

# Responses to Survey of Market Participants

Markets Group, Federal Reserve Bank of New York

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## 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.

Responses were received from 27 market participants. Except where noted, all 27 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 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.<sup>1</sup>

#### Monetary Policy Expectations

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1. How do you expect the September FOMC events 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	2
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)		
	Treasury	Agency MBS
25th Pctl	10	5
Median	10	5
75th Pctl	10	5

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

	≤2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	≥2016 Q3
Average	2%	17%	30%	27%	13%	6%	3%	2%

<sup>1</sup> Answers may not sum to 100 percent due to rounding.

**Most Likely Quarter and  
Year of First Increase in  
Target Rate or Range**

25th Pctl	Q2 2015
Median	Q2 2015
75th Pctl	Q3 2015

b) Provide the percent chance you attach to the target federal funds rate or range not returning to the zero lower bound during the 2 years following liftoff. Conditional on the target not returning to the zero lower bound, provide the percent chance you attach to the net change in the target rate or range in each of the two years following liftoff.

**Probability of Not Returning to  
ZLB within 2 Years Following  
Liftoff**

25th Pctl	73%
Median	80%
75th Pctl	90%

**First Year Following Liftoff\***

	<b>0 - 50 basis points</b>	<b>51 - 100 basis points</b>	<b>101 - 150 basis points</b>	<b>151 - 200 basis points</b>	<b>&gt;200 basis points</b>
Average	16%	34%	29%	18%	3%

*\*Conditional on not returning to ZLB*

**Second Year Following Liftoff\***

	<b>0 - 50 basis points</b>	<b>51 - 100 basis points</b>	<b>101 - 150 basis points</b>	<b>151 - 200 basis points</b>	<b>&gt;200 basis points</b>
Average	13%	28%	32%	22%	5%

*\*Conditional on not returning to ZLB*

c) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range, as applicable, at the end of each period below. If you expect a range, please provide both the top and bottom of the range in the specified fields below. If you expect a target rate, provide your response in the "Target rate" field only.

**Top of Target Range**

	<b>2014 Q4</b>	<b>2015 Q1</b>	<b>2015 Q2</b>	<b>2015 Q3</b>	<b>2015 Q4</b>	<b>2016 H1</b>	<b>2016 H2</b>	<b>2017 H1</b>	<b>2017 H2</b>	<b>2018 H1</b>
25th Pctl	0.25%	0.25%	0.25%	0.65%	0.75%	1.38%	1.88%	2.38%	2.88%	3.25%
Median	0.25%	0.25%	0.50%	0.75%	1.00%	1.75%	2.25%	3.00%	3.40%	3.58%
75th Pctl	0.25%	0.25%	0.50%	1.00%	1.25%	1.94%	2.50%	3.25%	3.75%	4.00%
# of Responses	22	22	21	17	17	15	15	15	15	12

**Bottom of Target Range**

	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1
25th Pctl	0.00%	0.00%	0.00%	0.35%	0.50%	1.13%	1.63%	2.13%	2.00%	3.00%
Median	0.00%	0.00%	0.25%	0.50%	0.75%	1.50%	2.00%	2.60%	3.10%	3.30%
75th Pctl	0.00%	0.00%	0.25%	0.75%	1.00%	1.69%	2.25%	3.00%	3.38%	3.56%
# of Responses	22	22	21	17	17	15	15	15	15	12

**Target Rate**

	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	2017 H1	2017 H2	2018 H1
25th Pctl	0.25%	0.25%	0.25%	0.50%	0.75%	1.44%	2.00%	2.50%	3.00%	3.25%
Median	0.25%	0.25%	0.38%	0.50%	1.00%	1.50%	2.13%	2.88%	3.50%	3.50%
75th Pctl	0.25%	0.25%	0.50%	0.75%	1.00%	2.00%	2.56%	3.06%	3.56%	3.63%
# of Responses	5	5	6	10	10	12	12	12	12	15

- d) 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.

*(26 complete responses)*

	Longer Run	10-yr Average FF Rate
25th Pctl	3.50%	2.63%
Median	3.75%	2.94%
75th Pctl	4.00%	3.19%

4. Of the possible outcomes below, provide the percent chance you attach to the 10-year Treasury yield falling in each of the following ranges at the end of 2014 and 2015.

	Year-End 2014						
	≤2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	>4.50%
Average	7%	27%	40%	20%	4%	1%	0%

  

	Year-End 2015						
	≤2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	4.51 - 5.00%	>5.00%
Average	11%	23%	29%	21%	10%	3%	2%

5. The 5-year nominal Treasury yield 5 years forward has declined from 3.92 percent on April 17, 2014 to 3.24 percent on September 3, 2014. Provide your estimate of the decomposition of this forward rate at the two dates cited.

*(26 complete responses)*

April 17, 2014

	Expected Average Real Policy Rate	Expected Average Inflation Rate	Term Premium	Sum
Average	1.31%	2.19%	0.42%	3.77%

September 3, 2014

	Expected Average Real Policy Rate	Expected Average Inflation Rate	Term Premium	Sum
Average	1.06%	2.15%	0.03%	3.12%

6. 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 or range.

