

The Global Impact of and Response to the Fed's Interest Rate Hike

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Abstract. The international situation is tense, and the international economic situation is in a state of instability. Political factors similar to the Russian-Ukrainian war and the Palestinian-Israeli conflict continue to affect international economic trade deeply. As the country with the highest global GDP, the United States, its economic policy has a pivotal impact on the global economy. Because of the instability of the external environment and violent internal conflicts, coupled with the local economic situation being in a downward phase, the United States has adopted a more extreme monetary policy of interest rate hikes to absorb the dollar capital from all over the world back to the United States. This article is based on the U.S. interest rate hike for the U.S. itself, developed capitalist countries, the Chinese region, and the Asian economic backwardness of the country's impact, as well as some of the countries for the U.S. interest rate hike policy to take measures, and combined with the U.S. interest rate hike in the past the purpose and impact of the U.S. to analyze the United States of America's further economic decision-making trends and the future trend of the international economic and political trends, and to explore the China and other countries to better cope with the method. The study finds that the Fed's big move to carry out the interest rate hike this time is related to the unemployment problem within the United States, the racial problem and cultural conflict, as well as the leftover problems after the end of the epidemic, and uses this as a lead to try to adjust the economic situation of the whole world. Through the tidal wave of the dollar, hostile countries are weakened, paving the way for future wars or better control of the entire international situation.

Keywords: Interest Rate Hike, Federal Reserve, Financial Stability.

1. Introduction

The Federal Reserve is the central bank of the United States, with a very high degree of independence, regulating the United States macroeconomic market. Since the new crown epidemic outbreak, the United States has been experiencing more serious economic turmoil. In order to cope with the economic crisis, the Federal Reserve uses quantitative easing and other existing unconventional monetary policy, and innovation CPFF, PDCE, TALF, and other unconventional monetary policy tools. The innovation of monetary tools allows the Fed to flexibly adjust the strength and progress of interest rate hikes. The author will analyze the domestic and international background of the Fed's interest rate hikes in an attempt to present a more complete picture of the reasons for the Fed's interest rate hikes. The essence of monetary policy is the reverse economic cycle regulation. When the economy is in an upward phase, the central bank will generally choose to raise interest rates, that is, to raise interest rates. This monetary policy will lead to the circulation of money in the market in the form of securities locked so that the circulation of money in the market to reduced to achieve the cooling of the economy. The background of this U.S. interest rate hike is different. At present, not only the U.S. but also the global economic market is in a downward phase, but the U.S. domestic market is facing huge inflationary pressure. Affected by the new crown epidemic, many countries' production and supply chains were affected, and the lack of supply of goods pushed up the price level of the U.S. mainland. Further, the Russia-Ukraine conflict has caused the United States and other European and American countries to impose economic sanctions on Russia, and Russia, as an energy powerhouse, has used the ruble to lock in energy to fend off the sanctions while pushing up the global market price of natural gas and other important energy sources. Finally, because of the domestic racial issues and the new crown epidemic deaths, the U.S. labor market has a temporary shortage. The elevated price of labor is transferred to the goods, raising prices and further pushing up

inflation within the United States. With the interest rate hike, the U.S. economy in the downside stage showed some signs of recovery. With wages and rents rising, inflation may be further elevated.

Overseas countries are also in a more unfavorable phase of economic form. Affected by the new crown epidemic and the Russian-Ukrainian conflict, European countries are also at a stage of gradual recovery, but at the same time, they are also facing enormous inflationary pressure. Take the United Kingdom as an example. On February 1, 2023, the United Kingdom broke out in nearly ten years the most serious strike activities. As many as 500,000 British people participated in the strike activities. The reason is that the new crown epidemic to stimulate the economy of the policy as well as the war and other factors, led to domestic inflation at a high level. Still, the masses of the wage changes are small, resulting in a decline in the masses' standard of living. For China, the recovery has been slower. China was one of the last countries to open up after the end of the COVID-19 epidemic, and the Chinese economy is in a difficult state of recovery due to the domestic real estate market and the outflow of large amounts of domestic capital. Japan's economy has been in a slow growth phase since the bubble economy. It is worth noting that Vietnam, Mongolia, and other more backward Asian countries, after the new crown epidemic began to try to transform, and take over the business actively. The Federal Reserve interest rate hike is not a U.S. impulse and initiative, its purpose is obvious but not single. At the same time, in view of the important position of the dollar international currency, the Federal Reserve interest rate hike will certainly have a huge impact on the U.S. mainland, the global capital market, emerging developing countries, and some underdeveloped economies.

