies such as the United States. In the face of the severe impact of the epidemic and the pressure of economic downturn, the Federal Reserve, in its capacity as the central bank of the United States, has introduced a series of initiatives aimed at stabilising the economy and resolving future uncertainties. Among them, the lowering of interest rates was an important means of macroeconomic operation in the United States and an important factor affecting the development of the world's financial markets.

In this context, the recently announced interest rate cut by the Federal Reserve in September 2024 has attracted a lot of attention. The move is seen as a major step by the United States to stimulate economic growth and improve employment conditions. However, the ripple effect of this decision on the rest of the world is also a cause for concern. In view of this, this thesis attempts to comprehensively analyse the background, motivation and impact of the Fed's interest rate cut from a number of perspectives, with a view to providing us with a clear and insightful understanding.

1.1 Analysis of the Impact of the Federal Reserve's Interest Rate Cuts

1.1.1 Fed Rate Cuts and U.S. Employment

The monetary policy of the United States Federal Reserve, and in particular its interest rate decisions, have a profound impact on economic behaviour in the United States and the world. Lower interest rates by the Fed generally indicate that the US economy is in a more accommodative cycle. The implementation of monetary policy will have an impact on the cost of loans, which in turn will have an impact on investment, consumption and the overall economy. In this context, the United States labour market will inevitably take some hits.

From an employment perspective, the employment situation in the United States is an important economic indicator. This indicator provides a visual indication not only of the strength of consumer spending but also of the growth and contraction of businesses. From a macro perspective, this data can provide valuable information for policymakers to judge whether interest rates are entering a new cycle. In particular, the state of work in the United States can be measured by a number of important indicators: the unemployment rate, hourly wages, and wage growth. This set of data can reflect the state of the job market and thus predict future economic trends(Akram & Li, 2017).

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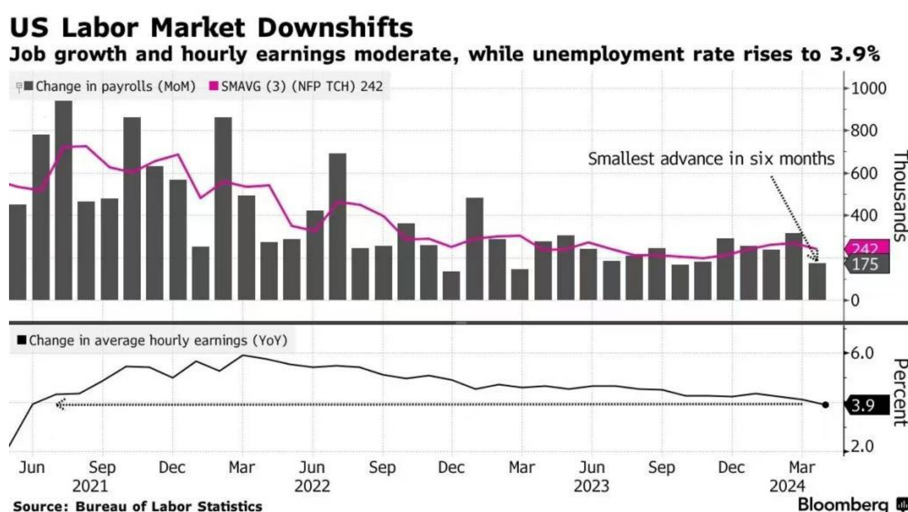
For example, when hourly wages stay the same or show growth and wages increase faster than inflation, we can assume that the U.S. economy is entering a period of healthy growth. Conversely, if the number of unemployed is decreasing, but hourly wages are growing more slowly or inflation is outpacing wage increases, this could signal a downturn. If this occurs, the Federal Reserve Board may consider additional adjustments to monetary policy.

In fact, the Fed often lowers interest rates while raising expectations for economic growth. This is a view generally shared by economists. Lower interest rates reduce the cost of borrowing and stimulate lending by commercial banks, which in turn stimulates business investment and consumer spending. As more capital enters the economy, new jobs are created as a result of increased production and more efficient companies.

In addition, the Federal Reserve Board's interest rate cuts have helped to raise people's incomes and improve their quality of life. By lowering borrowing costs, consumers are able to purchase more products and services, which in turn improves their quality of life(Barsky & Easton, 2021). It should be noted, however, that while the positive impact of the Fed's interest rate cut is clear, it is not the only factor that has had an impact on the U.S. economy. Other factors, such as trade policy, government fiscal policy and the state of the global economy, can have a significant impact on the United States economy.

