Responses to Survey of Market Participants

Markets Group, Federal Reserve Bank of New York

June 2014

Responses to Survey of Market Participants
Distributed: 6/5/2014 – Received by: 6/9/2014

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 25th and 75th percentiles, are reported. For questions that ask respondents to give a probability distribution, the average response across participants for each potential outcome is reported.[1]

Monetary Policy Expectations

1. Taken together, how do you expect the June 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	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

	Treasuries	Agency MBS
25th Pctl	20	15
Median	20	15
75th Pctl	20	15

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

	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2	≥2018 H1
Average	0%	3%	28%	40%	20%	6%	2%	1%	1%

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

	Most Likely Quarter and Year of First Target Rate Increase
25th Pctl	Q2 2015
Median	Q3 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 period below. 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.

(25 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%	1.75%	2.25%	2.75%	3.13%	3.50%	2.53%
Median	0-.25%	0-.25%	0.25%	0.75%	1.50%	2.00%	2.75%	3.25%	3.50%	3.75%	2.79%
75th Pctl	0-.25%	0-.25%	0.50%	1.00%	1.75%	2.50%	3.25%	3.75%	3.88%	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	5%	18%	38%	29%	9%	2%	1%

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	7%	19%	33%	26%	12%	3%	1%

5. 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.

	< 5.5%	5.5 - 5.9%	6.0 - 6.5%	> 6.5%
Average	16%	57%	26%	2%

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	3%	18%	50%	24%	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. 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 April, seasonally adjusted, was 138.3 million. For your calculations, please take into account the May data to be released on June 6.**

(24 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	5.7%	63.0%	140.7	2.4%	1.7%	2.0%
Median	5.8%	63.2%	141.1	2.5%	1.8%	2.0%
75th Pctl	5.9%	63.5%	141.5	2.9%	2.0%	2.2%

**In Millions*

d) **The minutes of the April FOMC meeting stated that Federal Reserve staff presented several approaches to raising and controlling the level of short term interest rates against the backdrop of a large balance sheet. The minutes also stated that, "the approaches differed in terms of the combination of policy tools that might be used to accomplish those objectives."**

Provide your forecast for the most likely levels of the following indicators immediately following liftoff in the target federal funds rate. If you do not believe a particular tool will be used in the context of monetary policy normalization, please enter "N/A". If you expect a target range, please enter the range. If you expect the Term Deposit Facility and Term Treasury RRP Rates will be used in normalization, please specify the term that you believe will be most heavily used and provide the expected rate for that term.

(14 complete responses)*

Administered Rates and Policy Tools

	Target Federal Funds Rate	Rate of Interest on Excess Reserves	O/N RRP Rate	Term Deposit Facility Rate	Term Deposit Facility Term (Days)	Term Treasury RRP Rate	Term Treasury RRP Term (Days)
25th Pctl	0.28%	0.25%	0.25%	0.36%	7	0.36%	9
Median	0.50%	0.50%	0.40%	0.55%	14	0.45%	21
75th Pctl	0.50%	0.50%	0.45%	0.55%	59	0.49%	30

Market Rates

	Federal Funds Effective Rate	Overnight Treasury GCF Repo Rate	4-Week T-Bill Rate	3-Month LIBOR Rate
25th Pctl	0.29%	0.26%	0.26%	0.45%
Median	0.48%	0.40%	0.35%	0.60%
75th Pctl	0.50%	0.50%	0.40%	0.70%

Federal Reserve Balance Sheet

	Expected Usage of O/N RRP ($ billions)	Expected Usage of Term RRPs and TDF ($ billions)
25th Pctl	350	94
Median	550	125
75th Pctl	750	225

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

6. a) **Since December 31, 2013, the 5-year nominal Treasury yield 5 years forward has declined by nearly 90 basis points. Please rate the importance of the factors below in explaining these moves. (5 = very important, 1 = not important)**

Factors Explaining Decline in the 5y/5y Forward (Number of Respondents)

	Downgrade to Longer Term U.S. Economic Growth Outlook	Downgrade to Longer Term U.S. Inflation Outlook	Decline in Expected Level of Long-Run Real Federal Funds Rate	Reduced Uncertainty Around U.S. Economic and/or Policy Outlook	Change in Economic and/or Policy Outlook in Other Advanced Foreign Economies	U.S. Dollar Reserve Accumulation	Market-Related Factors (e.g., Portfolio Reallocation, positioning, safe haven flows)	Other
1 - Not Important	3	9	0	11	2	2	1	2
2	7	10	3	7	5	2	2	2
3	6	4	8	5	6	12	7	1
4	8	2	10	2	11	8	12	3
5 - Very Important	3	2	6	2	3	3	5	1

If "Other", please explain

(3 responses)

Participants did not provide substantial commentary in this section.

b) **Since September of 2013, implied volatility has declined across equity, foreign exchange, and long term interest rate markets, achieving or approaching historically low levels. Please rate the importance of the factors below in explaining these moves. (5 = very important, 1 = not important)**

Factors Explaining Decline in Implied Volatility (Number of Respondents)

	Reduced Uncertainty Around Global Economic Outlook	Reduced Uncertainty Around Global Central Bank Reaction Functions	Low Levels of Realized Volatility	Investor Reach-For-Yield Behavior	Other
1 - Not Important	5	2	0	0	1
2	7	6	2	2	0
3	6	3	3	4	1
4	7	10	12	10	2
5 - Very Important	2	6	10	11	4

If "Other", please explain

(1 response)

Participants did not provide substantial commentary in this section.

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	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
	April 2015:	25th Pctl	0	0
		Median	0	0
		75th Pctl	0	0
	June 2015:	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 June FOMC meeting.**

	Percent Chance of Reduction
25th Pctl	95%
Median	98%
75th Pctl	100%

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.**[2]

(21 complete responses)

		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	-142	-73	-194
	Median portfolio	60	0	0	-125	-75	-200
	75th Pctl portfolio	70	-6	-2	-52	-79	-197
Change in the estimated amount of agency debt and MBS:	25th Pctl portfolio	40	-1	-68	-75	-73	-155
	Median portfolio	40	0	0	-80	-75	-138
	75th Pctl portfolio	40	0	0	-22	-56	-115

**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. 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.**

Most Likely Quarter and Year of End to Reinvestments

	Treasuries*	Agency Debt and MBS
25th Pctl	Q2 2015	Q2 2015
Median	Q4 2015	Q4 2015
75th Pctl	Q1 2016	Q1 2016

**One participant expects no end to reinvestments of Treasury securities*

Number of Months Relative to Liftoff*

	Treasuries	Agency Debt and MBS
25th Pctl	-2	-2
Median	5	5
75th Pctl	6	7

**Negative values signify reinvestments ending prior to liftoff*

8. **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%	4%	30%	59%	7%	1%	0%

Year-end 2015

	<3500	3500-3750	3750-4000	4000-4250	4250-4500	4500-4750	4750-5000	>5000
Average	1%	3%	8%	40%	41%	6%	1%	0%

[2] 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.