2. Purpose and Impact of US Interest Rate Hikes

In the United States, from 1982 to the present, there have been a total of six rounds of relatively obvious interest rate hike process. The first round of interest rate hikes was in the second oil crisis, the U.S. economy began to recover, but in the context of economic recovery, the inflation rate did not have a clear upward trend, and the Federal Reserve began to take the initiative to raise interest rates. The second round of interest rate hikes in the U.S. economic expansion occurred during the "stock market crash" of the Federal Reserve to provide liquidity in the market to buy many bonds, resulting in rising inflation. The Fed was forced to raise interest rates to reduce inflation. The third round of interest rate hikes was because economic growth showed a strong state in the third and fourth quarters of 1993, and the United States began to raise interest rates. The fourth round of interest rate hikes was due to Japan's bubble economy devaluing the yen. The United States enjoyed more international trade dividends and rapid economic development. Again to reduce inflation, the United States began a new round of interest rate hikes. The fifth and sixth round is also due to the first interest rate cuts to stimulate the economy when the economy overheated to the time and then raised interest rates to reduce local inflation [1]. Summarize the Fed's six interest rate hike process. Out of the first initiative to raise interest rates, the rest of the remaining several interest rate hikes are due to the U.S. local inflation rate being too high. The Fed was forced to start hiking interest rates to reduce inflation, reduce inflation can be said to be the Fed's main purpose. But from an international perspective, the Fed every interest rate hike is accompanied by the occurrence of major international events, from the first "oil crisis" to the ongoing sixth interest rate hike is in the "new crown epidemic", the United States in every interest rate hike before a certain degree of operation. But the dollar as an international currency this key role, the U.S. interest rate cuts will lead to the dollar dispersed around the world, when the U.S. interest rate hike operation, the dollar capital from all over the world flow back to the U.S., and according to the interest rate differentials, the U.S. interest rate hike in fact in the U.S. each time to complete a very perfect capital harvesting, and the harvested countries are in a weak position, which is the United States to achieve their own political objectives This may help the U.S. to realize its own political objectives.

2.1. Impact of Historical Fed Rate Hikes

Historical Fed rate hikes can be categorized into rate hikes during economic expansion and rate hikes during recession based on the point in time of the rate hike. A rate hike during an economic upturn has little impact on the U.S. stock market. The company's profitability is better because the economy is expanding. At the same time, the financial control is relatively loose. More flexible financing methods against these conditions can offset the negative impact of interest rate hikes on the company, so the stock market still shows a rising trend. In the economic recession phase of interest rate hikes, this time a variety of financial regulations is relatively harsh, financing methods will become conservative, coupled with the company's operating efficiency is not good. This interest rate hike will only make the company's financing more difficult to increase the burden on the main body of the financial market. "Zombie enterprises" will become more, the real economy will suffer a huge blow, and recession [2].

2.2. Impact of the Fed's Interest Rate Hike on the Global Capital Market

The United States as the world's most powerful economy, its every move will undoubtedly have a huge impact on the global economy. First, the Fed's move to raise interest rates will undoubtedly exacerbate the nervousness of people in the economic market, especially today in the downward phase of the economic cycle. The U.S. is now looking to normalize monetary policy, and the Fed's use of interest rate hikes will become normalized. Compared to the stock market, the bond market has a much larger volume, and the move to raise interest rates will lead to more money pouring into the bond market, thus occupying the original share of the stock market. For the stockholders, the bond market returns rise also thought the stock market returns relative decline, then there may be a large number of people sell stocks and turn the funds into the bond market, the stock price plummeted, the phenomenon of people panic. But the advantage of the stock market is not have to pay interest. For many in the upward stage or start-up enterprises is a very good choice. The global stock market volatility will affect people's confidence in investment, nervousness will spread throughout the financial market [3]. Furthermore, the Fed's interest rate hike will lead to the return of the U.S. dollar to the United States. The U.S. dollar as an international currency in international financing has a natural advantage. The Fed's move to raise interest rates will lead to international financing becomes difficult. At the same time, many companies will not be able to afford to pay high interest rates to face the risk of insolvency and liquidation of the global capital market, the global capital market has been a violent turmoil. Secondly, the Fed raised interest rates, the value of the U.S. dollar rose, compared to the global capital market, the value of other countries' currencies will fall. As the Fed continues to raise interest rates, the dollar will continue to appreciate inevitably. In order not to damage their own interests, residents of various countries are likely to sell their own currencies, in the market for the exchange of U.S. dollars. Circulation in the market of national currencies increased, will make the country's currency depreciate, resulting in the country's stock prices plummeted. However, the devaluation of the country's currency will be beneficial for some export-oriented countries, whose goods will be easier to sell on the market.

