A Case Study of Liquidity Management on 3 August 2016

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Financial Markets Group
Reserve Bank Open Market Operations

What is the main purpose of the Reserve Bank’s open market operations?

… liquidity management.
Liquidity Management of Interbank Obligations
Liquidity Management of Interbank Obligations

Economic agents → Bank A → Bank B → Economic agents

- **Receipts**
- **Payments**

**Inflows** like government welfare payments

**Outflows** like tax payments to ATO

**Reserve Bank**

**Government**
Liquidity Management Illustration

What did the Reserve Bank do in open market operations on a day the target cash rate was changed?

… 3 August 2016
Liquidity Management on 3 August 2016

Economic agents → Bank A → Bank B → Economic agents

Receipts

Inflows +$3 billion

Outflows -$5 billion

Reserve Bank

Payments

Government
Liquidity Management on 3 August 2016

- Economic agents:
  - Inflows +$3 billion
  - Outflows -$5 billion
- Bank A
- Bank B
- Reserve Bank
- Government
- OMOs +$2 billion

Receipts:
- Bank A
- Bank B

Payments:
- Bank A
- Bank B

Economic agents:
- Economic agents

Inflows +$3 billion
Outflows -$5 billion

OMOs +$2 billion
<table>
<thead>
<tr>
<th>Previous Day</th>
<th>3 August 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing Total ES Balances</td>
<td>$24,310 MILLION</td>
</tr>
<tr>
<td>Closing Surplus ES Balances</td>
<td>$1,707 MILLION</td>
</tr>
<tr>
<td>Estimated Cash Position</td>
<td>A DEFICIT OF $2,180 MILLION</td>
</tr>
<tr>
<td>1st Round Open Market Operations</td>
<td>TO BUY SECURITIES UNDER REVERSE REPO AND OUTRIGHT</td>
</tr>
<tr>
<td>Reserve Bank Proposing</td>
<td>$2,170 MILLION</td>
</tr>
<tr>
<td>Intended Size of Operation</td>
<td></td>
</tr>
<tr>
<td>Preferred Term(s) (days)</td>
<td>12</td>
</tr>
<tr>
<td>Approach Deadline</td>
<td>09:45 AEST</td>
</tr>
</tbody>
</table>
# Allocation Screen

## RBA Proposing TO BUY SECURITIES UNDER REVERSE REPO AND OUTRIGHT $2,170 million

<table>
<thead>
<tr>
<th>Rank</th>
<th>Type</th>
<th>Counterparty</th>
<th>Term in Days</th>
<th>Unwind Date</th>
<th>Bid / Yield (%)</th>
<th>Overnight indexed swap (OIS) (%)</th>
<th>Spread To OIS (BPS)</th>
<th>Amount ($m)</th>
<th>Accept Bid ($m)</th>
<th>Cumulative Auction ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reverse Repo</td>
<td>Bank 1</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.66</td>
<td>1.500</td>
<td>16</td>
<td>1,000</td>
<td>✓</td>
<td>1,000</td>
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<tr>
<td>2</td>
<td>Reverse Repo</td>
<td>Bank 2</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.65</td>
<td>1.500</td>
<td>15</td>
<td>200</td>
<td>✓</td>
<td>1,200</td>
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<tr>
<td>3</td>
<td>Reverse Repo</td>
<td>Bank 3</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.65</td>
<td>1.500</td>
<td>15</td>
<td>200</td>
<td>✓</td>
<td>1,400</td>
</tr>
<tr>
<td>4</td>
<td>Reverse Repo</td>
<td>Bank 4</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.64</td>
<td>1.500</td>
<td>14</td>
<td>200</td>
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<td>1,600</td>
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<tr>
<td>5</td>
<td>Reverse Repo</td>
<td>Bank 5</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.63</td>
<td>1.500</td>
<td>13</td>
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<td>6</td>
<td>Reverse Repo</td>
<td>Bank 6</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.62</td>
<td>1.500</td>
<td>12</td>
<td>200</td>
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<tr>
<td>7</td>
<td>Reverse Repo</td>
<td>Bank 7</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.61</td>
<td>1.500</td>
<td>11</td>
<td>170</td>
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<td>8</td>
<td>Reverse Repo</td>
<td>Bank 8</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.60</td>
<td>1.500</td>
<td>10</td>
<td>500</td>
<td>□</td>
<td>2,670</td>
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<tr>
<td>9</td>
<td>Reverse Repo</td>
<td>Bank 9</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.60</td>
<td>1.500</td>
<td>10</td>
<td>400</td>
<td>□</td>
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<tr>
<td>10</td>
<td>Reverse Repo</td>
<td>Bank 10</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.59</td>
<td>1.500</td>
<td>9</td>
<td>300</td>
<td>□</td>
<td>3,370</td>
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<tr>
<td></td>
<td>Reverse Repo</td>
<td>Bank 11</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.58</td>
<td>1.500</td>
<td>8</td>
<td>200</td>
<td>□</td>
<td>3,570</td>
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<tr>
<td></td>
<td>Reverse Repo</td>
<td>Bank 12</td>
<td>12 or 65</td>
<td>15-Aug or 7-Oct</td>
<td>1.57</td>
<td>1.500</td>
<td>7</td>
<td>100</td>
<td>□</td>
<td>3,670</td>
</tr>
</tbody>
</table>

Source: RBA
## Notification of Results

### OPEN MARKET OPERATIONS

**Results**

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Term (Days)</th>
<th>Value Dealt ($m)</th>
<th>Weighted Avg (%)</th>
<th>Cut-off Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reverse Repo</td>
<td>12</td>
<td>880</td>
<td>1.614</td>
<td>1.60</td>
</tr>
<tr>
<td></td>
<td>65</td>
<td>1298</td>
<td>1.640</td>
<td>1.62</td>
</tr>
</tbody>
</table>

**Total ($m)**

- Outright Transactions ($m): NIL
- Same Day FX Swaps ($m): NIL
- Total Amount Dealt ($m): 2178
Repurchase Agreement

First Leg: 3 August 2016

Central bank

Inject cash

Securities

Bank
Repurchase Agreement

**First Leg:** 3 August 2016

- **Central bank** ➔ **Inject cash** ➔ **Bank** ➒ **Securities**

**Second Leg:** 15 Aug and 7 Oct

- **Central bank** ➒ **Drain cash** ➒ **Bank** ➔ **Securities**
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