This requires that investors should not simply rely on the trend of a certain economic indicator or a certain policy, but should consider various factors in an integrated manner when making investments. Only through a comprehensive assessment of various factors can a sound investment decision be made. Understanding and anticipating this complex and dynamic process is the key to successful investing in the ever-changing financial markets.

Figure 1: The US Labor Market Downshifts From 2021 to 2024



1.1.2 US Federal Reserve Rate Cuts and Election "Black Swans"

The US Federal Reserve announced on 16 September 2016 that it had cut its benchmark interest rate by 25 basis points, the first rate-cutting cycle in three years. This is the first time since November 2008 that the Fed has cut interest rates. This paper analyses the economic and political characteristics of the United States from the beginning of the US presidential election year, combines the policy orientation of the Federal Reserve, the response of the US economy and the financial markets to its interest rate cut, analyses the intention and effect of this interest rate cut by the US central bank, and provides insights into its impact on the US political election.

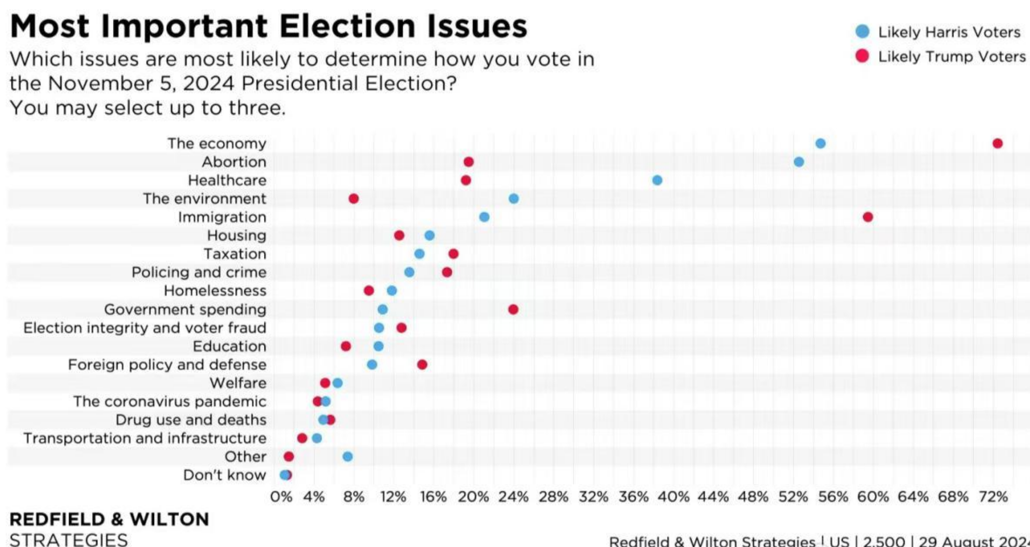
Since 2008, the Federal Reserve Board has maintained it as a fixed benchmark rate of 0-0.25 per cent. However, on 3 November 2015, Federal Reserve Chair Yellen stated that the Federal Reserve was ready to adjust its policy stance appropriately in response to a "broad range" of economic challenges. Jerome Powell, Chairman of the US Federal Reserve, said in July 2016 that the Fed would take additional action if necessary if there were "significant changes". On 16 September 2016, the Fed Chairman announced the second interest rate cut of the year.

Since the 2004 United States presidential election, the United States has experienced a decade of change. This period of history has not only been a landmark political turning point, but has also had a profound impact on the development of American society and economy. During this period, especially during the first presidential terms of Obama and Trump, the U.S. economy has travelled a long and tortuous road to recovery. While Obama's approach to governance was reform-driven, Trump's is market-centred and dedicated to reshaping economic dynamism and competitiveness. The United States emerged from the worst depression of the 1930s and 1940s and entered a new cycle of growth. This growth not only created an unprecedented number of jobs, but also greatly boosted consumer confidence, which in turn fuelled the overall economic recovery.

Secondly, during this period, a series of major events of landmark significance also took place in the United States political arena. This change has not only altered the political landscape of the United States, but has also had a far-reaching impact on government decision-making and people's perceptions. The Obama administration's health-care reform programme aimed to make health-care accessible to all. At the same time, the Trump administration's immigration policies have caused a heated debate in the United States, with debates raging over the number of immigrants, their origins, and the ways in which they will be integrated.