2.3. Implications for the U.S. Internally

First of all, the high price of goods in the United States has decreased to a certain extent, and people's cost of living has decreased. The Federal Reserve's interest rate hike operation increases people's borrowing costs. Thus for commodities, such as houses and cars and other commodities purchasing ability to decline, the decline in demand, will be on the market to the downward pressure of goods, and the price level will fall. Interest rate hikes for the Federal Reserve for the most important purpose is to curb inflation, the decline in the inflation rate will also lead to a reduction in the price level and tend to be relatively stable trend, which improves people's quality of life and the degree of happiness. When people's living standards have improved, the United States internal conflicts and contradictions will have a certain degree of relief. Secondly, the interest rate hike in the bond market will inevitably shake the U.S. stock market. Since the United States came out of the financial crisis

in 2008 and began to implement policies related to quantitative easing, the three major stock indexes of the United States - the NASDAQ Composite Index, the Dow Jones Index and the Standard and Poor's index (S&P) began to show an upward trend and rose for three consecutive years in 2019, 2020 and 2021. However, as the U.S. interest rate hike continued to advance, corporate financing became difficult. The three major U.S. stock indices showed a downward trend, and the impact of the great boom in the U.S. stock market came to an end for the time being. As for the future, the author is relatively optimistic as to whether the enterprises listed in the United States can overcome the disadvantages brought about by the interest rate hike and realize the growth of corporate profits. Third, the unemployment rate may rise. The main purpose of the Federal Reserve's policy tool of raising interest rates is to reduce inflation, and does not directly affect the unemployment rate. However, the Fed rate hike will lead to a slowdown in economic growth, corporate finance becomes difficult, business expansion received inhibition, which will lead to enterprises may not be able to provide enough new jobs to accommodate the labor force in the market, at the same time enterprises are limited to the financing costs of the increase, will not have sufficient funds to buy labor in the market. With higher borrowing costs, both consumers and businesses will spend less and invest less, slowing the economy as a whole. But higher borrowing costs will pull savings up, so that businesses will save money and reduce labor purchases, and the unemployment rate will rise. Fourth, U.S. home prices may rise after declining. Real estate is very dependent on the credit market, and therein lies the special nature of the commodity in the real estate market. When it becomes difficult to borrow money in the market, the demand for real estate in the market will decrease and home prices will fall. But as the demand for real estate decreases, so does the inflow of money into the real estate market, and the supply of real estate decreases. But with the increase of new entrants into the real estate market, the demand for real estate will also increase, then the supply of houses will be reduced, which will lead to the price of housing after the decline in some of the retracement. The author believes that the U.S. real estate market will not sink and will suffer a devastating blow.

