RESERVE BANK OF AUSTRALIA

A Case Study of Monetary Policy Implementation on 3 August 2016

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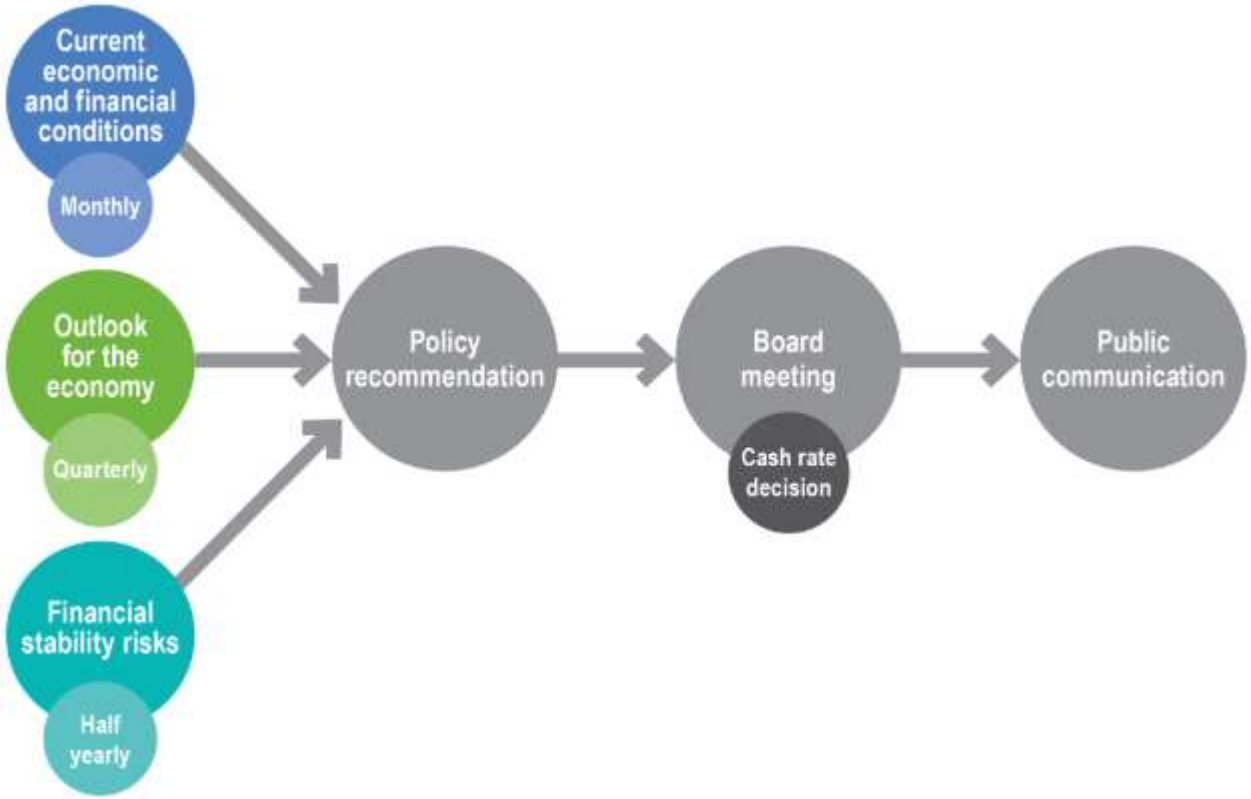
Financial Markets Group

Monetary Policy Decision Process



Monetary Policy Implementation Example

What 'really' happened on a day that policy was changed?

… 3 August 2016

Statement by Glenn Stevens, Governor: Monetary Policy Decision, 2 August 2016 (14:30 AEST)

Abridged

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.

Bloomberg News Wires - 2 August 2016

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	[RBA/RANK 1 SOURCES]			x		Time
*	15:05	3)	Aussie Yield Over Treasuries Drops to 15-Year Low as RBA Cuts		BN	08/16
	15:00	4)	Australia Inflation to Remain Focus After RBA Rate Cut: TOPLive		BN	08/16
	14:55	5)	Aussie Pares Drop of as Much as 0.6% After RBA Cuts Rates: Chart		BN	08/16
	14:50	6)	Australia Cuts Rates to Record Low to Spur Inflation, Employment		BN	08/16
	14:46	7)	FastFT: RBA cuts benchmark rate to 1.5%, Aussie tumbles		FTI	08/16
	14:45	8)	Aussie Dollar Sinks As RBA Cut Rate: 3-Yr Yield Hits Record Low		BFW	08/16
	14:44	9)	CBA to Cut Standard Variable Rate by 13bps by August 19		BFW	08/16
	14:42	10)	Aussie declines as RBA Rate Cut Wrong-Footed Bullish Hedge Funds		BN	08/16
	14:40	11)	Oil Retreat Sinks Asian Stocks; Aussie Declines After RBA Cut		BN	08/16
	14:37	12)	TOPLive: RBA Says Prospects for Growth Improved by Rate Cut		BN	08/16
*	14:34	13)	*CBA CUTS STANDARD VARIABLE RATE MORTGAGES BY 0.13%		BFW	08/16
	14:33	14)	RBA Cuts Rates to Record Low to Counter Low Inflation, Weak Jobs		BN	08/16
	14:32	15)	*RBA SAYS PROSPECTS FOR CPI RETURNING TO TARGET IMPROVED BY CUT		BFW	08/16
	14:31	16)	RBA Statement: Link to Full Text		BFW	08/16
*	14:31	17)	Aussie Dollar Slips After RBA Cuts Rates as Expected		BFW	08/16
	14:30	18)	Reserve Bank of Australia Monetary Policy History (Table)		BN	08/16
*	14:30	19)	*AUSTRALIAN STOCKS PARE LOSSES AFTER RBACUTS CASH RATE		BFW	08/16
	14:30	20)	RBA Cuts Rate to Record 1.5% as Seen by 20 of 25 Economists		BFW	08/16
	14:30	21)	*RBA SEES INFLATION REMAINING QUITE LOW FOR SOME TIME		BFW	08/16
*	14:30	22)	***RBA CUTS CASH RATE TARGET QUARTER POINT TO 1.50%**		BFW	08/16
	14:25	23)	RBA Policy Decision Due in 5 Minutes		BFW	08/16
	14:20	24)	*TOPLIVE STARTS: FOLLOW RESERVE BANK OF AUSTRALIA RATE DECISION		BFW	08/16