The occurrence of the three historical events has not only profoundly affected the political situation in the United States, but even the economy, finance and other areas. From the stock market to the bond market, and even the real economy, these policy changes have directly affected financial products and investment strategies.

Figure 2: The Election Issue between Harris to Trump



The years 2004-2016 were presidential election years in the United States, a period not only of political transition but also of far-reaching and evolving economic volatility. During this period, different social forces, economic currents, and international relations interacted in ways that had a tremendous impact on the United States and the world as a whole. While this transformation has occasionally brought uncertainty and challenges, it has also propelled the United States to become a more diverse, open and creative nation(Fernald et al., 2017).

In September 2024, Biden announced his withdrawal from the race, followed by Harris announcing his candidacy for the 2024 presidency. Biden's withdrawal was considered a “black swan event” and this sudden and untimely event had a significant impact on the U.S. stock market, as both Biden and Harris did not have the same supporters, despite the fact that they were both Democrats.

1.1.3 Interest Rate Cuts by the US Federal Reserve and the State of the World Economy

The Federal Reserve's interest rate cut will have a huge impact on the global economy, and its cut signals that the fundamentals of the United States are becoming more fragile, while also posing a threat to global economic growth due to the instability of the international trade and investment environment. On this basis, in the light of the current international economic situation, we will discuss the impact of the interest rate cut by the US Federal Reserve Bank on the international trade and investment environment, as well as the impact of international monetary policy on the global economy.

As the world economy recovers, the international trade and investment environment will remain stable; the Federal Reserve's interest rate cut will accelerate the growth of the U.S. economy and create greater opportunities and space for the U.S. economy; China's monetary and fiscal policies will also play a role in the development of the global economy; and the U.S. Federal Reserve's interest rate cut will have a great impact on the exchange rate of the RMB.

So far this year, the Federal Reserve has cut interest rates four times, namely, by 25 basis points on 1 July, 25 basis points on 16 August, 50 basis points on 18 September and 25 basis points on 30 October. The main purpose of the rate cuts was to create a more accommodative atmosphere for the US economy, thus providing sufficient support for future US economic growth.

As the world's largest economy, the United States plays a pivotal role in the global economy. The U.S. economy has been in a weak state since the beginning of 2019 due to high unemployment, rising trade protectionism, and a sharp decline in the purchasing managers' index for the manufacturing and service sectors. The weak foundation of the US economy has led the Federal Reserve Board to keep lowering interest rates, which has largely contributed to the recession(Berge & Cao, 2014). However, the weak fundamentals of the U.S. economy will be gradually reversed due to the improvement in the global trade and investment environment as well as the steady growth of the economies of China and other countries, which will provide the U.S. economy with greater opportunities and space for development.

At present, the world economy is gradually recovering, and despite the rise of trade protectionism and unilateralism, the general environment for world trade and investment remains relatively stable. However, the impact of the new corona virus on the world economy is far greater than that of the economic crisis in 2008. In order to contain the global spread of the novel coronavirus, countries around the world are actively responding to this unprecedented public health crisis. These include financial stimulus measures, public health emergency response measures, and policy measures in the areas of economic and social regulation. The recovery of the world economy has yet to take shape, and uncertainty about world economic growth will increase further in the coming quarters.

In the coming period, as the central banks of major countries, such as the United States, China and Europe, have cut interest rates, the divergence of monetary policies in various countries will be further deepened. Under such circumstances, the uncertainty of global economic recovery will further increase. It is foreseeable that global economic growth will become more difficult in the future, and the impact on external demand-dependent countries in particular will be more severe.

Although there is still some downward pressure on the Chinese economy, China has maintained a relatively loose monetary policy amid the international economic downturn." During the "Two Sessions", China put forward a proactive fiscal policy, proposing to expand investment demand, widen the fiscal deficit, vigorously promote the construction of infrastructure, the "three rural areas" and other areas of people's livelihoods, and increase support for key areas to achieve stable and relatively rapid economic growth. Against the backdrop of still insufficient domestic demand, it is necessary to continue to increase monetary policy support for the economy.

The US Federal Reserve's interest rate cuts will benefit the world economy and help the currencies of emerging economies to appreciate, but at the same time it will put some pressure on them(Gu, 2020).