2.4. Impact on China

Since China's accession to the WTO in 2001, the economy has made a qualitative leap in growth, and then over the past decade, China's GDP has been growing at a double-digit rate. However, China's economic development has entered a bottleneck recently, with slow economic development and even stagnation in some industries. Although China is the world's largest developing country, the country itself is still in the stage of emerging development. Since the Federal Reserve interest rate hike, China's economic development has also been subject to great fluctuations and impact. This paragraph to the Federal Reserve interest rate hike on China's impact analysis explores the impact of the Federal Reserve interest rate hike on emerging developing countries. The first is the impact on prices. The Fed's move to raise interest rates led to a rise in yields on U.S. bonds. When the yield on Chinese bonds is relatively lower, with higher prices, people for the demand for money will have a substantial increase, then if the income and output of Chinese residents did not increase, according to Fisher's equation, prices will soar, circulating in the market of the currency increased. Moreover, after the Fed raises interest rates, a large amount of Chinese capital will flow into the United States, and the yuan will be sold off in the market, depreciating the value of the yuan. The depreciation of the yuan will lead to an increase in China's exports but a decrease in imports. The increase in exports led to an increase in foreign exchange reserves of the central bank, which in turn increased the amount of M2 currency in the Chinese domestic market. In contrast, the reduction in imports, led to a reduction in the supply of commodities in the market. China's demand for imported agricultural products, such as rice and soybeans, is relatively stable. The reduction in the supply of commodities will lead to an increase in prices, and an increase in the market of base money for prices, is undoubtedly a snowball [4]. Secondly, the income of Chinese residents, due to the depreciation of the RMB, the income of Chinese residents is relatively lower. If the income level of residents is raised at this time, it may alleviate the problem of soaring prices to a certain extent, but the increase in income will also lead to an increase in the demand for money, which is likely to raise prices further. Furthermore, there is the

problem of China's real estate market. According to Chinese tradition, ownership of a house creates a sense of belonging to a place. As China's economy continues to grow, a large number of rural residents are flocking to the cities, and the demand for houses has risen dramatically. With the deepening of China's tax reform, local governments need to rely on land finance to get enough tax support. The government's land transfer fees have risen, which further pushed up the price of China's real estate market, and constantly lower interest rates, more relaxed policies, so that the supply of funds to enter China's real estate market, China's real estate bubble began to pile up. Since 2014, China's economic growth has slowed and China has chosen to cut interest rates to stimulate the property market. In earlier years, the U.S. had been in the era of zero interest rates, and many Chinese real estate companies would choose U.S. debt for financing. When the Fed began to raise interest rates after the cycle, for these real estate companies, the debt will rise steeply, and the depreciation of the yuan would further increase the difficulty of repayment of real estate companies. At the same time, the increase in debt on the creditworthiness of the enterprise has an impact on the enterprise's financing to have a further impact. At present, China's real estate "Evergrande" and "Country Garden" have to face the risk of bankruptcy and liquidation because they cannot repay the debt, "Evergrande" is owed more than 2 trillion yuan of huge debts. Huge debt. The bankruptcy of real estate companies will lead to the creation of rotten buildings, while the house is the most locked asset of the Chinese masses. The production of rotten buildings will lead to the phenomenon of the masses defaulting on repayments, the bank will be part of the house auction, and as the number of defaults continues to increase, the auction of more and more houses, the plummeting of housing prices will be unstoppable, the Chinese asset drop further shrinkage and depreciation. China's real estate market ripple effect is not only the real estate market itself. But not the entire real estate market in China will be destroyed. With the decline in housing prices, the supply of houses will be reduced. Still, due to the siphoning effect of the first and second-tier cities on the youth labor force, the demand for houses in these cities will not decline, so the real estate market still has a silver lining, but the real estate market in the third and fourth tier cities will enter the winter [5]. The Fed's move to raise interest rates will also have a huge impact on the transfer of domestic capital in China, Chinese residents' overseas investments and China's foreign exchange market. The first is the transfer of domestic capital, which includes cross-border capital and the inherent capital of Chinese residents. At the end of 2022, there was a plunge in Hong Kong stocks, and a large amount of cross-border capital withdrew from the Chinese market. In fact, as early as 2015, the Federal Reserve had begun to raise interest rates, and cross-border capital had gradually withdrawn from the Chinese market at that time. China's strict foreign exchange control limits the transfer of Chinese residents' capital. Still, in recent years, with the Fed's several interest rate hikes, Chinese residents have also gradually transferred their assets out of the country and invested overseas to reduce the huge losses caused by the continuous depreciation of the yuan. In 2023, China's overseas investment grew by 18%, and is likely to continue to grow in the future. Increasing overseas investment and large outflows of domestic capital will cause China's real economy to suffer, with a hollowing out of industries and a further rise in unemployment. Capital outflows will also cause China's foreign exchange market to become more active, China needs to increase foreign exchange reserves to cope with the huge pressure of internal lock-up and external devaluation [6]. Also affected by the Fed's interest rate hike in Hong Kong, China's stock market and with the Chinese women's status to improve the "her economy" market. Affected by political factors and the withdrawal of foreign capital, the Hong Kong Hang Seng Index, since the decline has not been a significant trend of correction, the entire Hong Kong economy is in a depressed state. The devaluation of the RMB will lead to a relative decrease in the income of Chinese residents, and the mode of income redistribution through marriage will be impacted, and the "she-economy" market will be overthrown, and the Chinese consumerism market like the "she-economy" market will be hit hard, and the Chinese economy will enter the winter, and the active economy will be in a state of depression. China's economy will enter a cold winter, and the active economic market will become dead.