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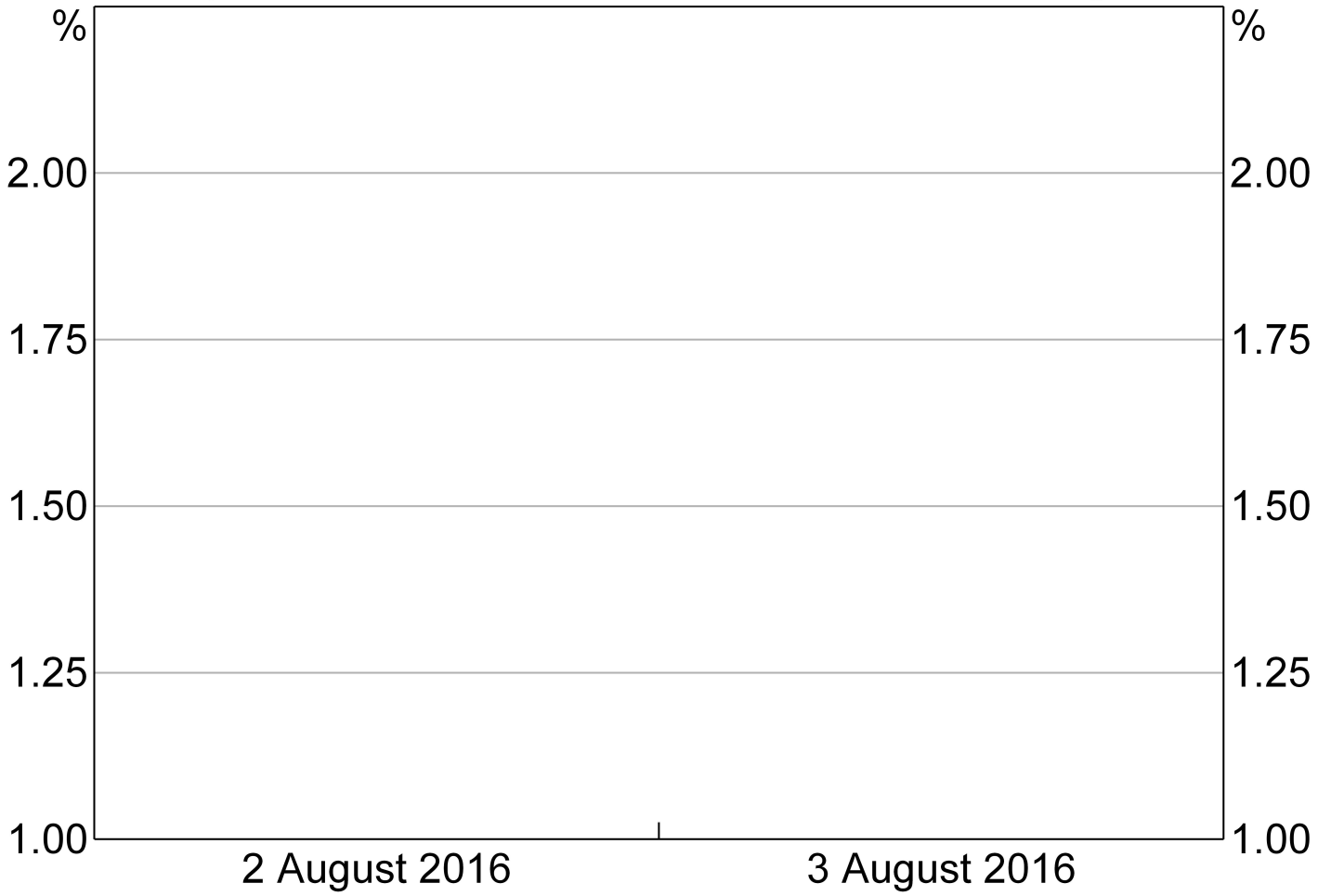
Monetary Policy Easing of 0.25% in August 2016