In August this year, the median price of RMB against the US dollar stood at 6.8520, representing an increase of 2.53% over August last year. In addition, the market expects two more interest rate cuts this year before the Federal Reserve announces a cut in interest rates, which is also favourable to the RMB.

However, the interest rate cut by the US Federal Reserve Bank will also limit our monetary policy to a certain extent. The RMB exchange rate is not only affected by the trend of major currencies such as the US dollar, the euro and the Japanese yen, but also by China's economic growth rate and the direction of its monetary policy. If the U.S. Federal Reserve Bank cuts interest rates, the instability of China's economy and financial markets will further increase.

1.1.4 Other External Factors in the Fed's Interest Rate Cuts

Reduced inflationary pressures: The United States consumer price index fell from a high of around 7 per cent to 2.2 per cent in August, indicating a "significant easing" of inflation. When inflationary pressures subside, the Federal Reserve Board may lower interest rates to prevent the economic consequences of excessive tightening.

Financial market turmoil: The turmoil in world financial markets following the announcement by the United States Federal Reserve of an interest rate cut demonstrates the sensitivity of the United States Federal Reserve to its policies and their impact on global capital flows. Financial market turbulence may have an impact on the Federal Reserve Board's decision-making, especially when the world's financial markets are so interconnected today.

Changes in monetary policy elsewhere: Changes in monetary policy at several other large central banks around the world also have an impact on the Federal Reserve Board's decisions. If other countries cut interest rates or quantitative easing, the Fed will follow suit so as not to make their currencies too strong, which could affect their export competitiveness(Ihrig et al., 2020).

1.1.5 The Fed's Cycle of Interest Rate Cuts and Hikes Over the Years

As the world's largest economic power, the United States was not immune to the financial turmoil of 2008. The financial crisis was the worst since the United States economy plunged into the Great Depression, with unemployment surging and investors losing confidence in it. Under such circumstances, the Federal Reserve reacted swiftly by lowering the federal funds rate to zero three times and launching a quantitative easing

policy to provide a large amount of liquidity to the market through the purchase of United States Treasury bonds and mortgage-backed bonds. The aim of this initiative was to stimulate the economy, increase credit and boost consumer and business confidence.

Year after year, the United States economy has shown signs of recovery. Manufacturing and construction are gradually recovering as unemployment falls and consumer spending increases. Inflationary pressures are also easing and the overall economic situation is favourable.

The subprime mortgage crisis in the United States in September 2008 triggered shocks in global financial markets. The holdings of United States dollars by financial institutions and individuals in the United States declined sharply, and the balance of payments situation deteriorated sharply. In response to the crisis, the Federal Reserve Board of the United States announced on 25 November an emergency interest rate cut to 0-0.25 percentage points. The following year, the Federal Reserve Board cut interest rates to 0 three times and initiated a quantitative easing policy. From then on, the US economy returned to normal. Since then, the Federal Reserve Board has lowered interest rates several times to mitigate the economic downturn.In late 2016 and early 2017, the Federal Reserve Board began a cycle of interest rate increases.

Looking at the interest rate reduction cycles in US history and their effects, we can see that the Fed's interest rate cuts do not ensure stable growth of the US economy over a longer period of time.

Reviewing the historical background of the three rounds of interest rate cuts mentioned above, the first was the “stagflation” in the United States in the early 1980s, followed by the “depression” in the United States; in the early 1990s, the United States economy experienced a recovery; after the international financial crisis of 2008, the United States economy experienced deflationary pressure, and then entered into the Great Depression in the United States. in the early 1990s, the United States economy experienced a recovery; after the international financial crisis of 2008, the deflationary pressures emerged in the US economy, which then entered the Great Depression in the US. in the early 1980s and early 1990s, the US experienced inflation and deflation, and with two interest rate cuts to zero and the implementation of quantitative easing, the US economy has finally returned to normal. the US economy is now in the process of recovering from the global financial crisis. the US economy is now in the process of recovering from the global financial crisis.

Since the early 1970s, the United States has been in a state of “high growth and low inflation”, which is closely related to its industrial structure. As the world's number one exporter, the United States has a serious imbalance in its industrial structure, with the manufacturing sector dominated by industrial products and a small proportion of industrial and agricultural production. The United States' support for agriculture mainly includes agricultural subsidies and the building of houses in the countryside, but agricultural labour productivity is low and the prices of agricultural products have not risen much. Because of the low employment-absorbing capacity of agriculture, the United States has found it difficult to rely on a large-scale rural labour force to improve the quality of the workforce. The result was that from 1970 to 1990, the United States manufacturing sector had been in a slump, and even in the late 1980s, the United States manufacturing sector began to go downhill.