2.5. Impact on Underdeveloped Economies

The Fed's move to raise interest rates not only affects developed economies but also has a significant impact on some underdeveloped brokers in Asia. In the past decade, Vietnam, a small Southeast Asian country, has achieved rapid economic development by liberalizing its economy, strengthening its infrastructure, and actively introducing foreign investment, becoming one of the fastest-growing economies in Southeast Asia and one of the world's largest FDI destinations. Similar to North Korea, underdeveloped economies have less circulation and exchange of funds with the outside world and are, therefore less affected by interest rate fluctuations in the international market. Vietnam is a socialist country, the government has a very high degree of control and say over the domestic economy, so the economy. However, the Vietnamese economy is affected by interest rate fluctuations. Still, as long as the domestic government in accordance with the domestic demand and supply, timely adjustments, and set appropriate policies to attract the return of foreign capital, the economy's basic disk will not fluctuate too much [7]. However, due to the withdrawal of foreign capital, the depreciation of the Vietnamese dong compared to the US dollar, and lower demand in foreign markets, Vietnam's development in some emerging industries may be hit hard or even stagnate. As a country with low-end manufacturing as its main pillar industry, Vietnam will face the double pressure of reducing exports and importing important resources simultaneously due to the decrease in demand, which makes Vietnam's economy more constrained. Still, the country's agriculture allows residents to live without too much fluctuation in their basic livelihood security. Mongolia is a resource-rich country that has been transitioning from a planned economy to a market economy since 1991, with good results. As Mongolia's economy depends on exporting unprocessed low-end raw materials, the Fed's interest rate hike will be favorable to the export of Mongolian goods, which will try an unparalleled opportunity for Mongolia [8].

3. National Responses to the Federal Reserve's Interest Rate Hike

3.1. European Union and Japan

European countries are also facing inflationary pressures. The German Institute for Economic Research (IW) director Michael Hütter has long pointed out pointedly that "there is a danger of imported inflation in Europe". The dollar interest rate hike led to the depreciation of the euro. Although conducive to the exports of European countries, the European countries still need the dollar to import their own shortage of oil and gas and other resources. Therefore, in order to cope with the Fed's interest rate hikes brought about by inflationary pressures, the EU central bank to take the main countermeasures is also the use of monetary instruments to raise interest rates. The main object of the interest rate hike is the refinancing rate, the marginal borrowing rate, and the deposit facility rate. The main idea of this EU monetary policy is to control demand, raising interest rates can increase the savings of the population, in reducing the consumption of the population and at the same time also reducing the investment of enterprises. The increase in the refinancing rate has worked very well as a monetary lock-in. In order to cope with the liquidity risk that may be brought about, the European Central Bank also provides additional voluntary early repayment dates and maintains the minimum reserve rate. At the same time, the eurozone governments also actively take measures to adjust the tax burden and fiscal spending to cope with inflationary pressures and stimulate economic growth. And this Fed rate hike and the impact of geopolitics such as the Russia-Ukraine conflict has promoted the European countries to further become a united whole, and further deepen the cooperative relationship between the countries to respond to the Fed rate hike crisis jointly. Japan has been adopting a super-easy monetary policy, but as the Fed rate hike continues to advance, the yen has depreciated to its lowest point in thirty years. Although there are indications that the Bank of Japan may raise interest rates significantly, so far there has been no active response from Japan.