Operation of the corridor around the cash rate target



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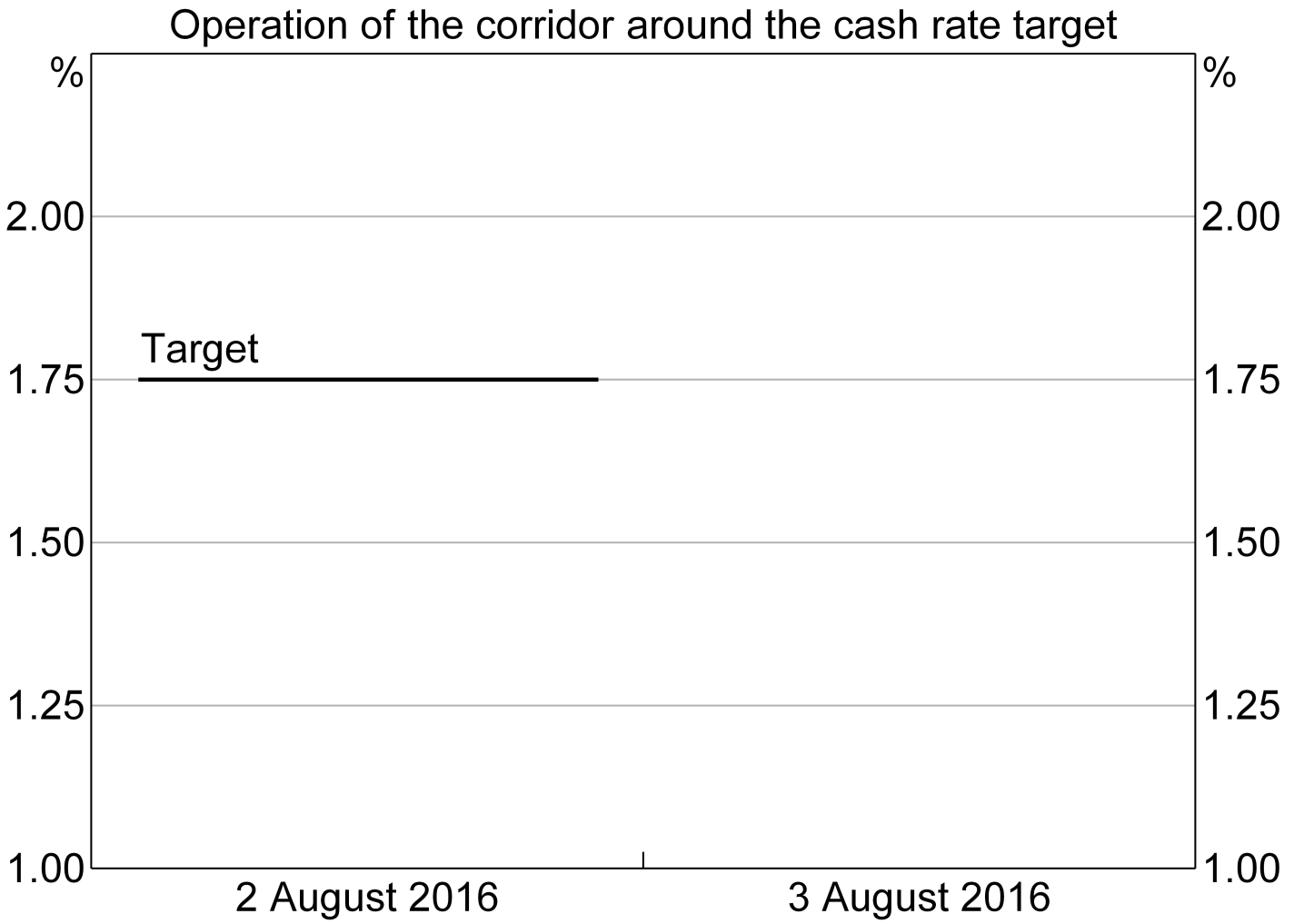

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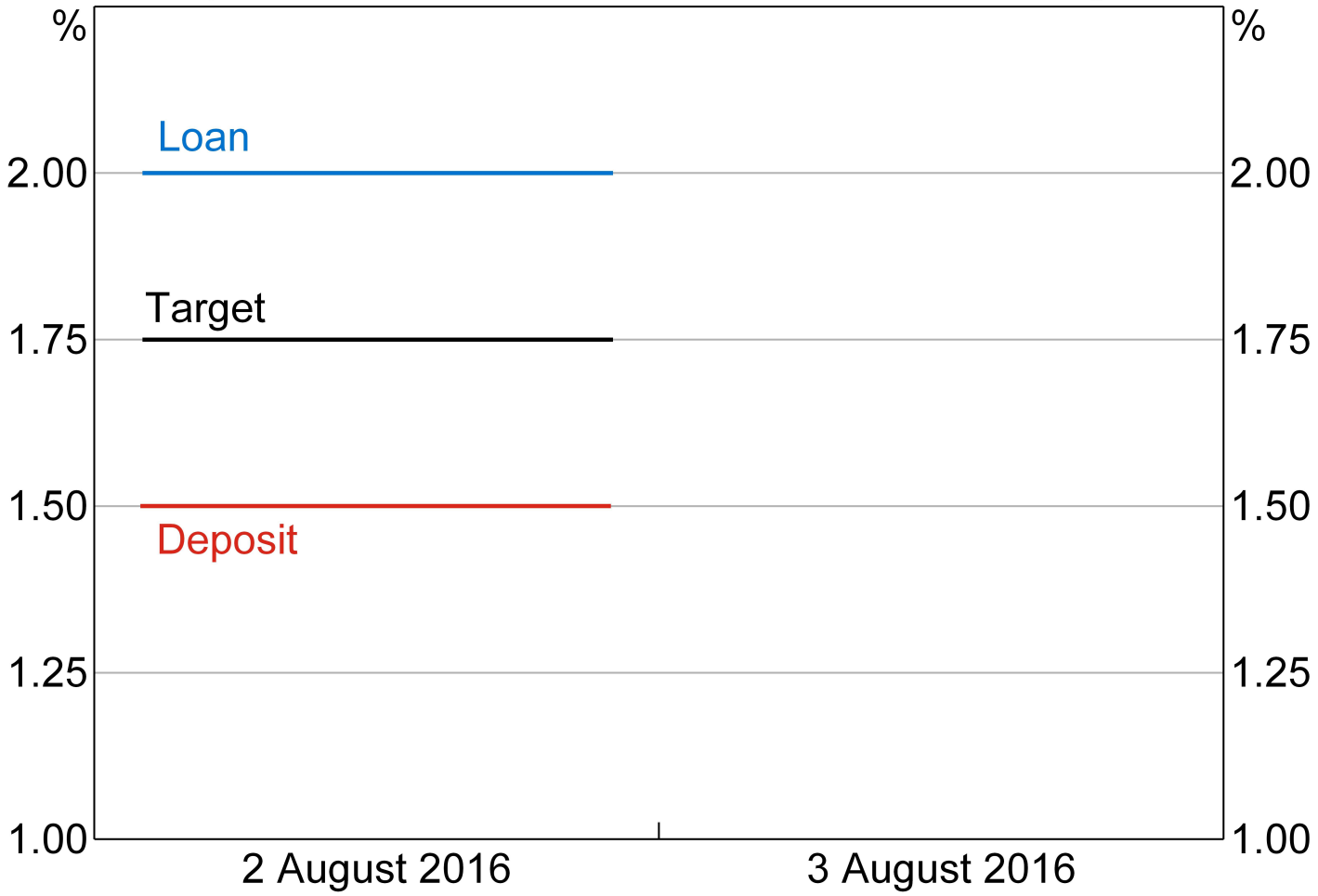