After the outbreak of the subprime mortgage crisis in 2008, the United States economy fell into recession. In response to the recession, the United States Federal Reserve lowered its interest rate to zero in March 2009 and cut it twice, in June 2009 and May 2010, to begin its quantitative easing policy. The three interest rate cuts by the Federal Reserve lowered the federal funds rate from 4.75 per cent to zero and provided enormous liquidity to the market, and the United States economy finally began to recover.

After reviewing the Federal Reserve Board's rate-cutting cycles and the effects of rate cuts over more than four decades, we come to the following conclusions:

1) In times of depression, the Federal Reserve Board tends to keep lowering interest rates; in times of economic recovery, the Federal Reserve Board generally keeps raising interest rates.

2) For a large economy like the United States, lowering interest rates would not ensure that its economy would remain stable over the longer term. Lower interest rates could stimulate economic growth only if the economy continued to decline.

1.1.6 The Federal Reserve Board's Interest Rate Cycle and Structure Over the Years

1) The 1979-1982 cycle of interest rate hikes: At that time, Paul Volcker, Chairman of the United States Federal Reserve Board, raised interest rates by nearly 20 per cent to a record high in response to “stagflation”. While this policy succeeded in lowering inflation, it did so at the cost of triggering a deep depression, with unemployment as high as 11 per cent at the time.
2) Rising interest rates in the mid-1990s: After the Gulf War, the Federal Reserve Board raised interest rates again, leading to a slowdown in the United States economy. Similarly, the United States experienced the same rise in interest rates from 2001 to 2007.
3) During the period 2004-2006, the United States Federal Reserve raised interest rates 17 times, ranging from 1 per cent to 5.25 per cent.
4) Interest rate cuts during the 2007-2008 economic crisis: During the 2008 economic crisis, the Federal Reserve lowered interest rates and adopted a series of “quantitative easing” measures to depress long-term interest rates and promote economic growth by acquiring large quantities of Treasury bonds.
5) The 2015-2018 interest rate hike cycle: after the United States economy emerged from the Great Recession, the Federal Reserve Board gradually raised interest rates, which rose to a peak of 2.25-2.5 per cent in 2018.
6) 2019 Rate Cutting Cycle: in an effort to boost the economy, the U.S. Federal Reserve cut interest rates three times in a row in 2019.

2021-2023 Interest Rate Adjustment: In response to the economic recovery and high inflation in the wake of the New Crown Pneumonia epidemic, the US Federal Reserve has raised interest rates for seven consecutive times since 2022, with a cumulative total of 425 basis points, and will continue to raise interest rates in 2023. The current round of interest rate hikes has led to a different world economic direction and policy orientation, bringing a more complex external environment to China and other countries(Tan, 2016).

Higher interest rates usually lead to higher interest rates throughout the economy and attract foreign capital seeking higher-yielding funds, which could potentially lead to a stronger United States dollar. However, the consequences of higher interest rates are not limited to the United States itself, but can ripple throughout the world, particularly in emerging economies, potentially causing a credit crunch that could lead to a financial crisis. In addition, higher interest rates by the Federal Reserve could exacerbate global climate inequality, with rich countries able to raise more funds to cope with the worst consequences of climate change, while developing countries would have to cope with severe economic hardship and environmental degradation.

1.2 US Federal Reserve Rate Cuts and US Stock Market Volatility

1) Interest rate cuts are generally considered favourable to the stock market because they can reduce companies' borrowing costs, increase profits and stimulate consumption and investment. For example, between July and October 2019, the United States Federal Reserve cut interest rates three times, which greatly boosted investor confidence, with the S&P 500 Index and the Nasdaq 100 Index rising by more than 10 per cent and the Nasdaq 100 Index rising by 20 per cent during that period.

Rising interest rates are often perceived as unfavourable to the stock market because of the increased cost of borrowing for companies and the potential negative impact on spending and investment. However, the impact of rising interest rates is not always direct, but rather the result of a combination of many factors, including interest rate expectations, economic data and uncertainty about the global economic environment(Sun, 2017).

