A Case Study of Monetary Policy Implementation on 3 August 2016

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Monetary Policy Decision Process
Monetary Policy Implementation Example

What ‘really’ happened on a day that policy was changed?

… 3 August 2016
The Board decided to lower the cash rate by 25 basis points to 1.50 per cent, effective 3 August 2016.

The global economy is continuing to grow, at a lower than average pace.

Australia's terms of trade remain much lower …

… globally, monetary policy remains remarkably accommodative.

In Australia, … growth is continuing at a moderate pace …

… inflation remains quite low.

Supervisory measures have strengthened lending standards … the likelihood of lower interest rates exacerbating risks in the housing market has diminished.

… prospects for sustainable growth in the economy, with inflation returning to target over time, would be improved by easing monetary policy at this meeting.
<table>
<thead>
<tr>
<th>Time</th>
<th>News</th>
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<tbody>
<tr>
<td>15:05</td>
<td>Aussie Yield Over Treasuries Drops to 15-Year Low as RBA Cuts</td>
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<tr>
<td>15:00</td>
<td>Australia Inflation to Remain Focus After RBA Rate Cut: TOPLive</td>
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<tr>
<td>14:55</td>
<td>Aussie Pares Drop of as Much as 0.6% After RBA Cuts Rates: Chart</td>
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<tr>
<td>14:50</td>
<td>Australia Cuts Rates to Record Low to Spur Inflation, Employment</td>
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<tr>
<td>14:46</td>
<td>FastFT: RBA cuts benchmark rate to 1.5%, Aussie tumbles</td>
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<tr>
<td>14:45</td>
<td>Aussie Dollar Sinks As RBA Cut Rate: 3-Yr Yield Hits Record Low</td>
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<td>14:44</td>
<td>CBA to Cut Standard Variable Rate by 13bps by August 19</td>
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<td>14:42</td>
<td>Aussie declines as RBA Rate Cut Wrong-Footed Bullish Hedge Funds</td>
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<tr>
<td>14:40</td>
<td>Oil Retreat Sinks Asian Stocks; Aussie Declines After RBA Cut</td>
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<tr>
<td>14:37</td>
<td>TOPLive: RBA Says Prospects for Growth Improved by Rate Cut</td>
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<tr>
<td>14:34</td>
<td>*CBA CUTS STANDARD VARIABLE RATE MORTGAGES BY 0.13%</td>
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<tr>
<td>14:33</td>
<td>RBA Cuts Rates to Record Low to Counter Low Inflation, Weak Jobs</td>
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<td>14:32</td>
<td>*RBA SAYS PROSPECTS FOR CPI RETURNING TO TARGET IMPROVED BY CUT</td>
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<tr>
<td>14:31</td>
<td>RBA Statement: Link to Full Text</td>
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<td>14:31</td>
<td>Aussie Dollar Slips After RBA Cuts Rates as Expected</td>
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<tr>
<td>14:30</td>
<td>Reserve Bank of Australia Monetary Policy History (Table)</td>
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<tr>
<td>14:30</td>
<td>*AUSTRALIAN STOCKS PARE LOSSES AFTER RBACUTS CASH RATE</td>
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<tr>
<td>14:30</td>
<td>RBA Cuts Rate to Record 1.5% as Seen by 20 of 25 Economists</td>
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<tr>
<td>14:30</td>
<td>*RBA SEES INFLATION REMAINING QUITE LOW FOR SOME TIME</td>
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<tr>
<td>14:30</td>
<td>*RBA CUTS CASH RATE TARGET QUARTER POINT TO 1.50%</td>
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<tr>
<td>14:25</td>
<td>RBA Policy Decision Due in 5 Minutes</td>
</tr>
<tr>
<td>14:20</td>
<td>*TOPLIVE STARTS: FOLLOW RESERVE BANK OF AUSTRALIA RATE DECISION</td>
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Monetary Policy Easing of 0.25% in August 2016

Operation of the corridor around the cash rate target

Source: RBA
Monetary Policy Easing of 0.25% in August 2016

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Operation of the corridor around the cash rate target

- **Loan**
  - Banks want to borrow at lowest rate

- **Target**
  - Banks want to deposit at highest rate

- **Deposit**

Source: RBA
Monetary Policy Easing of 0.25% in August 2016

Operation of the corridor around the cash rate target

Source: RBA
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Operation of the corridor around the cash rate target

Source: RBA
Monetary Policy Easing of 0.25% in August 2016

Operation of the corridor around the cash rate target

Source: RBA
Liquidity and the Policy Rate

Source: RBA
Stylised Supply, Demand and the Corridor

1. Price
   - RBA lending rate
   - Cash Rate Target
   - RBA deposit rate

2. Quantity

3. Demand

4. Supply

5. Policy interest rate corridor
Stylised Supply, Demand and the Corridor

Monetary Policy Easing of 0.25% in August 2016

Source: RBA
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