Responses to Survey of Market Participants

Markets Group, Federal Reserve Bank of New York

September 2016

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For most questions, median responses across respondents, along with the 25th and 75th percentiles, are reported. For questions that ask respondents to give a probability distribution, the average response across respondents for each potential outcome is reported.[1] Brief summaries of the comments received in free response form are also provided.

Responses were received from 30 respondents. ***Except where noted, all 30 respondents 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.*

1. a) Provide below your expectations for changes, if any, to the language referencing each of the following topics in the September FOMC statement.

Current economic conditions:
(29 responses)

Several respondents expected that the Committee would continue to characterize economic activity as expanding at a "moderate rate" and several respondents suggested that the Committee would note continued improvement in the labor market. Several other respondents expected few significant changes to the Committee's assessment of current economic conditions.

Economic outlook:
(27 responses)

Some respondents noted that they expected few significant changes to the language on the economic outlook. Several respondents highlighted that the Committee could include a "balanced" or "nearly balanced" risk assessment, and several respondents also suggested that the Committee could remove its existing language on near-term risks to the outlook.

Communication on the expected path of policy rates and forward guidance on the target federal funds rate:
(27 responses)

Some respondents expected no change in the Committee's communication on the expected path of policy rates and forward guidance on the target federal funds rate, while several respondents expected the Committee to note a possible increase in the target federal funds range at upcoming meetings.

Communication on the Committee's policy of reinvesting principal payments on Treasury and agency securities:
(26 responses)

All respondents that submitted responses to this question expected no change in the Committee's communication on its policy of reinvesting principal payments on Treasury and agency securities.

Other:
(13 responses)

[1] Answers may not sum to 100 percent due to rounding.

Respondents did not provide substantial commentary in this section.

b) What are your expectations for the medians of FOMC participants' <u>economic projections</u> in the Summary of Economic Projections (SEP)?
(29 responses)

Some respondents expected that the median of FOMC participants' projections for 2016 GDP growth would likely decrease. Several respondents noted that they expected no changes to median projections for the unemployment rate across the forecast horizon, while several expected the median unemployment rate projection for 2016 to increase. Additionally, several respondents expected no changes to the median projections for headline and/or core PCE inflation in 2017 and 2018. Lastly, several respondents reported that they expected no significant changes to the medians of FOMC participants' economic projections in the September SEP.

c) What are your expectations for the medians of FOMC participants' <u>target federal funds rate</u> projections in the Summary of Economic Projections (SEP)?

<u>Federal Funds Rate</u>

	Year-end 2016	Year-end 2017	Year-end 2018	Year-end 2019	Longer Run
25th Pctl	0.63%	1.38%	2.00%	2.63%	2.75%
Median	0.63%	1.38%	2.13%	2.75%	3.00%
75th Pctl	0.63%	1.40%	2.13%	2.88%	3.00%

Please explain any assumptions underlying your expectations.
(27 responses)

Several respondents indicated that they expected the median of FOMC participants' projections for the target federal funds rate at year-end 2016 to decline to imply one hike by year-end. Additionally, several respondents noted their expectation that the medians of FOMC participants' year-end rate projections would reflect a more gradual pace of policy tightening compared to the June SEP.

d) What are your expectations for the Chair's press conference?
(29 responses)

Several respondents expected that the Chair would reiterate that the case for another increase in the target range had strengthened, with several also expecting that the Chair could suggest that a rate increase by year-end 2016 is likely. At the same time, several respondents expected that the Chair would emphasize a gradual pace of further increases in the target range. Lastly, several respondents anticipated that the Chair would continue to stress data dependency and note that the FOMC seeks further evidence of progress towards its objectives.

2. a) Provide your estimate of the most likely outcome (i.e., the mode) for the target federal funds rate or range, as applicable, immediately following the FOMC meetings and at the end of each quarter or half-year period below. For the time periods at which you expect a target range, please indicate the midpoint of that range in providing your response.