3.2. China

Unlike the ECB, China adopted a monetary policy of cutting interest rates. After China's central bank cut the 7-day reverse repo rate and MLF rate by ten basis points on June 13 and June 15, 2023, respectively. After two months, China's central bank again adjusted its policy rates, cutting the 7-day reverse repo rate and MLF rate by ten basis points and 15 basis points on August 15, respectively. On the one hand, China's operation of cutting interest rates is to stimulate demand and favor the economic correction. Because China is the latest to release the epidemic of one of the countries, and before the most severe state of prevention of the epidemic, China's entire country's economic development is in a state of complete stagnation, so China has not been like the United States before and after the epidemic has had a substantial interest rate cuts to stimulate the economy. At the same time, interest rate cuts reduce the value of China's domestic assets, so that asset depreciation and the conversion cost of assets greatly increased, to a certain extent, inhibiting the outflow of assets. The concept of economic domestic and foreign "double cycle" can also effectively respond to the Fed's move to raise interest rates. In order to strengthen the domestic economic internal circulation, the Chinese government has increased the construction of 5G sites, high-speed rail, and other public infrastructure, and at the same time reduce taxes and fees to improve output and increase the proportion of domestic demand in the domestic aggregate demand [9]. At the same time, China has also strengthened the regulation of cross-border capital, especially large cross-border capital outflows, and improved the corresponding early warning mechanism. As many Chinese companies carry large amounts of U.S. debt, liquidity is at great risk. China has eased restrictions on corporate financing and put interest rate market reform back on the agenda. As long-term capital is harder to transfer and less liquid, short-term liquidity will be put into the market to solve enterprises' liquidity crisis. Recently, China has been in close and in-depth exchanges with the "One Belt, One Road" countries, aiming to give China a voice in the international market and enhance capital liquidity and autonomy through friendly cooperation and mutual exchanges with other countries. Deepening the reform and promoting the internationalization of the RMB has improved the stability of the RMB in the international market [10].

4. Conclusion

Since the outbreak of the epidemic, the U.S. economy has begun to enter a recessionary cycle and the economic situation has become volatile. The U.S. has continued to raise prices against the backdrop of increasing domestic inflation, geopolitical sensitivities such as the Russia-Ukraine conflict, and rising labor markets and prices due to the volatility of the epidemic and racial tensions in the country.

Domestic racial conflicts lead to the labor market and prices continue to rise under the background, the United States began the process of sustained interest rate hikes, and in the future there will still be interest rate hikes in the big action. What can be seen is that, for the Federal Reserve, interest rate hikes this sentence initiative no longer belongs to the extreme monetary policy, but tends to normalize. With the continuous innovation of the new monetary policy and the uncertainty of the future economic situation, the United States is very likely to be used at any time to raise interest rates to adjust the country's macroeconomic initiatives. The impact of the U.S. interest rate hike is significant for the global economy. The main purpose of the U.S. interest rate hike initiative is to deal with their own inflation. Still, the status of the dollar as the world's currency is bound to have an impact on the global economy, but the impact caused by the United States itself is not responsible. The United States in its own interest rate hike this measure has complete autonomy, other countries can only be passive acceptance. Thus, the United States can not only through their own interest rate hikes to reduce inflation in their own countries, but also through the first to lower interest rates after the means of interest rate hikes to realize the dollar for the global economy of the harvest, so as to stabilize their own economic position in the world as well as to achieve their own political purposes. The Federal Reserve's interest rate hike let the U.S. own prosperous stock market temporarily fell. In contrast, the

unemployment rate increased, but stabilized inflation, while the global capital flow back to the United States so that the United States gathered a large amount of capital. The impact has been huge for newly developing countries such as China, with capital outflows, plummeting stock prices, and a double dip in the real estate and consumerism markets. But for underdeveloped economies such as Vietnam and Mongolia, although there is a ripple effect, the impact is small and controllable, accompanied by some new opportunities. In the future, the process of the Fed's interest rate hike will still continue to advance. It can be predicted that with the normalization of the interest rate hike, countries have to adopt more active policies to deal with the Fed's move to raise interest rates and at the same time, to prevent the domestic situation due to the economic problems caused by the turmoil. It can be found that many countries have contradictions and disputes due to domestic economic conflicts and outward transfer and expansion. For the United States, the domestic inflationary pressure can be through the status of the dollar's international currency, and interest rate hikes will be the pressure transferred to other countries. Still, Russia's internal transformation of the enormous pressure can not be transferred only through the war of the outward expansion to realize the pressure transfer. The future political situation can only become more complicated with the Fed's interest rate hike, how to strengthen the risk management and prevention of war. In contrast, in the maze of new opportunities found in other countries, the next situation needs to face the problem.

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