

# Responses to Survey of Market Participants

Markets Group, Federal Reserve Bank of New York

January 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 market participants submitted responses to the January survey. Except where noted, all participants responded to each question. In some cases, respondents may not have forecasts extending to the same time horizon as requested in the survey. In these instances, the number of respondents who fully answered all parts of the question is provided.

#### Monetary Policy Expectations

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1. a) How do you expect the FOMC statement on January 29 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	35	30
Median	35	30
75th Pctl	35	30

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%	4%	21%	33%	23%	11%	5%	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.

	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017	H1 2018	Longer Run	10-yr Average FF Rate
25th Pctl	0-.25%	0-.25%	0-.25%	0.50%	1.00%	1.69%	2.00%	2.88%	3.00%	3.38%	2.50%
Median	0-.25%	0-.25%	0.25%	0.75%	1.38%	2.00%	2.75%	3.50%	3.63%	3.88%	2.73%
75th Pctl	0-.25%	0-.25%	0.50%	1.00%	1.50%	2.25%	3.50%	3.75%	3.81%	4.00%	3.00%

c) 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, as well as your estimate for the most likely value. Assume that the rate of inflation between one and two years ahead remains below 2.5 percent and longer-term inflation expectations remain well anchored prior to the first increase. Consider all possible conditions that may be associated with these scenarios in formulating your responses.

	< 6.0%	6.0 - 6.5%	> 6.5%
Average	59%	34%	8%

	<b>Most Likely Value for UNR at Liftoff</b>
25th Pctl	5.7%
Median	5.9%
75th Pctl	6.0%

3. a) In its December statement, the FOMC modified its forward guidance on the target federal funds rate by stating that, "it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6-1/2 percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal." The minutes of the December 2013 FOMC meeting noted that the Committee discussed "the potential for clarifying or strengthening the Committee's forward guidance for the federal funds rate," and cited the options listed below. Provide the percent chance you attach to the Committee further clarifying or strengthening its current forward guidance for the target federal funds rate in any of the following ways at some point in the future. Percentages do not have to add up to 100 percent.

	Option 1	Option 2	Option 3	Option 4	Other
25th Pctl	20%	40%	39%	15%	0%
Median	28%	50%	60%	20%	0%
75th Pctl	43%	80%	71%	43%	3%

*Option 1:* Lowering the unemployment rate threshold.

*Option 2:* More clearly conveying that inflation remains an important consideration in adjusting the federal funds rate.

*Option 3:* Providing further guidance on information relevant to determining the appropriate timing of the first rate hike after the UNR threshold is reached.

*Option 4:* Using medians of federal funds rate projections from the SEP to communicate the likely path of short-term interest rates.

- b) If you see any possibility of the FOMC statement further clarifying or strengthening the forward guidance for the federal funds rate as described above, provide your estimate of the meeting at which the change you consider most likely would occur.

	Most Likely Meeting:
25th Pctl	March 2014
Median	March 2014
75th Pctl	May 2014

4. 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)		
		Treasuries	Agency MBS	
2014	January 28-29:	25th Pctl	35	30
		Median	35	30
		75th Pctl	35	30
	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

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

	<b>Percent Chance of Reduction:</b>
25th Pctl	80%
Median	90%
75th Pctl	93%

5) 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 (the H.4.1 closest to the start of 2014).

*(19 complete responses)*

	<b>Year-end 2014</b>							
	<b>&lt;3500</b>	<b>3500-3750</b>	<b>3750-4000</b>	<b>4000-4250</b>	<b>4250-4500</b>	<b>4500-4750</b>	<b>4750-5000</b>	<b>&gt;5000</b>
Average	0%	1%	8%	28%	49%	12%	3%	0%

  

	<b>Year-end 2015</b>							
	<b>&lt;3500</b>	<b>3500-3750</b>	<b>3750-4000</b>	<b>4000-4250</b>	<b>4250-4500</b>	<b>4500-4750</b>	<b>4750-5000</b>	<b>&gt;5000</b>
Average	0%	2%	15%	30%	37%	11%	2%	1%