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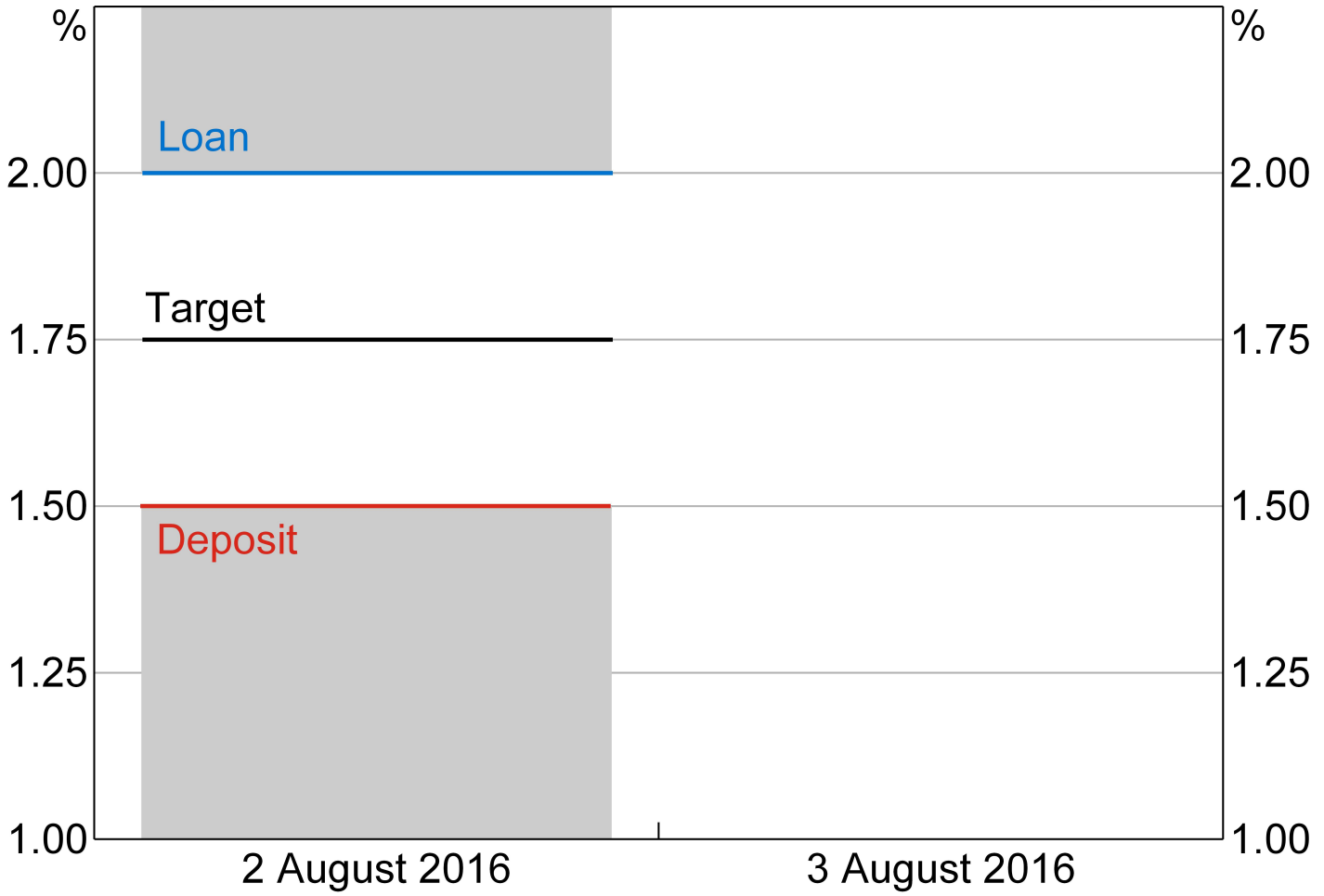

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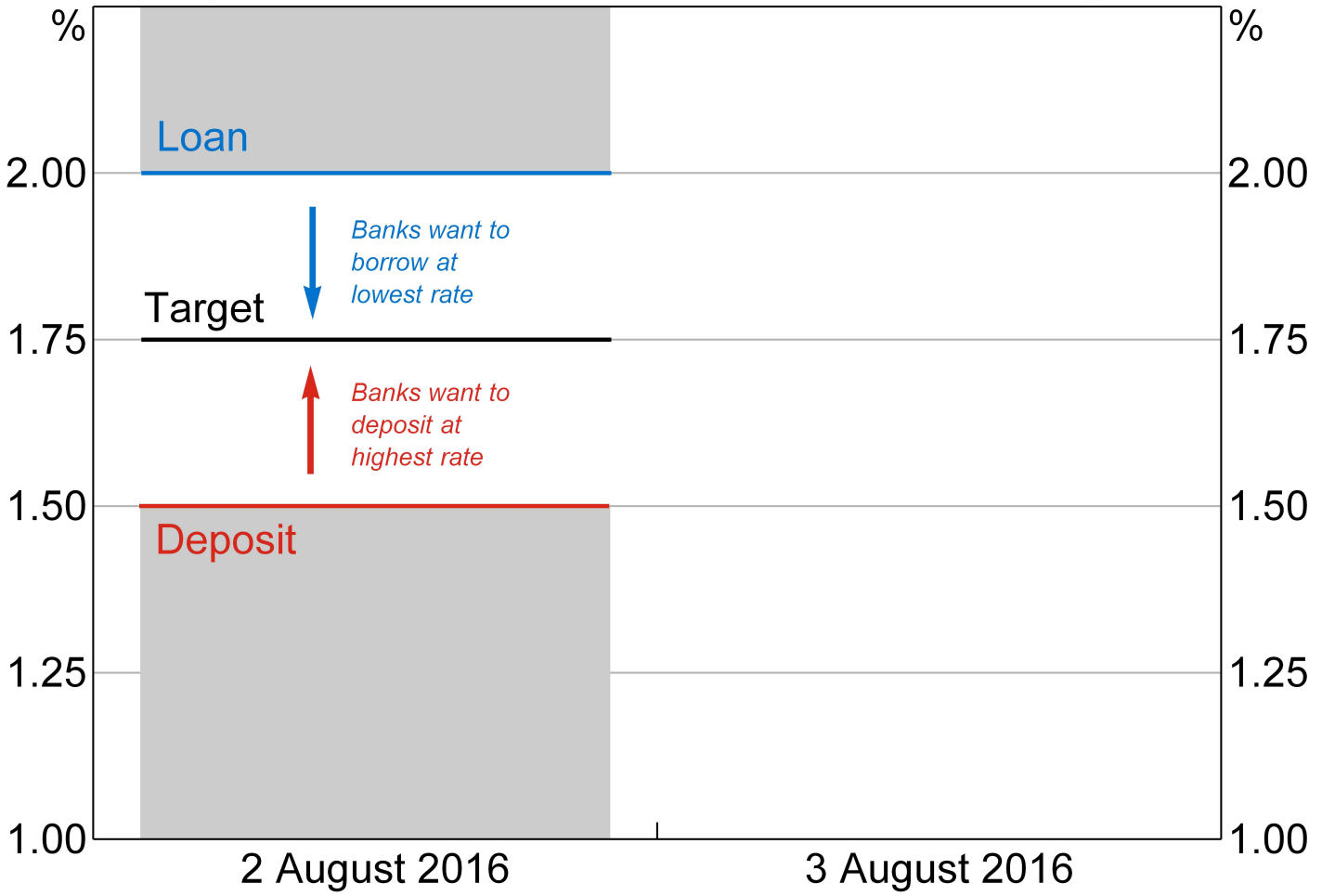

