Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York
June 2014

Policy Expectations Survey

Please respond by **Monday, June 9, at 5:00 pm** to the questions below. Your time and input are greatly appreciated.

This survey is formulated by the Trading Desk at the Federal Reserve Bank of New York to enhance policymakers' understanding of market expectations on a variety of topics related to the economy, monetary policy and financial markets. The questions involve only topics that are widely discussed in the public domain and never presume any particular policy action. FOMC members are not involved in the survey's design.

***Dealer*:**

Monetary Policy Expectations

1) a) Provide below your expectations for changes, if any, to the language referencing each of the following topics in the June FOMC statement. Limit your responses to changes you consider most likely.

	Language Changes Expected
Current economic conditions and the economic outlook:	
Communication on the overall size, pace, and composition of asset purchases, and factors influencing them:	
Communication on the expected path of policy rates and forward guidance on the target federal funds rate:	
Other:	

b) What are your expectations for the release of FOMC participants' **economic** projections in the advance materials of the Summary of Economic Projections (SEP)?

c) What are your expectations for the release of FOMC participants' year-end **target federal funds rate** projections in the advance materials of the Summary of Economic Projections (SEP)?

d) What are your expectations for the Chair's post-FOMC press conference?

e) 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:

Please Explain:

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?

	Treasuries	*Agency MBS*
Pace of purchases following the upcoming FOMC meeting ($ billions):		

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**

** Percentages should add up to 100 percent.*

Estimate for most likely quarter and year of first target rate increase:

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.

2014 H1	**2014 H2**	**2015 H1**	**2015 H2**	**2016 H1**	**2016 H2**	**2017 H1**	**2017 H2**	**2018 H1**

Longer run:

Expectation for average federal funds rate over next 10 years:

If you changed your expectations for questions 3a) and/or 3b) since the last time the questions were asked, explain the factors that motivated you to make the change(s):

If you changed your expectations for the longer run federal funds rate <u>over the past year</u>, explain the factors that motivated you to make the change(s):

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**.

	≤2.00%	**2.01 - 2.50%**	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**4.01 - 4.50%**	**>4.50%**
Year-end 2014:							
	≤2.50%	**2.51 - 3.00%**	**3.01 - 3.50%**	**3.51 - 4.00%**	**4.01 - 4.50%**	**4.51 - 5.00%**	**>5.00%**
Year-end 2015:							

** Percentages across rows should add to 100 percent.*
*** Bins are centered around highest probability bucket from March SPD.*

If you changed your expectations for question 4 since the last time the question was asked on March 10, explain the factors that motivated you to make the change(s).

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%**
Unemployment rate:				

**Percentages across rows should add up to 100 percent.*

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.

	< 1.25%	**1.25 - 1.74%**	**1.75 - 2.24%**	**2.25 - 2.74%**	**≥ 2.75%**
Inflation between 1 and 2 years ahead at liftoff:					

**Percentages across rows should add up to 100 percent.*

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.

Unemployment rate:	
Labor force participation rate:	
Total U.S. employees on non-farm payrolls (millions):	
12-month change in average hourly earnings:	
Headline 12-month PCE Inflation:	
Inflation between 1 and 2 years ahead (at liftoff):	

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.

Administered Rates and Policy Tools:	*in percent*	*term (days)*
Target Federal Funds Rate:		
Rate of Interest on Excess Reserves:		
O/N RRP Rate:		
Term Deposit Facility Rate:		
Term Treasury RRP Rate:		

Market Rates:	*in percent*
Federal Funds Effective Rate:	
Overnight Treasury GCF Repo Rate:	
4-Week T-Bill Rate:	
3-Month LIBOR Rate:	

Federal Reserve Balance Sheet:	*in $billions*
Expected usage of O/N RRP, as applicable:	
Expected usage of term RRPs and TDF, as applicable:	

Please further detail your expectations for the Committee's approach to monetary policy normalization and the combination of policy tools that might be used to accomplish those objectives.

