None of the four major central banks has changed its policy setting since the Federal Reserve’s Federal Open Market Committee adopted a 1.75% target for the federal funds rate on September 21. After 10 months, the Bank of Japan’s ¥30–¥35 trillion target for current account balances remains consistent with excess reserves near ¥25 trillion and an overnight interest rate hovering around zero. According to recent remarks of Governor Fukui, “…zero percent [inflation] is merely a passing point,” not an ultimate goal in deciding when Bank of Japan policy might let the overnight rate move above zero.

Rising dollar-denominated energy prices have tended to dampen the real growth outlook around the globe. This has been reinforced in many countries by the potential trade-related impacts of recent currency appreciation relative to the dollar. Both events might raise prices directly or lower prices through weaker economic activity. At the same time and no doubt reflecting these factors, nominal long-term interest rates denominated in the dollar, euro, yen, and U.K. pound have been falling relative to central banks’ policy-related rates. Likewise, equity price indexes in all four currencies have been falling. The difficulty for central banks concerned with preventing inflation always comes in judging the extent to which movements in these nominal variables reflect reduced inflation expectations rather than reduced expectations of real returns to capital.