2) The monetary policy decisions of the United States Federal Reserve Board have general significance for international financial markets. Lowering interest rates will result in an outflow of funds from the United States in search of high-return investment opportunities, while raising interest rates will result in an inflow of funds into the United States. These inflows will have an impact on world equity markets, including those in the United States.

3) While the Fed's decision to cut interest rates may boost the stock market in the short term, the medium- to long-term performance of the stock market will depend more on the country's fundamentals and policy environment. For example, in 2001 and 2003, despite the Fed's interest rate cuts, the stock market's performance in the medium to long term will depend more on national fundamentals and the policy environment.
4) Under special circumstances, such as an economic crisis or market panic, the Fed's decision to cut interest rates may be more aggressive. For example, during the financial crisis of 2007-2008, the Fed cut interest rates several times in response to sharp volatility in financial markets and the risk of recession.
5) The Fed's decision to cut interest rates may trigger a chain reaction of central banks around the world. Some countries' central banks may follow the Fed in cutting interest rates in order to keep their currencies competitive. This global loose monetary policy may help to ease the downward pressure on the global economy, but it may also exacerbate global debt levels and increase the vulnerability of the financial system.
6) The Federal Reserve's decision to cut interest rates also has implications for the exchange rate of the United States dollar. Interest rate cuts may lead to a depreciation of the United States dollar, which may be favourable to export-oriented industries but unfavourable to import-dependent industries. At the same time, a depreciation of the United States dollar could trigger competitive devaluations in other countries, exacerbating global trade frictions.

In November 2023, the U.S. unemployment rate fell to 3.7 per cent and the year-on-year increase in core CPI retreated to 4.0 per cent. The market expects the Fed to begin cutting rates in 2024, but there are at least three areas of uncertainty about the conditions, timing and magnitude of the rate cuts. First, whether the U.S. economy will have a “soft landing.” Although the U.S. economy in 2023 showed more than expected resilience, but along with the consumption of excess savings, the cumulative effect of the Fed's interest rate hikes ° and the lag effect, the U.S. economic growth rate in 2024 will slow down significantly, whether it will fall into a recession there is still a large uncertainty. The second is the speed of the fallback in U.S. core inflation. Benefiting from the easing of supply chain constraints and the fall in oil and commodity prices, the year-on-year rise in the US headline CPI has eased to 3.1% in November, but the core CPI is showing strong stickiness. In particular, if the labour market continues to be strong, US core inflation may fall back more slowly than expected. Third, whether financial risks will re-emerge. According to the Federal Deposit Insurance Corporation (FDIC°), unrealised losses on securities held by U.S. commercial banks remained high at the end of Q1 2023 at $515.5 billion. If the risk of U.S. commercial real estate or zombie° debt “explodes” in 2024, the potential losses of U.S. commercial banks could translate into actual losses, which in turn could trigger renewed turmoil in the banking sector.

Looking ahead to 2024, precautionary rate cuts by the Fed based on a “soft landing” scenario will have a very different impact on financial markets than accommodative rate cuts based on a “hard landing” scenario(Zhao, 2022).

In the case of a “soft landing” in the economy, if the Fed cuts interest rates preventively, then U.S. stocks are expected to rise, U.S. bond yields fall, and the U.S. dollar index oscillates weaker. Firstly, if the economy has a “soft landing”, U.S. corporate earnings are expected to be supported, and the U.S. stock market is likely to continue to strengthen, led by the policy rate cut. Second, US long-term Treasury yields tend to fall further, driven by slower economic growth and lower inflation expectations. Finally, although the Fed's interest rate cut will pull the dollar index downward, but the U.S. economic growth is expected to be stronger than the eurozone and other major economies, the dollar index may maintain oscillating weak trend. In addition, taking into account the Fed tapering process has not yet ended, there is still strong support for the dollar index, the dollar index trend downward inflection point or occurred around the end of the tapering process.

In the economic “hard landing” scenario, if the Federal Reserve eases rate cuts, then U.S. stocks, U.S. bond yields and the U.S. dollar index may fall across the board. Firstly, if the economy has a “hard landing”, U.S. corporate earnings will fall rapidly, financial risks will rise sharply, and even if the Fed opens a rate cut, it will be difficult to stop the deep decline in U.S. stocks. Second, U.S. long-term Treasury yields are likely

to decline more sharply under the pressure of recession and deflationary expectations. Finally, the dollar index may experience a larger trend decline under the dual impact of policy rate cuts and recession.

