



# The differential impact of monetary policy announcements and explanatory minutes releases on the Australian interest rate futures market



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## ARTICLE INFO

### Article history:

Received 28 October 2013

Accepted 6 May 2014

Available online 10 May 2014

### JEL classification:

E52

E32

G01

G14

D03

### Keywords:

Monetary policy announcement

Interest rate futures market

Explanatory minutes

Global Financial Crisis

## ABSTRACT

Unlike US and Continental European jurisdictions, Australian monetary policy announcements are not followed promptly by projections materials or comprehensive summaries that explain the decision process. This information is disclosed 2 weeks later when the explanatory minutes of the Reserve Bank board meeting are released. This paper is the first study to exploit the features of the Australian monetary policy environment in order to examine the differential impact of monetary policy announcements and explanatory statements on the Australian interest rate futures market. We find that both monetary policy announcements and explanatory minutes releases have a significant impact on the implied yield and volatility of Australian interest rate futures contracts. When the differential impact of these announcements is examined using the full sample, no statistically significant difference is found. However, when the sample is partitioned based on stable periods and the Global Financial Crisis, a differential impact is evident. Further, contrary to the findings of Kim and Nguyen (2008), Lu et al. (2009), and Smales (2012a), the response along the yield curve, is found to be indifferent between the short and medium terms.

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## 1. Introduction

In the US and Continental European jurisdictions, monetary policy announcements that disclose a target interest rate for overnight loans are followed within a period of less than 2 h by statements that explain the decision behind those announcements. For example, the announcement of the setting of the Federal Funds rate by the release of the US Federal Open Market Committee statement is followed 90 min later by the

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release of so-called “projections materials”. Similarly the European Central bank announces its rates decision and 45 min later releases a comprehensive summary of its stance on monetary policy.

In Australia, these events occur separately, with the announcement of the monthly target cash rate for overnight loans being provided 2 weeks before the release of the explanatory minutes of the Board meeting that decided the rate outcome. This paper exploits this feature of the Australian monetary policy environment to examine the differential impact of monetary policy announcements and explanatory statements on the Australian interest rate futures market.<sup>1</sup>

The impact of Australian monetary policy announcements has been examined. For example, [Kim and Nguyen \(2008\)](#) examined the impact of the Reserve Bank of Australia and US Federal Reserve target rate announcements on Australian financial markets, reporting a stronger (weaker) impact on short (long) term contracts based upon the magnitude of the coefficients in the regression model employed. [Lu et al. \(2009\)](#) confirm these findings using intraday data.<sup>2</sup> More recently [Smales \(2012a\)](#), using the methodology of [Guraynak et al. \(2005\)](#), sought to disaggregate the impact of the monetary policy announcement into target and path surprise factors by employing a two-factor regression model.<sup>3</sup> However, no Australian study has addressed the impact of the explanatory minutes.

International studies have examined the impact of the explanatory minutes in England ([Reeves and Sawicki, 2007](#)) and in the US ([Jubinski and Tomljanovich, 2013](#); [Rosa, 2013](#)) by comparing the volatility and/or returns on announcement days with non-announcement days. These studies use a non-market-based measure for surprise such as survey data.<sup>4</sup> Further, no examination has been undertaken as to whether there is any differential impact between monetary policy announcements and explanatory minute releases.

This study is motivated by the segregation of the Australian monetary policy announcement and explanatory minutes release. This segregation allows the calculation of the information content of these events to be separately estimated and for their impacts to be independently assessed. It also allows for their differential impacts to be examined: in general; and along the yield curve.

A wide literature also demonstrates the influence of economic states on the impact of macroeconomic announcements. For example [McQueen and Roley \(1993\)](#) demonstrate that allowing for different stages of the business cycle influences the impact of several macroeconomic announcements.<sup>5</sup> Whilst no study has considered the differential impact of monetary policy announcements and the release of explanatory statements across different economic states, this is of particular interest to policy makers, who need to ensure that they deliver effective direction during periods of crisis, when monetary policy is particularly important. We therefore consider the influence of the Global Financial Crisis on the impact of monetary policy announcements and explanatory minutes releases on the Australian interest rate futures market.

Using a sample period from October 2003 to July 2012 we find that both monetary policy announcements and explanatory minutes releases have a significant impact on the implied yield and volatility of Australian interest rate futures contracts. When the differential impact of these announcements is examined using the full sample, no significant difference is found. However, when the sample is partitioned based on the Global Financial Crisis, a differential impact is exposed. Further, contrary to the findings of [Kim and Nguyen \(2008\)](#),

<sup>1</sup> The US Federal Open Market Committee also releases minutes of their regularly scheduled meetings 3 weeks after the monetary policy announcement. However the information content of these minutes may be mitigated by the previous release of “projections materials”. Further, since October 1998 the Bank of England has published the monetary policy committee minutes on the Wednesday of the second week after the formative meeting.

<sup>2</sup> [Lu et al. \(2009\)](#) used intraday data following [Bernanke and Kuttner \(2005\)](#) reporting that the use of daily data engenders issues of endogeneity and simultaneity. Endogeneity in this context refers to the interdependent nature of monetary policy and financial asset pricing whilst simultaneity refers to the joint response problem, the contemporaneous response of both monetary policy and interest rates to exogenous news.

<sup>3</sup> The target factor, proxied by the daily change in the front 30-day interbank cash rate futures contract, was used to measure the impact of the target cash rate announcement, whilst the path factor, proxied by the daily change in the 1-year ahead 90-day bank bill futures contract, was used to indicate the information content of any accompanying statements. An alternative model employed by [Rosa and Verga \(2008\)](#) and [Rosa \(2011a,b\)](#) uses a narrative approach to indicate the tone and information content of any accompanying statements. This approach, as stated by [Romer and Romer \(1989\)](#), involves “the identification of monetary shocks through non-statistical procedures” (pg. 122).

<sup>4</sup> [Reeves and Sawicki \(2007\)](#) calculate surprise as the target rate decision less its expected value as determined by Money Market Services International (MMS) survey data.

<sup>5</sup> Further, [Jensen et al. \(1996\)](#) and [Andersen et al. \(2007\)](#) report that the monetary environment (restrictive or expansive) and the state of the economy respectively, affect the response of US stock and bond returns to macroeconomic news.

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