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)

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 accummulation**	**Market-related factors (e.g., portfolio reallocation, positioning, safe haven flows)**	**Other**	**If "Other", please explain**

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)

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**	**If "Other", please explain**

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:**		
	July 29-30:		
	September 16-17:		
	October 28-29:		
	December 16-17:		
2015	**January 27-28:**		
	March 2015:		
	April 2015:		
	June 2015:		

Please explain any changes to your expectations for the increments of pace reduction and/or any changes in the expected composition of Treasury and agency MBS purchases since the last survey on April 22:

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
June 17-18:	

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.

	Half Years					*Full Year*
	2014 H2	**2015 H1**	**2015 H2**	**2016 H1**	**2016 H2**	**2017**
Expected change in amount of U.S. Treasury securities in SOMA ($ billions):						
Expected change in amount of agency debt and agency MBS in SOMA ($ billions):						

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.

	Quarter & Year	*Number of months relative to liftoff*
Treasuries:		
Agency debt and MBS:		

Please explain your assumptions for the timing, size, and pace of redemptions and sales of securities, if applicable. Please also explain the factors behind any change in your expectations since the last survey on April 22:

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.

	Level of SOMA Portfolio ($ billions)							
	<3500	**3500-3750**	**3750-4000**	**4000-4250**	**4250-4500**	**4500-4750**	**4750-5000**	**>5000**
Year-end 2014:								
Year-end 2015:								

** Percentages should add up to 100 percent.*

Economic Indicator Forecasts

9) Provide your estimate of the most likely outcome for output, inflation, and unemployment.

	GDP (Q4/Q4 Growth) *Estimate*	**Core PCE Deflator (Q4/Q4 Growth)** *Estimate*	**Headline PCE Deflator (Q4/Q4 Growth)** *Estimate*	**Unemployment Rate (Q4 Average Level)** *Estimate*
2014:				
2015:				
2016:				
Longer run:				

If you have changed your expectations for **longer run** economic variables (e.g., GDP growth, inflation rate, unemployment rate) **over the past year**, explain the factors that motivated you to make the change(s).

10) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from 2019 - 2024. Please also provide your point estimate for the most likely outcome.

≤1.0%	**1.01-1.5%**	**1.51-2.0%**	**2.01-2.5%**	**2.51-3.0%**	**≥3.01%**

** Percentages should add up to 100 percent.*

Point estimate for most likely outcome:

11) a) What percent chance do you attach to the US economy currently being in a recession*?

** NBER-defined recession.*

Recession currently:

b) What percent chance do you attach to the US economy being in a recession* **in 6 months**?

** NBER-defined recession.*

Recession in 6 months:

Dropdown Selections

1) e) 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:	1 -- Less Accommodative 2 3 -- Neutral 4 5 -- More Accommodative

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.

Estimate for most likely quarter and year of first target rate increase:	Q2 2014 Q3 2014 Q4 2014 Q1 2015 Q2 2015 Q3 2015 Q4 2015 Q1 2016 Q2 2016 Q3 2016 Q4 2016 Q1 2017 Q2 2017 Q3 2017 Q4 2017 >= Q1 2018

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.

Target Federal Funds Rate or Range:	0 - .25% 0.25% 0.50% 0.75% 1.00% 1.25% 1.50% 1.75% 2.00% 2.25% 2.50% 2.75% 3.00% 3.25% 3.50% 3.75% 4.00% 4.25% 4.50% 4.75% 5.00% 5.25% 5.50% 5.75% 6.00% > 6.00%

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)

Rating:	5 -- Very Important 4 3 2 1 -- Not Important

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)

Rating:	5 -- Very Important 4 3 2 1 -- Not Important

7) 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.

Quarter & Year:	Q2 2014 Q3 2014 Q4 2014 Q1 2015 Q2 2015 Q3 2015 Q4 2015 Q1 2016 Q2 2016 Q3 2016 Q4 2016 Q1 2017 Q2 2017 Q3 2017 Q4 2017 >= Q1 2018