Target Rate / Midpoint of Target Range

	Sep. 20-21 2016	Nov. 1-2 2016	Dec. 13-14 2016	Jan. 31 - Feb. 1 2017	Mar. 14-15 2017	May 2-3 2017	Jun. 13-14 2017
25th Pctl	0.38%	0.38%	0.63%	0.63%	0.63%	0.63%	0.88%
Median	0.38%	0.38%	0.63%	0.63%	0.63%	0.63%	0.88%
75th Pctl	0.38%	0.38%	0.63%	0.63%	0.88%	0.88%	1.13%
# of Responses	30	30	30	30	30	30	30

	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 H2	2019 H1	2019 H2
25th Pctl	0.88%	1.13%	1.13%	1.38%	1.38%	1.63%	1.63%
Median	0.88%	1.13%	1.25%	1.38%	1.63%	1.88%	2.13%
75th Pctl	1.13%	1.38%	1.38%	1.63%	1.88%	2.13%	2.38%
# of Responses	30	30	30	30	30	30	30

b) 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.

	Longer Run	10-yr Average FF Rate
25th Pctl	2.50%	1.75%
Median	2.63%	2.00%
75th Pctl	3.00%	2.50%

c) Please indicate the percent chance that you attach to the following possible outcomes for the Committee's next policy action in 2016.
(29 responses)

	Next Change is Increase in Target Rate or Range	Next Change is Decrease in Target Rate or Range	No Change in Target Rate or Range in 2016
Average	66%	5%	29%

d) Conditional on the Committee's next policy action in 2016 being an <u>increase</u> in the target federal funds rate or range, please indicate the percent chance that you attach to the following possible outcomes for the timing of such a change. Only fill out this conditional probability distribution if you assigned a non-zero probability to the Committee's next policy action in 2016 being an increase.

	Increase Occurs at September FOMC meeting	Increase Occurs at November FOMC meeting	Increase Occurs at December FOMC meeting
Average	23%	7%	70%

e) Please indicate the percent chance that you attach to the target federal funds rate or range falling in each of the following ranges <u>at the end of 2016</u>. If you expect a target range, please use the midpoint of that range in providing your response.
(29 responses)

<u>Year-end 2016</u>

	<0.00%	0.00-0.25%	0.26-0.50%	0.51-0.75%	0.76-1.00%	1.01-1.25%	1.26-1.50%	≥1.51%
Average	0%	4%	30%	57%	8%	0%	0%	0%

f) i) Please indicate the percent chance that you attach to the target federal funds rate or range falling in each of the following ranges <u>at the end of 2017, 2018 and 2019, conditional on not moving to the zero lower bound (ZLB) at any point during 2016-2019</u>. If you expect a target range, please use the midpoint of that range in providing your response.

<u>Year-end 2017</u>

	≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	≥3.51%
Average	29%	41%	20%	7%	2%	0%	0%

<u>Year-end 2018</u>

	≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	≥3.51%
Average	15%	21%	32%	17%	9%	4%	1%

<u>Year-end 2019</u>

	≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	≥3.51%
Average	13%	14%	23%	25%	16%	6%	3%

ii) Please indicate the percent chance that you attach to moving to the ZLB at some point in 2016-2019.

	Probability of Moving to ZLB at Some Point in 2016-2019
25th Pctl	15%
Median	30%
75th Pctl	40%

If you placed a non-zero probability on moving to the ZLB at some point in 2016-2019 above, please indicate your estimate for the most likely <u>timing</u> of such an event.

	Timing of Moving to ZLB at Some Point in 2016-2019
25th Pctl	H2 2017
Median	H2 2017
75th Pctl	H2 2018

iii) **Please indicate the percent chance that you attach to the target federal funds rate or range falling in each of the following ranges <u>at the end of 2017, 2018 and 2019</u>, <u>conditional on moving to the ZLB at some point in 2016-2019</u>. Only fill out these conditional probability distributions if you assigned a non-zero probability to moving to the ZLB at some point in 2016-2019. If you expect a target range, please use the midpoint of that range in providing your response.**
(29 responses)

Year-end 2017

	<0.00%	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	8%	47%	18%	15%	8%	3%	1%	0%

