

# Responses to Survey of Market Participants

Markets Group, Federal Reserve Bank of New York

March 2014

## Responses to Survey of Market Participants

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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.

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

Twenty-five market participants submitted responses to the March survey. Except where noted, all participants responded to each question. In some cases, respondents 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.

#### Monetary Policy Expectations

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1. a) Taken together, how do you expect the events on March 19 (release of FOMC statement, release of the advanced materials of the SEP, and Chair's press conference) 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

- b) 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	
	Treasury	Agency MBS
25th Pctl	30	25
Median	30	25
75th Pctl	30	25

2. a) Of the possible outcomes below, provide the percent chance you attach to the timing of the first target federal funds rate increase.

	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	≥2018 H1
Average	0%	2%	22%	39%	21%	9%	4%	2%	2%

**Most Likely Quarter and  
Year of First Target Rate  
Increase**

25th Pctl	Q2 2015
Median	Q3 2015
75th Pctl	Q4 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 half-year period. 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.

	2014 H1	2014 H2	2015 H1	2015 H2	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%	1.25%	1.50%	2.00%	2.50%	2.75%	3.50%	2.50%
Median	0-.25%	0-.25%	0-.25%	0.75%	1.50%	2.00%	2.50%	3.00%	3.50%	3.75%	2.75%
75th Pctl	0-.25%	0-.25%	0.25%	1.00%	1.50%	2.00%	3.00%	3.75%	3.75%	4.00%	3.00%

3. 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.

	< 6.0%	6.0 - 6.5%	> 6.5%
Average	65%	32%	3%

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.

*(24 complete responses)*

	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%
Average	5%	22%	44%	23%	6%

c) Provide your estimate for the most likely value for 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 January, seasonally adjusted, was 137.5 million. For your calculation of total payrolls, please take into account the February level to be released on March 7th.

(24 complete responses)

	Unemployment Rate	Total NFP*	Headline 12-Month PCE Inflation	Inflation Between 1 and 2 Years Ahead
25th Pctl	5.8%	140.0	1.7%	1.9%
Median	5.9%	140.6	1.7%	2.0%
75th Pctl	6.0%	140.9	1.9%	2.2%

\*In millions

4. a) The January 2014 FOMC meeting minutes stated that, "Participants agreed that, with the unemployment rate approaching 6½ percent, it would soon be appropriate for the Committee to change its forward guidance in order to provide information about its decisions regarding the federal funds rate after that threshold was crossed," and summarized a range of views around the form that such forward guidance might take. Provide the percent chance you attach to the Committee changing its current forward guidance for the federal funds rate in any of the following ways, and the meeting at which you expect the most likely change to occur. Percentages do not have to add up to 100 percent.

	Option 1	Option 2	Option 3	Option 4
25th Pctl	10%	60%	20%	10%
Median	20%	75%	30%	20%
75th Pctl	20%	90%	60%	55%

*Option 1:* Provide quantitative guidance on appropriate timing of the first rate hike that modifies or replaces current threshold-based guidance.

*Option 2:* Provide qualitative guidance relevant to determining the appropriate timing of the first rate hike.

*Option 3:* Provide additional information on the path of the target rate after the first increase.

*Option 4:* Other changes.

	Most Likely Meeting
25th Pctl	March 2014
Median	March 2014
75th Pctl	April 2014

b) How do you anticipate the change(s) you expect to the forward rate guidance to influence market expectations of the expected path of the target rate, if at all, relative to current expectations?

	Impact on Expected Timing of Liftoff		Impact on Expected Path of Target Rate Post-Liftoff
Earlier	3	Flatter	2
No Change	21	No Change	15
Later	1	Steeper	8

5. 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)		
		Treasury	Agency MBS	
2014	March 18-19:	25th Pctl	30	25
		Median	30	25
		75th Pctl	30	25
	April 29-30:	25th Pctl	25	20
		Median	25	20
		75th Pctl	25	20
	June 17-18:	25th Pctl	20	15
		Median	20	15
		75th Pctl	20	15
	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	5	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 2015:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0

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

	Percent Chance of Reduction
25th Pctl	90%
Median	95%
75th Pctl	98%

- 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.<sup>1</sup>

(22 complete responses)