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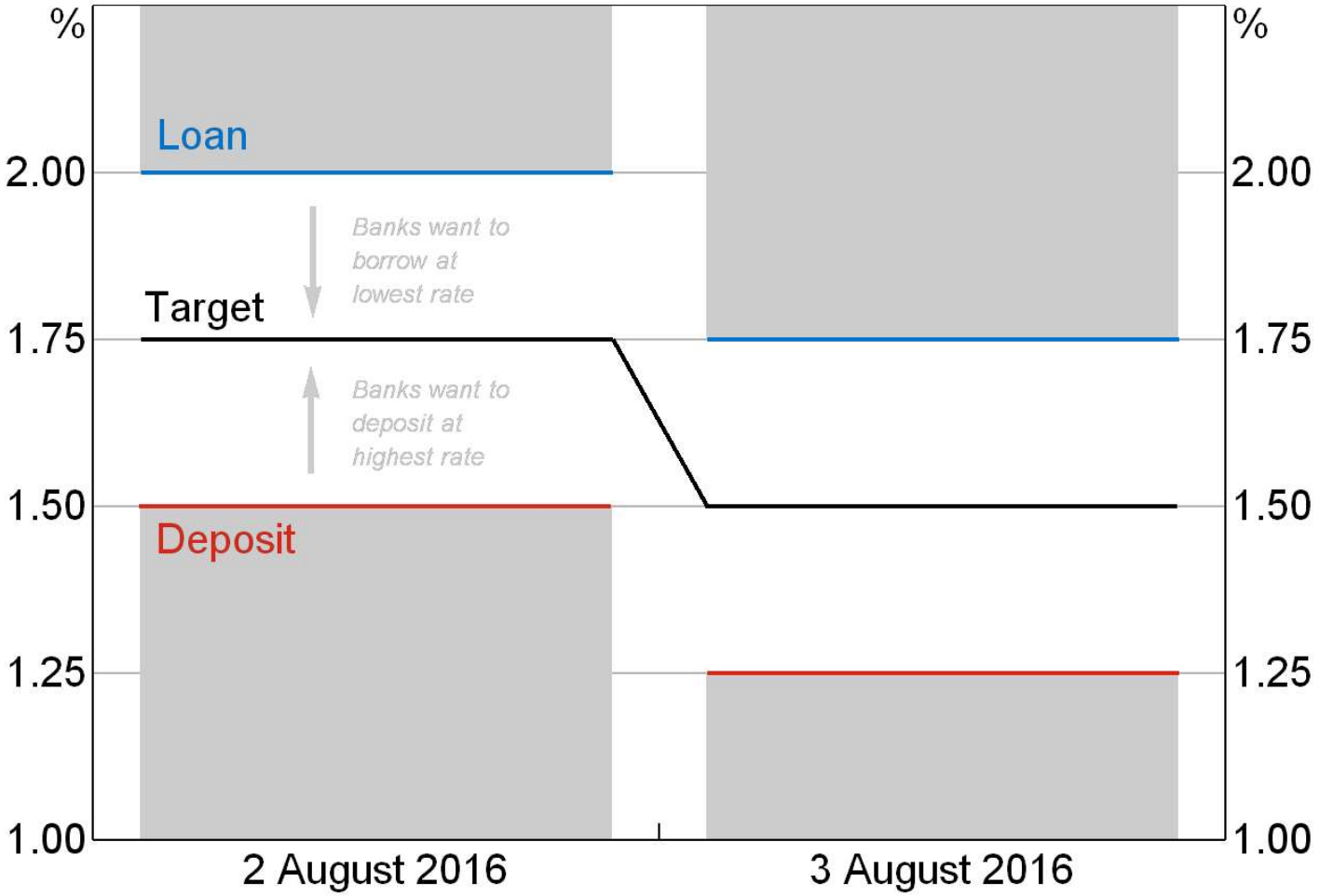