Year-end 2018

	<0.00%	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	10%	53%	17%	9%	5%	3%	3%	2%

Year-end 2019

	<0.00%	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	12%	54%	14%	11%	5%	2%	1%	1%

iv) **What is your estimate of the target federal funds rate or range at the effective lower bound?**
(28 responses)

	Level of Target Fed Funds Rate or Range at ELB*
25th Pctl	-0.29%
Median	0.00%
75th Pctl	0.13%

**A previous version of this response reported the 25th percentile as -0.10%. This has been corrected.*

For parts a-f, please explain the factors behind any change to your expectations, where applicable, since the last policy survey.
(21 responses)

Several respondents indicated that they revised their responses to reflect a lower probability of the Committee adopting a negative interest rate policy. Several respondents also cited the perception of diminished global risks as driving changes to their responses. Lastly, several respondents indicated that they had not made significant changes to their responses since the last policy survey.

3. **Please indicate the percent chance that you attach to the 10-year Treasury yield falling in each of the following ranges at the end of 2016 and 2017.**

Year-end 2016

	≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	≥3.51%
Average	10%	26%	40%	19%	3%	1%	0%

Year-end 2017

	≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	≥3.51%
Average	10%	19%	27%	26%	13%	4%	1%

4. **Measures of implied volatility across equity and long-term interest rate markets are currently running below their long-run averages*, and measures of implied volatility across foreign exchange markets have declined since earlier in the year. Please rate the importance of the factors below in explaining the current low level of implied volatility across these markets <u>(5 = very important, 1 = not important)</u>.**

**Refers to an average of daily measures of implied volatility since 1994.*

	Fed policy actions and communications	Advanced foreign central bank policy actions and communications	Emerging market central bank policy actions and communications	Reduced uncertainty around global economic outlook	Fiscal policy globally
1 - Not Important	1	0	8	7	15
2	0	4	14	7	12
3	7	2	7	8	1
4	8	8	1	7	2
5 - Very Important	14	16	0	1	0
Total Respondents	30	30	30	30	30

	Reduced political uncertainty globally	Low levels of realized volatility	More active selling of volatility for yield enhancement	Other
1 - Not Important	21	2	1	0
2	3	2	7	0
3	5	5	10	2
4	1	12	10	1
5 - Very Important	0	9	2	1
Total Respondents	30	30	30	4

If “Other”, please explain.
(3 responses)

Respondents did not provide substantial commentary in this section.

Please explain your response, including any assumptions or underlying views.
(23 responses)

Some respondents explained that accommodative monetary policies across several major foreign advanced central banks, as well as the expectation of a more gradual removal of accommodation from the Fed than was previously anticipated, were significant drivers of low levels of measures of implied volatility across markets. Additionally, several respondents suggested that increased selling of volatility for 'yield enhancement' amid historically low levels of longer-dated global sovereign bond yields had been an important factor.

5. a) From July 1 to September 7, the 3-month USD LIBOR-OIS spread increased from 28 to 40 basis points. Please indicate your expectations for the most likely level of the 3-month USD LIBOR-OIS spread over the timeframes below.
(27 responses)

	One Week Prior to MMMF Reform*	First Few Weeks of December
25th Pctl	40	35
Median	45	40
75th Pctl	50	45

**Refers to the implementation of the amendments to Rule 2a-7 on October 14, 2016, as outlined by the SEC in 2014, under the Investment Company Act*

b) If your expectation for the 3-month USD LIBOR-OIS spread differs across these two timeframes, please explain.
(22 responses)

Several respondents suggested that the 3-month USD LIBOR-OIS spread would narrow following the money fund reform implementation deadline on October 14th, with several specifically noting their expectation that this would be driven by prime money market funds increasing the weighted average maturities of their investments after the implementation deadline had passed. Several respondents indicated that the spread will likely settle at a higher equilibrium level than had prevailed earlier in the year, reflecting a lasting impact from money fund reform.

c) Do you think that the recent widening of the 3-month USD LIBOR-OIS spread (or any anticipated further widening, if applicable) has had a significant impact on broader U.S. financial conditions? Please explain.
(28 responses)

Many respondents reported that the recent widening in the 3-month USD LIBOR-OIS spread had not had any impact on broader U.S. financial market conditions, though several other respondents suggested that that it had tightened broader U.S. financial market conditions, given their view that 3-month USD LIBOR is an important benchmark for a variety of floating rate loans in the economy.