Table 1: The Relative Data for Interest Rate Cuts

timing of interest rate cuts	unemployment rate	Core CPI year-on-year	Background to interest rate cuts	Type of interest rate cut
1984.9	7.30 per cent	5.10%	Inflation and prevention stabilisation recession	prophylactic
1989.6	5.30 per cent	4.50 per cent	Inflation and prevention stabilisation recession	prophylactic
1995.7	5.70 per cent	3.00 per cent	Inflation and prevention stabilisation recession	prophylactic
2001.1	4.20 per cent	2.60 per cent	Internet bubble crisis	bailout style
2007.9	4.70 per cent	2.10%	Subprimecrisis mortgage	bailout style
2019.8	3.7 per cent	2.40 per cent	Inflation and prevention stabilisation recession	prophylactic

Table 2: The Relative Data for Interest Rate Hike

timing of interest rate hike	span	target event	Cumulative rate hikes versus total rate hikes
1983.3-1984.9	18 months	Oil shocks, stagflation	3 per cent 10 times
1988.2-1989.5	15 months	Inflation on the upswing, the "Taylor rule"	4.06 per cent 16 times
1994.1-1995.2	13 months	Overheated economy, high inflation	3 per cent 7 times
1995.5-2000.4	11 months	Internet finance bubble	1.75 per cent 6 times
2004.5-2006.5	24 months	property market bubble	4.25 per cent 17 times
2015.12-2018.12	36 months	Normal monetary policy after QE	2.25 per cent 9 times

1.3 Fed Rate Cuts and BOJ Rate Hikes

1.3.1 Domestic Economic Situation Before the Bank of Japan's Interest Rate Hike

1) Inflationary pressures and countermeasures

Before the Bank of Japan considers raising interest rates, one of the main challenges facing the domestic economy is inflationary pressure. In recent years, the level of inflation in Japan has risen due to a number of factors, including higher international energy prices and the crisis in Ukraine. However, inflationary pressures have slowed down in the recent past as the Japanese government restarted its policy of subsidising the cost of electricity and natural gas. Nonetheless, the consumer price index excluding fresh food and energy still maintained year-on-year growth, indicating the persistence of inflation in Japan.

In response to inflationary pressures, the Bank of Japan (BoJ) adopted a strategy of gradually raising interest rates.2024 In July, the BoJ announced that it would raise its policy target rate from around 0-0.1 per cent to 0.25 per cent, and that it planned to gradually reduce the size of its treasury bond purchases. The

move was aimed at curbing inflation by tightening monetary policy while maintaining stable economic growth.

As far as economic growth is concerned, the Japanese economy has shown a recovery in recent years, but the recovery process has not been satisfactory. Despite inflationary pressures, Japan's economic growth continues to be constrained by multiple factors, including an ageing population, labour shortages and uncertainty about the global economic situation. These factors have led to relatively slow and unstable economic growth in Japan.

Nevertheless, thanks to the concerted efforts of the Government and the Central Bank, the Japanese economy has maintained some momentum. In particular, some key areas, such as services and manufacturing, have shown more visible signs of recovery. Growth in these areas has provided important support for the Japanese economy. On the future policy outlook, Bank of Japan Governor Kazuo Ueda said that he would continue to monitor changes in inflation drivers and make further adjustments to monetary policy as necessary. He stressed that the inflation driver had to shift from higher raw material prices to stable domestic demand and wage growth for inflation to remain stable at 2 per cent.

On the market front, as expectations of a rate hike by the Bank of Japan intensified, market reactions gradually became more cautious. Investors began to reassess the growth prospects of the Japanese economy and the direction of monetary policy, leading to some volatility in the equity and bond markets. Overall, however, the market remained optimistic about the recovery of the Japanese economy and expected the Government to take more measures to support economic growth.

2) Implications for the international economy and policy

With regard to the international economy, the policy directions of the world's major central banks had a significant impact on the Japanese economy. In particular, the divergence between the Federal Reserve's expectations of interest rate cuts and the Bank of Japan's policy of raising interest rates has led to significant fluctuations in the exchange rate of the yen. This has increased the external uncertainty of the Japanese economy to some extent and may have a negative impact on Japan's exports and international trade.