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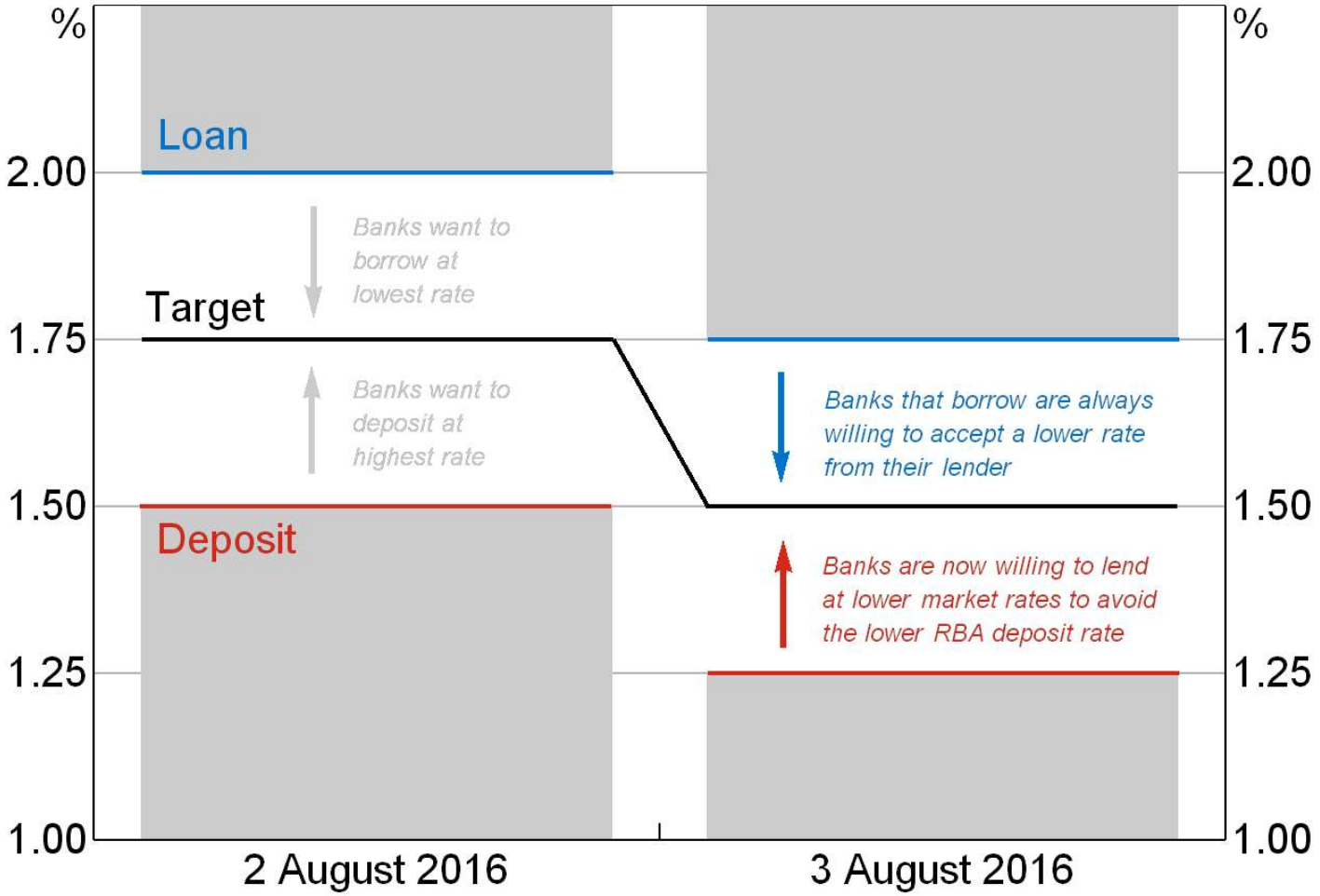

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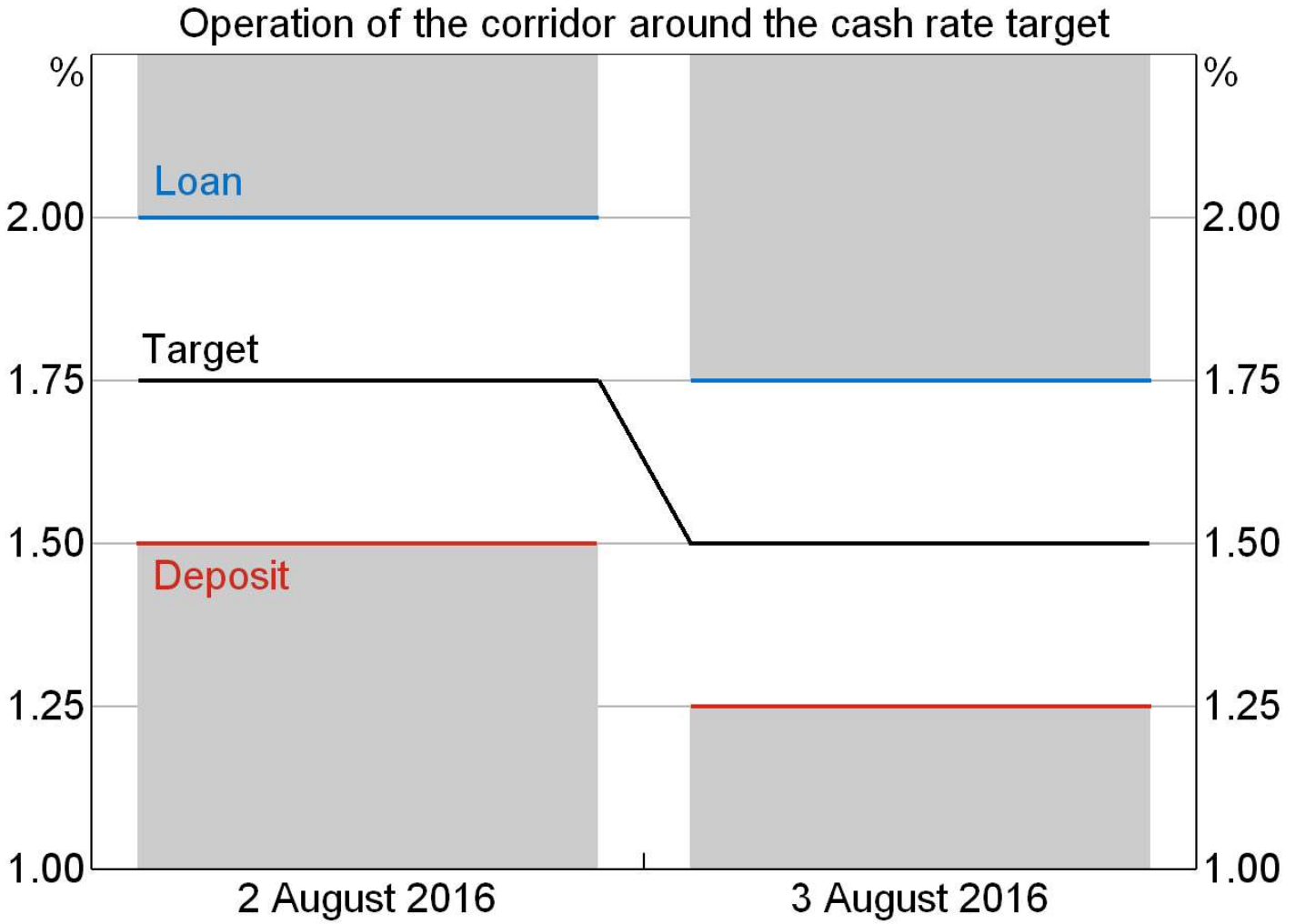