	< 5.5%	5.5 - 5.9%	6.0 - 6.5%	> 6.5%
Average	20%	63%	16%	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 or range.

(26 complete responses)

	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%
Average	6%	20%	49%	19%	6%

- 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 or range. 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 July, seasonally adjusted, was 139.0 million. For your calculations, please take into account the August data to be released on September 5.

(25 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%	62.9%	140.6	2.3%	1.8%	2.0%
Median	5.7%	63.0%	141.2	2.6%	2.0%	2.1%
75th Pctl	5.8%	63.1%	141.4	2.9%	2.1%	2.2%

\*In millions

- d) Provide your forecast for the expected levels of the following indicators at the time periods provided below. If you expect a target range, please enter the range. If you do not believe a particular tool will be used during one or more of the time periods below, please enter "N/A".\*

*(23 complete responses)*

**IOER Rate**

	<b>1 Quarter Prior to Liftoff</b>	<b>Immediately Following Liftoff</b>	<b>1 Year Following Liftoff</b>	<b>3 Years Following Liftoff</b>
25th Pctl	0.25%	0.50%	1.33%	3.18%
Median	0.25%	0.50%	1.50%	3.50%
75th Pctl	0.25%	0.50%	2.00%	3.75%

*(25 complete responses)*

**Target Federal Funds Rate or Range**

	<b>1 Quarter Prior to Liftoff</b>	<b>Immediately Following Liftoff</b>	<b>1 Year Following Liftoff</b>	<b>3 Years Following Liftoff</b>
25th Pctl	0.13%	0.38%	1.25%	3.13%
Median	0.13%	0.38%	1.50%	3.50%
75th Pctl	0.13%	0.50%	1.88%	3.75%

*(23 complete responses)*

**Federal Funds Effective Rate**

	<b>1 Quarter Prior to Liftoff</b>	<b>Immediately Following Liftoff</b>	<b>1 Year Following Liftoff</b>	<b>3 Years Following Liftoff</b>
25th Pctl	0.09%	0.30%	1.22%	3.04%
Median	0.10%	0.34%	1.53%	3.40%
75th Pctl	0.13%	0.40%	1.93%	3.75%

*(22 complete responses)*

**O/N RRP Rate**

	<b>1 Quarter Prior to Liftoff</b>	<b>Immediately Following Liftoff</b>	<b>1 Year Following Liftoff</b>	<b>3 Years Following Liftoff</b>
25th Pctl	0.05%	0.25%	1.23%	2.93%
Median	0.05%	0.25%	1.30%	3.28%
75th Pctl	0.08%	0.30%	1.75%	3.50%

*(23 complete responses)*

**3M LIBOR Rate**

	<b>1 Quarter Prior to Liftoff</b>	<b>Immediately Following Liftoff</b>	<b>1 Year Following Liftoff</b>	<b>3 Years Following Liftoff</b>
25th Pctl	0.23%	0.50%	1.32%	3.25%
Median	0.25%	0.53%	1.60%	3.50%
75th Pctl	0.35%	0.65%	2.25%	3.95%

(22 complete responses)

O/N Treasury GCF Repo Rate

	<b>1 Quarter Prior to Liftoff</b>	<b>Immediately Following Liftoff</b>	<b>1 Year Following Liftoff</b>	<b>3 Years Following Liftoff</b>
25th Pctl	0.08%	0.28%	1.23%	3.02%
Median	0.10%	0.33%	1.45%	3.35%
75th Pctl	0.15%	0.39%	1.80%	3.67%

(19 complete responses)

O/N RRP Usage

	<b>1 Quarter Prior to Liftoff</b>	<b>Immediately Following Liftoff</b>	<b>1 Year Following Liftoff</b>	<b>3 Years Following Liftoff</b>
25th Pctl	155	250	288	238
Median	200	350	425	465
75th Pctl	288	750	1000	850

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

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

		<b>Monthly Pace of Longer-Term Security Purchases (\$ billions)</b>		
		Treasuries	Agency MBS	
<b>2014</b>	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
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	
<b>2015</b>	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	
September 16-17:	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 September FOMC meeting.

(26 complete responses)

	<u>Percent Chance of Reduction</u>
25th Pctl	99%
Median	99%
75th Pctl	<u>100%</u>

- 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>2</sup>

		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	-4	-141	-73	-193
	Median portfolio	60	0	0	-128	-80	-192
	75th Pctl portfolio	60	0	0	-64	-70	-161
Change in the estimated amount of agency debt and MBS:	25th Pctl portfolio	40	0	-69	-71	-79	-139
	Median portfolio	40	0	0	-65	-75	-130
	75th Pctl portfolio	40	0	0	-36	-42	-112

\*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 or range. 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.

(25 complete responses)

	<u>Most Likely Quarter and Year of End to Reinvestments</u>			<u>Number of Months Relative to Liftoff</u>	
	Treasuries	Agency Debt and MBS		Treasuries	Agency Debt and MBS
25th Pctl	Q2 2015	Q2 2015	25th Pctl	2	3
Median	Q1 2016	Q4 2015/Q1 2016*	Median	6	6
75th Pctl	Q1 2016	Q1 2016	75th Pctl	8	8

\* Median is between Q4 2015 and Q1 2016.

<sup>2</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.