On the other hand, however, the recovery of the international economy also provides more opportunities for the Japanese economy. As the global economy gradually recovers and international trade improves, Japanese companies are expected to gain more market share and profit growth. This will contribute to the overall competitiveness and growth potential of the Japanese economy.

Prior to the Bank of Japan's interest rate hike, the domestic economic situation in Japan was characterised by the presence of inflationary pressures but a slowdown in growth, and a less-than-ideal recovery in economic growth but still maintaining some momentum. Looking ahead, the Japanese economy will face additional challenges and opportunities as policy adjustments and market reactions develop further.

Bank of Japan Governor Kazuo Ueda has repeatedly said that the exit from the negative interest rate policy will also maintain an accommodative financial environment, and there is no rush to raise interest rates quickly. Analysts believe that by the inflation outlook is still uncertain and other factors, the process of monetary policy normalisation is expected to advance slowly. Whether the Bank of Japan will continue to raise interest rates in the future will depend on developments in the economy and prices.

Speculation on the relationship between the Fed's rate cut and the Bank of Japan's rate hike: The Fed's rate cut and Japan's rare rate hike may have led to an inflow of U.S. funds into Japan's capital markets, which may have become a “reservoir” of funds during the period of U.S. rate cuts and a more well-funded Japanese capital market.

2. Findings

2.1 Impact on International Trade

Promoting United States exports: The interest rate cut will lead to a depreciation of the United States dollar, making United States goods more competitively priced on the international market, thus favouring

United States exports. The increase in United States exports may lead to the development of related industries, increase employment opportunities and have a positive impact on the United States economy.

2.2 Impact on International Capital Flows

1) Capital flows to emerging markets: Typically, interest rate cuts by the Federal Reserve narrow the interest rate differential between the United States and other economies, and capital tends to flow out of the United States to other economies with relatively higher interest rates and greater growth potential, such as emerging market countries. This may push up asset prices in emerging market countries, including stock and property markets, providing more financing opportunities for enterprises in those countries and promoting the development of local economies.

2) Changes in debt risk: The debt of many developing countries is denominated in United States dollars, and the depreciation of the United States dollar has led to an increase in the real value of the debt of these countries, thereby increasing their debt burden and increasing their financial risk.

2.3 Impact on the Exchange Rate Market

1) Relative depreciation of the United States dollar: In general, interest rate cuts reduce the attractiveness of dollar-denominated assets and reduce investor demand for the dollar, which in turn leads to a depreciation of the dollar relative to other currencies. This can change the relative value of national currencies, affecting the balance of international trade and the competitiveness of countries.

2) Appreciation of other currencies: The depreciation of the United States dollar has been accompanied by a relative appreciation of other currencies. For export-dependent countries, the appreciation of the local currency may weaken the competitiveness of their exports and affect economic growth, as in the case of large manufacturing exporters such as Japan and Germany.

2.4 Impact on Global Financial Markets

Stock market volatility: The low interest rate environment has lowered the cost of financing for companies and raised their earnings expectations, thus driving up stock prices. However, if market concerns about the economic outlook outweigh the benefits of interest rate cuts, the stock market could still fall(Summers, 2014).

1) Changes in the bond market: Interest rate cuts usually lead to an increase in bond prices, as interest rates on newly issued bonds fall, making bonds with higher interest rates more attractive.

2) Commodity market volatility: The United States dollar is the main currency traded in international commodity markets, and commodity prices tend to climb when the dollar depreciates. This affects global production and consumption and may benefit resource-exporting countries, but increases production costs in resource-importing countries.

2.5 Impact on Global Economic Stability

Policy linkage effect: After the Fed cuts interest rates, in order to prevent excessive appreciation of the local currency from affecting export competitiveness, central banks in other major economies may take corresponding measures, such as the European Central Bank or the Bank of Japan, which may delay interest rate hikes or implement easing policies(Wang, 2017). The monetary policy linkage effect of global central banks will increase the complexity of the global economy and may also lead to greater difficulty in global economic policy coordination.

3. Conclusions

The Federal Reserve's decision to cut interest rates has had a wide-ranging impact on the global economy. Countries need to flexibly adjust their monetary policies in accordance with the global economic environment and their own economic conditions, and combine them with other policies to achieve stable economic growth.At the same time, they need to be alert to potential financial risks and promote necessary structural reforms(Zhang, 2016).

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Conflicts of Interest

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