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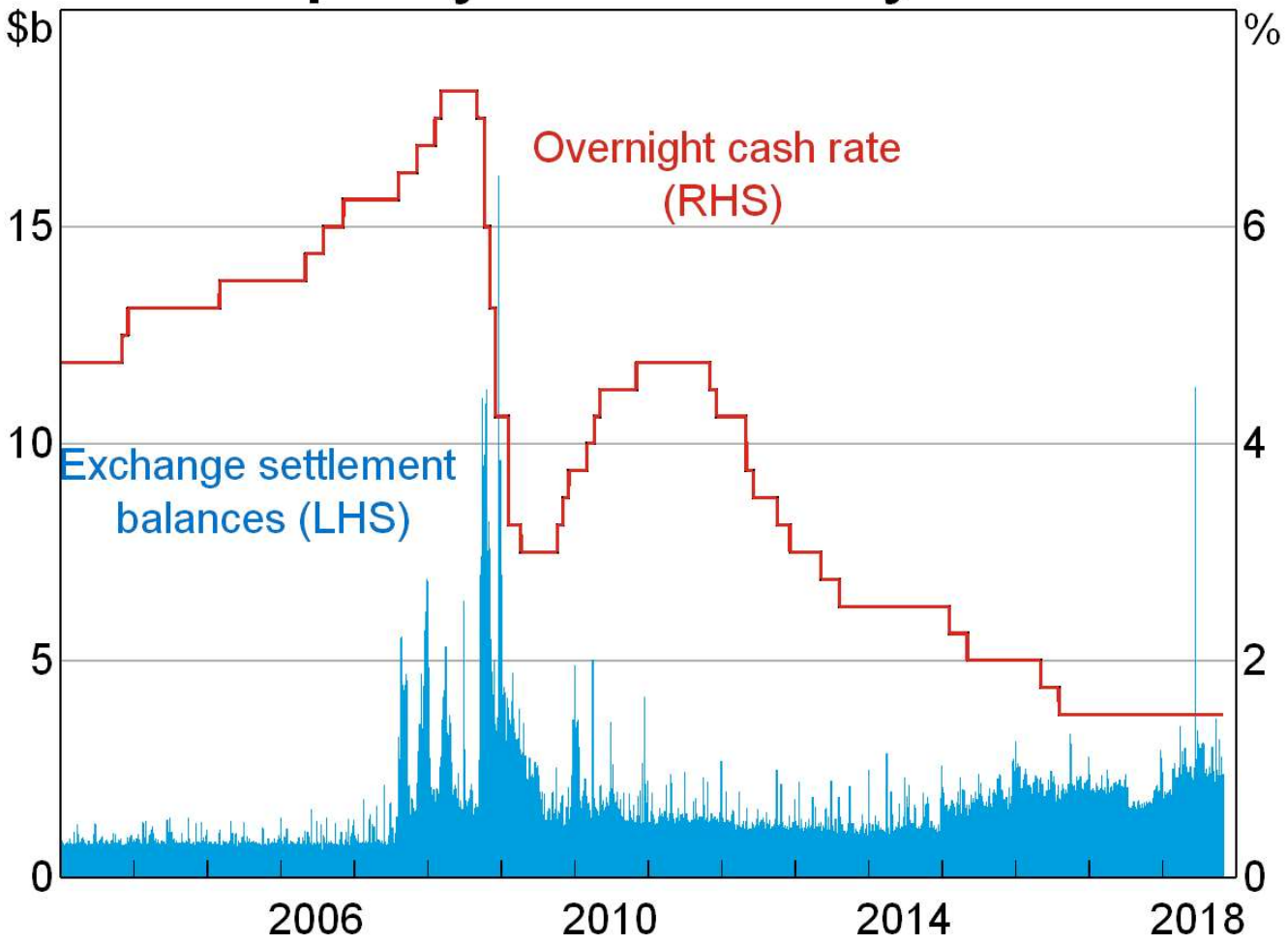
Liquidity and the Policy Rate