		2015 H1	2015 H2	2016 H1	2016 H2	2017 CY*
(\$ billions)						
Change in the estimated amount of Treasuries:	25th Pctl portfolio	0	-2	-143	-73	-195
	Median portfolio	0	0	-129	-80	-191
	75th Pctl portfolio	0	0	-98	-82	-197
Change in the estimated amount of agency debt and MBS:	25th Pctl portfolio	-3	-81	-75	-72	-161
	Median portfolio	0	-48	-60	-93	-128
	75th Pctl portfolio	0	0	-75	-68	-73

\*Calendar Year

- d) Provide your expectation for the most likely level of reserves and currency in circulation at end 2014 as well as your forecast for the average growth rate of currency in circulation after 2014. Please also provide your estimate of the most likely change in reserves during each of the periods below. When estimating the level and change in reserves, please adjust for seasonal fluctuations. For your reference, the level of reserves according to the January 2, 2014 H.4.1 was \$2,249 billion and the level of currency in circulation was \$1,241 billion.

(17 complete responses)

	Currency in Circulation at End-2014 (\$ billions)		Expected Currency Growth Rate After 2014		Expected Reserves Level at Year-End 2014 (\$ billions)
25th Pctl	1,300	25th Pctl	3.0%	25th Pctl	2,598
Median	1,310	Median	4.5%	Median	2,700
75th Pctl	1,328	75th Pctl	5.5%	75th Pctl	2,880

Expected change in level of reserves (\$ billions)<sup>2</sup>:

(16 complete responses)

		2015 H1	2015 H2	2016 H1	2016 H2	2017 CY*
(\$ billions)						
Change in the estimated amount of Reserves:	25th Pctl level	-104	-549	-652	-62	-114
	Median level	0	-227	-175	-92	-406
	75th Pctl level	-80	-100	-200	-180	-290

\*Calendar Year

<sup>1</sup> 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.

<sup>2</sup> Respondents provided their expected level of reserves at year-end 2014 in part d) and their expected change in the level of reserves at each time horizon. The data is constructed by creating a reserve level for each respondent at each time horizon based upon their responses. The 25th percentile, median, and 75th percentile level are then sampled at each time horizon. The above data represent the changes in these levels at each time horizon.

6. 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.

*(22 complete responses)*

		Year-end 2014							
		<3500	3500-3750	3750-4000	4000-4250	4250-4500	4500-4750	4750-5000	>5000
Average		0%	0%	3%	31%	57%	7%	1%	0%

  

		Year-end 2015							
		<3500	3500-3750	3750-4000	4000-4250	4250-4500	4500-4750	4750-5000	>5000
Average		0%	2%	9%	40%	39%	7%	2%	0%

**Appendix: Updates to the Survey**

**Updated as of March 24, 2014**

Following the March FOMC Meeting (March 18-19), market participants were asked to update their responses to questions 2 and 3.

2. a) Of the possible outcomes below, provide the percent chance you attach to the timing of the first target federal funds rate increase.

*(23 complete responses)*

	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	≥2018 H1
Average	0%	3%	28%	40%	16%	7%	3%	1%	2%

	Most Likely Quarter and Year of First Target Rate Increase
25th Pctl	Q2 2015
Median	Q2 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 half-year period. 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.

*(23 complete responses)*

	2014 H1	2014 H2	2015 H1	2015 H2	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%	0.75%	1.25%	1.88%	2.38%	2.88%	3.00%	3.50%	2.50%
Median	0-.25%	0-.25%	0.25%	1.00%	1.50%	2.00%	3.00%	3.50%	3.75%	3.75%	2.80%
75th Pctl	0-.25%	0-.25%	0.50%	1.00%	1.75%	2.50%	3.00%	3.75%	4.00%	4.00%	3.08%

3. 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.

*(23 complete responses)*

	< 6.0%	6.0 - 6.5%	> 6.5%
Average	61%	36%	4%



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.

(22 complete responses)

	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%
Average	5%	24%	45%	21%	5%

c) Provide your estimate for the most likely value for 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 January, seasonally adjusted, was 137.5 million. For your calculation of total payrolls, please take into account the February level to be released on March 7th.

(22 complete responses)

	Unemployment Rate	Total NFP*	Headline 12-Month PCE Inflation	Inflation Between 1 and 2 Years Ahead
25th Pctl	5.9%	140.1	1.6%	1.9%
Median	5.9%	140.5	1.7%	2.1%
75th Pctl	6.0%	141.0	2.0%	2.2%

\*In millions