Responses to Survey of Market Participants

Markets Group, Federal Reserve Bank of New York

July 2014

Responses to Survey of Market Participants
Distributed: 7/16/2014 – Received by: 7/21/2014

The New York Fed is conducting a pilot survey of market participants in an effort to better understand the expectations of active investment decision makers. The pilot surveys consist of a subset of questions taken directly from the Survey of Primary Dealers. Further information on the pilot, including a list of current participants, can be found on the New York Fed website.

Responses were received from 28 market participants. Except where noted, all 28 participants responded to each question. In some cases, participants may not have provided forecasts extending to the same time horizon as requested in the survey. In these instances, the number of respondents who answered all parts of the question is indicated.

For most questions, median responses across participants, along with the 25th and 75th percentiles, are reported. For questions that ask respondents to give a probability distribution, the average response across participants for each potential outcome is reported.[1] [2]

Monetary Policy Expectations

1. How do you expect the release of the July FOMC statement to influence market perceptions of the stance of monetary policy, if at all? (1 = less accommodative, 3 = neutral, 5 = more accommodative)

Perceived Stance of Monetary Policy	
25th Pctl	3
Median	3
75th Pctl	3

2. What announced purchase pace, effective following the upcoming FOMC meeting, do you believe would result in roughly no change in the price of the 10-year Treasury note, assuming no other policy action?

Monthly Pace Resulting in No Change in 10-year Treasury Yield ($ billions)

	Treasuries	Agency MBS
25th Pctl	15	10
Median	15	10
75th Pctl	15	10

3. a) Of the possible outcomes below, provide the percent chance* you attach to the timing of the first target federal funds rate increase. Also, provide your estimate for the most likely quarter and year of the first target rate increase.

	≤2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	≥2016 Q3
Average	2%	13%	26%	27%	16%	8%	4%	4%

[1] Answers may not sum to 100 percent due to rounding.
[2] Amended on 08/25/14.

	Most Likely Quarter and Year of First Target Rate Increase
25th Pctl	Q2 2015
Median	Q3 2015
75th Pctl	Q3 2015

b) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range at the end of each period below. In addition, provide your estimate of the longer run target federal funds rate and your expectation for the average federal funds rate over the next 10 years.

(27 complete responses)

	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1	Longer Run	10-yr Average FF Rate
25th Pctl	0-.25%	0-.25%	0-.25%	0.50%	0.75%	1.25%	1.94%	2.25%	2.69%	3.00%	3.28%	2.53%
Median	0-.25%	0-.25%	0.19%	0.50%	1.00%	1.50%	2.00%	2.63%	3.00%	3.50%	3.63%	2.77%
75th Pctl	0-.25%	0.16%	0.50%	0.75%	1.00%	1.75%	2.50%	3.00%	3.56%	3.56%	4.00%	3.02%

4. Of the possible outcomes below, please indicate the percent chance* you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2014, 2015, and 2016.

Year End 2014

	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	≥2.51%
Average	95%	5%	0%	0%	0%	0%	0%

Year End 2015

	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	≥2.51%
Average	15%	17%	36%	21%	9%	2%	0%

Year End 2016

	≤0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	≥3.01%
Average	5%	9%	16%	28%	21%	14%	7%

5. a) Provide the percent chance* you attach to the unemployment rate falling within the following ranges at the time of the first increase in the target federal funds rate.

	< 5.5%	5.5 - 5.9%	6.0 - 6.5%	> 6.5%
Average	23%	62%	14%	1%

b) Provide the percent chance* you attach to inflation between 1 and 2 years ahead falling within the following ranges at the time of the first increase in the target federal funds rate.

(27 complete responses)

	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%
Average	6%	16%	46%	25%	7%

c) Provide your estimate for the most likely value of the following indicators at the time of the first increase in the target federal funds rate. When specifying values below, where appropriate, provide your estimate consistent with the last published value prior to the announcement of liftoff. For reference, the level of total U.S. employees on nonfarm payrolls for June, seasonally adjusted, was 138.8 million.

(26 complete responses)

	Unemployment Rate	Labor Force Participation Rate	Total NFP*	12-Month Change in Average Hourly Earnings	Headline 12-Month PCE Inflation	Inflation Between 1 and 2 Years Ahead
25th Pctl	5.6%	63.0%	140.8	2.4%	1.8%	2.0%
Median	5.7%	63.0%	141.1	2.5%	2.0%	2.2%
75th Pctl	5.8%	63.4%	141.4	2.9%	2.2%	2.2%

**In Millions*

d) Provide your forecast for the most likely levels of the following indicators immediately following liftoff in the target federal funds rate. If you do not believe a particular tool will be used in the context of monetary policy normalization, please enter "N/A". If you expect a target range, please enter the range. If you expect the Term Deposit Facility and Term Treasury RRP will be used in normalization, please specify the term that you believe will be most heavily used and provide the expected rate for that term.