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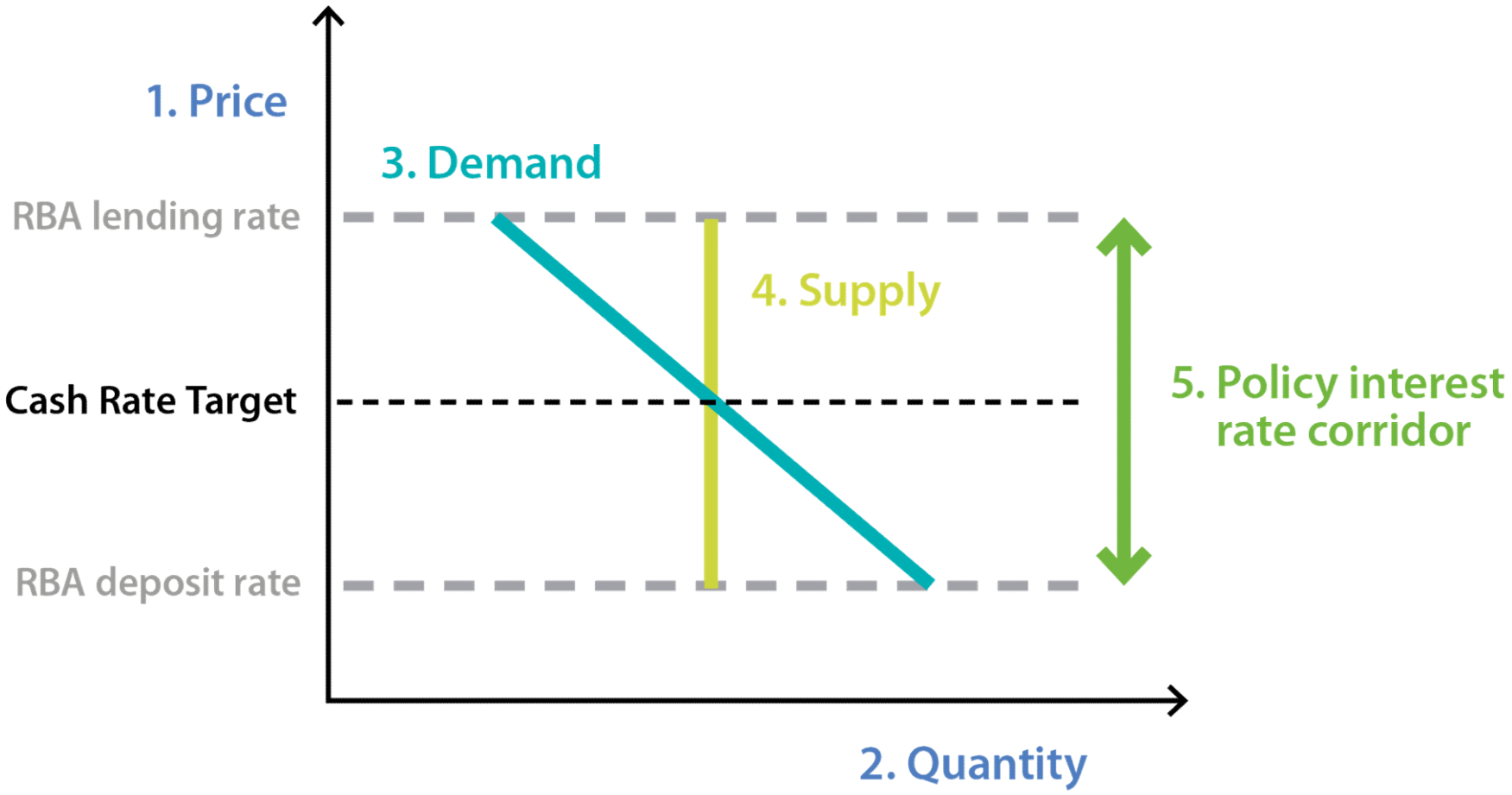
Stylised Supply, Demand and the Corridor



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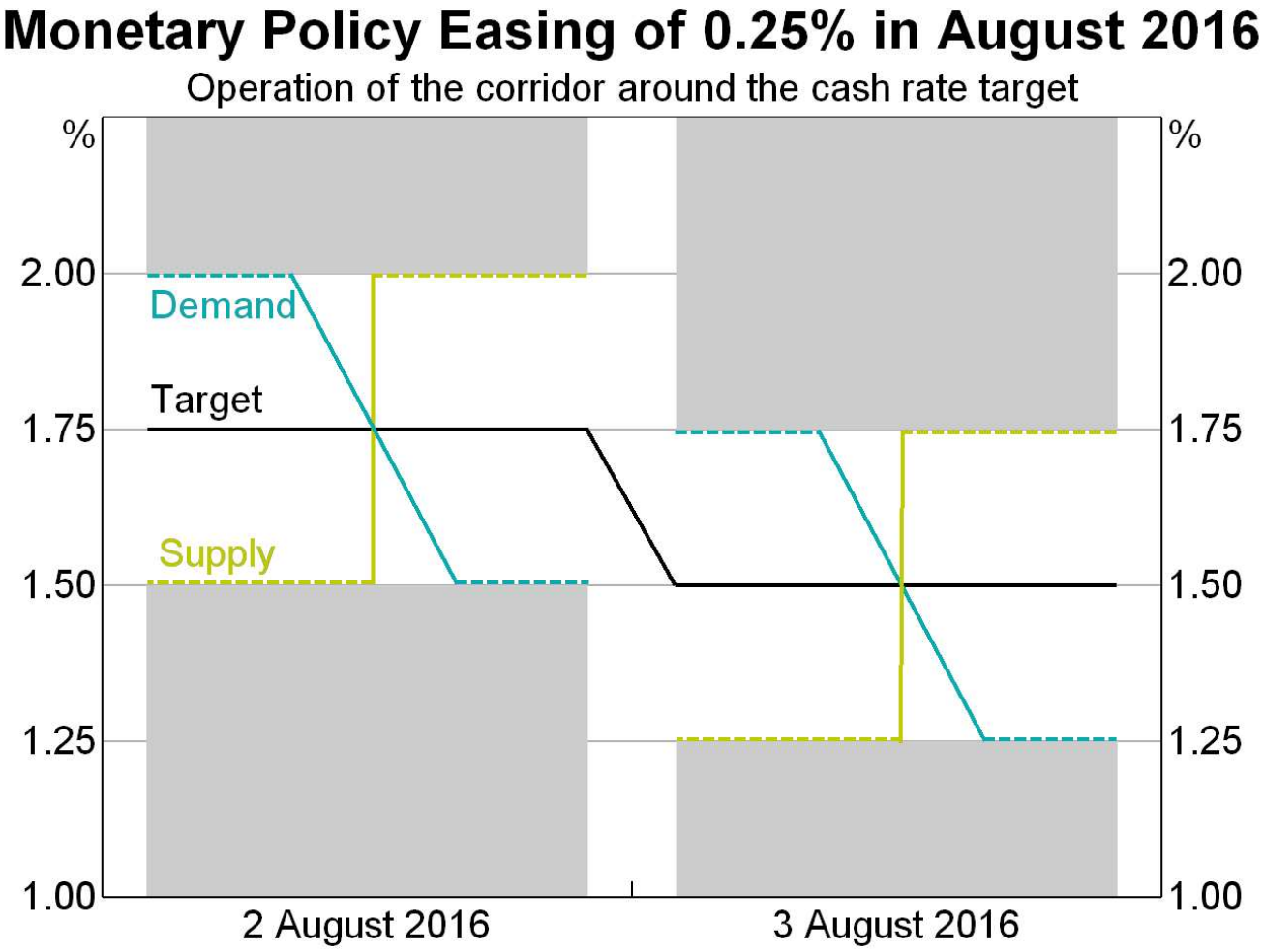

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