

# 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 29 market participants. Except where noted, all 29 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 October 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)		
	Treasury	Agency MBS
25th Pctl	0	0
Median	0	0
75th Pctl	0	0

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 meeting for the first increase.

	≤2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	≥2016 Q3
Average	0%	9%	27%	32%	17%	9%	4%	3%

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

**Most Likely Meeting of  
First Increase in Target  
Rate or Range**

25th Pctl	June 2015
Median	July 2015
75th Pctl	September 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	70%
Median	80%
75th Pctl	85%

**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	17%	37%	28%	15%	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	12%	30%	31%	21%	6%

*\*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%	0.50%	0.75%	1.25%	1.75%	2.25%	2.63%	3.00%
Median	0.25%	0.25%	0.25%	0.58%	0.83%	1.50%	2.00%	2.75%	3.25%	3.50%
75th Pctl	0.25%	0.25%	0.50%	0.75%	1.00%	1.54%	2.33%	3.00%	3.75%	3.75%
# of Responses	26	26	25	22	22	20	19	19	19	14

**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%	0.25%	0.50%	1.00%	1.50%	2.00%	2.38%	2.75%
Median	0.00%	0.00%	0.00%	0.28%	0.50%	1.25%	1.75%	2.50%	3.00%	3.25%
75th Pctl	0.00%	0.00%	0.25%	0.50%	0.75%	1.28%	2.05%	2.75%	3.38%	3.50%
# of Responses	26	26	25	22	22	20	19	19	19	14

**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%	0.38%	0.75%	1.00%	1.63%	2.13%	2.63%	3.00%
Median	0.25%	0.25%	0.25%	0.50%	0.75%	1.50%	2.00%	2.63%	3.25%	3.50%
75th Pctl	0.25%	0.25%	0.31%	0.63%	1.00%	1.75%	2.63%	3.19%	3.50%	3.63%
# of Responses	3	3	4	7	7	9	10	10	10	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.

*(28 complete responses)*

	Longer Run	10-yr Average FF Rate
25th Pctl	3.25%	2.44%
Median	3.50%	2.78%
75th Pctl	3.75%	3.00%

e) 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, 2016 and 2017. If you expect a target range for federal funds please use the midpoint of the range in providing your response.

**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	97%	3%	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	14%	26%	39%	17%	4%	0%	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	7%	15%	19%	24%	18%	13%	5%

**Year-End 2017**

	≤2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	4.01 - 4.50%	≥4.51%
Average	25%	18%	19%	17%	14%	5%	2%

4. The minutes of the September FOMC meeting indicated that, “Participants also discussed how the forward-guidance language might evolve once the Committee decides that the current formulation no longer appropriately conveys its intentions about the future stance of policy.”

Provide the percent chance you attach to the Committee modifying the forward-guidance language prior to liftoff, over the time periods below. If you expect multiple changes to the forward-guidance language prior to liftoff, please provide your response for the first change only.

	No Change Prior to Liftoff	October 2014 FOMC	December 2014 FOMC	January 2015 FOMC	> January 2015 FOMC
Average	6%	14%	34%	22%	24%

5. Since the beginning of September, the Bloomberg measure of the 5-year/5 year forward breakeven rate of inflation has declined by roughly 20 basis points. Provide your estimate of the decomposition of this forward rate at the two dates cited.

(27 complete responses)

September 2, 2014

	Expected Average CPI Inflation	Inflation Risk Premium	Other Risk Premia	Sum
Average	2.18%	0.34%	0.02%	2.53%

October 15, 2014

	Expected Average CPI Inflation	Inflation Risk Premium	Other Risk Premia	Sum
Average	2.09%	0.30%	-0.02%	2.37%

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	33%	56%	10%	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.

	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%
Average	6%	18%	49%	19%	5%

- 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 September seasonally adjusted was 139.4 million.

(28 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	5.5%	62.7%	141.0	2.2%	1.7%	2.0%
Median	5.6%	63.0%	141.4	2.6%	1.9%	2.0%
75th Pctl	5.7%	63.0%	141.8	2.9%	2.0%	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".\*

(19 complete responses)

	One Quarter Prior to Liftoff						
	Target Federal Funds Rate or IOER Rate	Federal Funds Effective Rate	O/N RRP Rate	3M Libor Rate	Overnight Treasury GCF Repo Rate	O/N RRP Usage (\$ bn)	
	25th Pctl	0.25%	0.09%	0.05%	0.23%	0.08%	150
Median	0.25%	0.10%	0.05%	0.25%	0.10%	200	
75th Pctl	0.25%	0.12%	0.08%	0.34%	0.14%	300	

	Immediately Following Liftoff						
	Target Federal Funds Rate or IOER Rate	Federal Funds Effective Rate	O/N RRP Rate	3M Libor Rate	Overnight Treasury GCF Repo Rate	O/N RRP Usage (\$ bn)	
	25th Pctl	0.50%	0.28%	0.25%	0.46%	0.28%	258
Median	0.50%	0.34%	0.25%	0.51%	0.33%	450	
75th Pctl	0.50%	0.38%	0.30%	0.65%	0.40%	688	

	1 Year Following Liftoff						
	Target Federal Funds Rate or IOER Rate	Federal Funds Effective Rate	O/N RRP Rate	3M Libor Rate	Overnight Treasury GCF Repo Rate	O/N RRP Usage (\$ bn)	
	25th Pctl	1.36%	1.22%	1.24%	1.44%	1.24%	288
Median	1.50%	1.40%	1.30%	1.70%	1.35%	475	
75th Pctl	1.75%	1.61%	1.51%	2.05%	1.59%	850	

	3 Years Following Liftoff						
	Target Federal Funds Rate or IOER Rate	Federal Funds Effective Rate	O/N RRP Rate	3M Libor Rate	Overnight Treasury GCF Repo Rate	O/N RRP Usage (\$ bn)	
	25th Pctl	2.88%	2.78%	2.63%	2.95%	2.91%	250
Median	3.50%	3.43%	3.30%	3.60%	3.35%	390	
75th Pctl	3.75%	3.62%	3.50%	3.88%	3.57%	750	

\*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.

		Monthly Pace of Longer-Term Security Purchases (\$ billions)		
		Treasuries	Agency MBS	
2014	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	
2015	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
October 27-28:	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 October FOMC meeting.

	Percent Chance of Reduction
25th Pctl	90%
Median	92%
75th Pctl	99%

- 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>

<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.

		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	-2	-143	-73	-193
	Median portfolio	60	0	0	-130	-79	-192
	75th Pctl portfolio	60	0	0	-55	-86	-148
Change in the estimated amount of agency debt and MBS:	25th Pctl portfolio	40	0	-47	-62	-91	-118
	Median portfolio	40	0	0	-75	-72	-126
	75th Pctl portfolio	40	0	0	-39	-61	-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 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.

(27 complete responses)

	Most Likely Quarter and Year of End to Reinvestments			Number of Months Relative to Liftoff	
	Treasuries	Agency Debt and MBS		Treasuries	Agency Debt and MBS
25th Pctl	Q3 2015	Q3 2015	25th Pctl	3	3
Median	Q1 2016	Q1 2016	Median	6	6
75th Pctl	Q2 2016	Q2 2016	75th Pctl	8	9