(17 complete responses)*

Administered Rates and Policy Tools

	Target Federal Funds Rate	Rate of Interest on Excess Reserves	O/N RRP Rate	Term Deposit Facility Rate	Term Deposit Facility Term (Days)	Term Treasury RRP Rate	Term Treasury RRP Term (Days)
25th Pctl	0.38%	0.33%	0.25%	0.31%	7	0.30%	7
Median	0.38%	0.50%	0.30%	0.39%	7	0.34%	7
75th Pctl	0.50%	0.50%	0.30%	0.55%	7	0.35%	14

Market Rates

	Federal Funds Effective Rate	Overnight Treasury GCF Repo Rate	4-Week T-Bill Rate	3-Month LIBOR Rate
25th Pctl	0.30%	0.30%	0.25%	0.49%
Median	0.36%	0.35%	0.26%	0.50%
75th Pctl	0.40%	0.40%	0.33%	0.60%

Federal Reserve Balance Sheet

	Expected Usage of O/N RRP ($ billions)	Expected Usage of Term RRPs and TDF ($ billions)
25th Pctl	200	50
Median	306	100
75th Pctl	500	200

**For respondents that submitted ranges, midpoints of the ranges are used. Complete responses only include responses that were specific numbers or ranges.*

6. a) **Provide your estimate for the most likely monthly pace of purchases that will be in effect after each of the below FOMC meetings.**

Monthly Pace of Longer-Term Security Purchases ($ billions)

Year	Meeting		Treasuries	Agency MBS
2014	July 29-30:	25th Pctl	15	10
		Median	15	10
		75th Pctl	15	10
	September 16-17:	25th Pctl	10	5
		Median	10	5
		75th Pctl	10	5
	October 28-29:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	December 16-17:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
2015	January 27-28:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	March 17-18:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	April 28-29:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	June 16-17:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	July 28-29:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0

b) **Provide the percent chance you attach to a reduction in asset purchase pace being announced at the July FOMC meeting.**

	Percent Chance of Reduction
25th Pctl	95%
Median	99%
75th Pctl	100%

c) **Provide your expectation for the most likely change in the amount of domestic securities held in the SOMA portfolio during each of the periods below. In the case of purchases, include settled and unsettled amounts.[3]**

[3] Respondents provided their expected change in the SOMA portfolio of Treasuries and agency debt and MBS at each time horizon. The data is constructed by creating a portfolio level for each respondent at each time horizon based upon their responses. The 25th percentile, median, and 75th percentile portfolio level are then sampled at each time horizon. The data represent the changes in these portfolios at each time horizon.

		2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 CY*
		($ billions)					
Change in the estimated amount of Treasuries:	25th Pctl portfolio	60	0	-3	-142	-73	-194
	Median portfolio	60	0	0	-129	-76	-195
	75th Pctl portfolio	60	0	0	-64	-81	-100
Change in the estimated amount of agency debt and MBS:	25th Pctl portfolio	40	0	-75	-75	-81	-143
	Median portfolio	40	0	-3	-73	-70	-145
	75th Pctl portfolio	40	0	0	-50	-43	-100

**Calendar Year*

d) Provide your estimate of the most likely quarter and year during which the FOMC will first cease reinvesting some or all payments of principal on Treasuries and/or agency debt and MBS. In addition, please provide your expectation for the timing, in months, relative to the first increase in the target rate. If you do not expect the FOMC to cease reinvestments for either or both asset classes during the process of policy normalization, please leave the fields blank. Please ensure your signs are correct.

(27 complete responses)

Most Likely Quarter and Year of End to Reinvestments

	Treasuries*	Agency Debt and MBS**
25th Pctl	Q2 2015	Q2 2015
Median	Q3 2015	Q3/Q4 2015***
75th Pctl	Q1 2016	Q1 2016

**Two participants expects no end to reinvestments of Treasury securities*
***One participant expects no end to reinvestments of Agency Debt and MBS securities*
****Median falls between Q3 and Q4 2015*

Number of Months Relative to Liftoff

	Treasuries	Agency Debt and MBS
25th Pctl	1	2
Median	3	5
75th Pctl	7	7

7. Of the possible outcomes below, indicate the percent chance* you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2014 and year-end 2015. For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 2, 2014 H.4.1 was $3,814 billion.

(25 complete responses)

Year-end 2014

	<3500	3500-3750	3750-4000	4000-4250	4250-4500	4500-4750	4750-5000	>5000
Average	0%	0%	4%	31%	59%	5%	0%	0%

Year-end 2015

	<3500	3500-3750	3750-4000	4000-4250	4250-4500	4500-4750	4750-5000	>5000
Average	1%	3%	8%	40%	40%	6%	1%	0%