6. What are your expectations for the ON RRP facility over the next year?
(28 responses)

Several respondents indicated that they expected no changes to the parameters or usage of the ON RRP facility over the next year, while several other respondents noted that they expected an increase in aggregate ON RRP demand ahead of the money fund reform implementation deadline on October 14th.

7. In its most recent FOMC statement, the Committee indicated that it anticipates continuing reinvestments "until normalization of the level of the federal funds rate is well under way."

a) **Provide your estimate for the most likely timing (in months forward) of a change to the Committee's policy on reinvesting payments of principal on Treasuries and/or agency debt and MBS. If you do not expect the FOMC to change its policy on reinvestments for either or both asset classes during the process of policy normalization, please enter "N/A."**

Months Forward

	Treasuries*	Agency Debt and MBS**
25th Pctl	15	16
Median	18	18
75th Pctl	24	24

**Seven market participants expect no end to reinvestments of Treasury securities.*
***Five market participants expect no end to reinvestments of agency debt and MBS.*

b) **What is your estimate for the most likely level of the target federal funds rate or range if and when the Committee first changes its reinvestment policy?**
(26 responses)

	Level of Target Fed Funds Rate/Range
25th Pctl	1.13%
Median	1.38%
75th Pctl	1.88%

c) **In its Policy Normalization Principles and Plans, the Committee indicated that it "expects to cease or commence phasing out reinvestments" after liftoff. Of the possible outcomes below, please indicate the percent chance that you attach to the Committee during the process of policy normalization ceasing its reinvestments all at once, phasing out its reinvestments over time, or not changing its reinvestments.**
(29 responses)

Treasuries

	No Change to Reinvestments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time
Average	31%	11%	58%

Agency Debt and MBS

	No Change to Reinvestments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time
Average	26%	13%	61%

d) i) **<u>Conditional on not moving to the ZLB at any point in 2016-2019</u>, what is your mean expectation for the par value of the SOMA portfolio at the end of 2019? For reference, the current level of the SOMA**

portfolio, including inflation compensation and settled and unsettled agency MBS according to the August 31, 2016 H.4.1, was $4266 billion.*
(27 responses)

**This level references the most recent H.4.1 release at the time this survey was sent out to respondents.*

	SOMA Value at Year-end 2019 Conditional on <u>Not</u> Moving to ZLB ($ bn)
25th Pctl	3,375
Median	4,000
75th Pctl	4,150

ii) **<u>Conditional on moving to the ZLB at some point in 2016-2019</u>, what is your mean expectation for the par value of the SOMA portfolio at the end of 2019?**
(26 responses)

	SOMA Value at Year-end 2019 Conditional on Moving to ZLB ($ bn)
25th Pctl	4,500
Median	4,600
75th Pctl	5,100

Please explain the factors behind any change to your expectations in parts a-d since the last policy survey.
(13 responses)

Several respondents reported that they did not make significant changes to their expectations since the last policy survey.

8. a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from September 1, 2016 - August 31, 2021 falling in each of the following ranges. Please also provide your point estimate for the most likely outcome.
(29 responses)

	≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	≥3.01%
Average	8%	18%	32%	26%	12%	4%

	Most Likely Outcome
25th Pctl	1.75%
Median	2.00%
75th Pctl	2.10%

b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from September 1, 2021 - August 31, 2026 falling in each of the following ranges. Please also provide your point estimate for the most likely outcome.
(29 responses)

	≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	≥3.01%
Average	6%	14%	28%	29%	17%	7%

	Most Likely Outcome
25th Pctl	2.00%
Median	2.00%
75th Pctl	2.25%