

# Responses to Survey of Market Participants

Markets Group, Federal Reserve Bank of New York

June 2016

## Responses to Survey of Market Participants

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For most questions, median responses across respondents, 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 respondents for each potential outcome is reported.<sup>1</sup> Brief summaries of the comments received in free response form are also provided.

Responses were received from 29 respondents. **Except where noted, all 29 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.

#### Monetary Policy Expectations

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

**Current economic conditions:**

*Some respondents expected the Committee to upgrade its current growth assessment in the June FOMC statement, with some pointing to upward revisions to estimates of U.S. economic growth in the second quarter. Many respondents also suggested that the Committee would downgrade its assessment of labor market conditions or note that employment growth had slowed. Several respondents expected few significant changes to the assessment of current economic conditions in the June FOMC statement.*

**Economic outlook:  
(27 responses)**

*Many respondents specifically noted expectations for few significant changes to the Committee's communication on the economic outlook in the June FOMC statement.*

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

*Many respondents specifically noted expectations for no significant change in the Committee's communication on the expected path of policy rates and forward guidance on the target federal funds rate in the June FOMC statement.*

**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:  
(11 responses)**

*Respondents did not provide substantial commentary in this section.*

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

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

*Several respondents anticipated that FOMC participants' economic projections for 2016 would be adjusted in response to recent data releases, with several respondents noting their expectation that the median of participants' forecasts for 2016 GDP growth would likely decrease. In addition, several respondents suggested that the medians of their forecasts for 2016 headline and/or core PCE inflation may increase slightly, while several others expected that the medians of FOMC participants' projections for 2016 headline and/or core PCE inflation would be unchanged. Several respondents also noted the potential for downward revisions to participants' forecasts for the unemployment rate, while some respondents reported that they expected few significant changes to the medians of FOMC participants' economic projections in the SEP.*

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

	Federal Funds Rate			
	Year-End 2016	Year-End 2017	Year-End 2018	Longer Run
25th Pctl	0.88%	1.63%	2.63%	3.00%
Median	0.88%	1.88%	2.88%	3.25%
75th Pctl	0.90%	1.90%	3.00%	3.30%

**Please explain any assumptions underlying your expectations.  
(23 responses)**

*In explaining their responses, several respondents indicated that they expected the median of FOMC participants' projections for the target federal funds rate at year-end 2016 to imply only one rate hike this year, while several reported that they expected few significant changes to the medians of participants' target federal funds rate projections. In addition, several respondents noted their expectation that the median of FOMC participants' rate projections for year-end 2016 would continue to imply two rate hikes this year, but that several participants would revise their projections downward.*

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

*Several respondents expected that the Chair would acknowledge the recent weaker-than-expected labor market data as well as risks to the outlook from global economic and financial developments. Additionally, some respondents expected that the Chair would continue to emphasize data dependency while several expected her to signal a gradual pace of further increases in the target range. In addition, several respondents reported that they expected the Chair to discuss the possibility of the next rate hike taking place either at the July meeting or in the coming months.*

**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.**

	<u>Target Rate / Midpoint of Target Range</u>					
	<u>Jun. 14-15 2016</u>	<u>Jul. 26-27 2016</u>	<u>Sep. 20-21 2016</u>	<u>Nov. 1-2 2016</u>	<u>Dec. 13-14 2016</u>	<u>Jan. 31 - Feb. 1 2017</u>
25th Pctl	0.38%	0.38%	0.63%	0.63%	0.63%	0.63%
Median	0.38%	0.38%	0.63%	0.63%	0.63%	0.88%
75th Pctl	0.38%	0.63%	0.63%	0.63%	0.88%	0.88%
# of Responses	29	29	29	29	29	29

  

	<u>2017 Q1</u>	<u>2017 Q2</u>	<u>2017 Q3</u>	<u>2017 Q4</u>	<u>2018 H1</u>	<u>2018 H2</u>	<u>2019 H1</u>
25th Pctl	0.88%	0.88%	1.13%	1.13%	1.38%	1.63%	1.88%
Median	0.88%	1.13%	1.38%	1.38%	1.63%	1.88%	2.38%
75th Pctl	0.88%	1.13%	1.38%	1.63%	1.88%	2.38%	2.63%
# of Responses	29	29	29	29	29	29	29

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.

	<u>Longer Run</u>	<u>10-yr Average FF Rate</u>
25th Pctl	2.50%	2.00%
Median	2.75%	2.15%
75th Pctl	3.25%	2.50%

c) The following questions relate to your expectations for the Committee's next policy action in 2016 and some associated conditional outcomes for the year-end 2016 target federal funds rate or range. Only fill out the conditional probability distributions in parts (ii), (iii), and (iv) if you assign a non-zero probability to the conditioning event occurring.

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

	<u>Next Change is Increase in Target Rate or Range</u>	<u>Next Change is Decrease in Target Rate or Range</u>	<u>No Change in Target Rate or Range in 2016</u>
Average	66%	8%	26%

ii) Conditional on the Committee's next policy action in 2016 being an increase 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 next change in the target rate or range being an increase.

	<u>Increase Occurs at June FOMC Meeting</u>	<u>Increase Occurs at July FOMC Meeting</u>	<u>Increase Occurs at September FOMC Meeting or Later</u>
Average	5%	33%	62%

iii) Conditional on the Committee's next policy action in 2016 being a decrease 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 next change in the target rate or range being a decrease.**

	Decrease Occurs at June FOMC meeting	Decrease Occurs at July FOMC Meeting	Decrease Occurs at September FOMC Meeting or Later
Average	1%	5%	94%

iv) Of the possible outcomes below, please indicate the percent chance that you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2016, conditional on the following possible scenarios for the direction and timing of the Committee's next policy action in 2016. **Only fill out the conditional probability distributions for which you assigned a non-zero probability to the conditioning event occurring.** If you expect a target range, please use the midpoint of that range in providing your response.

(27 responses)

		Next change is increase, occurs at Jul. meeting or earlier							
		<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		2%	4%	8%	72%	13%	1%	0%	0%

		Next change is increase, occurs at Sep. meeting or later							
		<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		1%	3%	8%	77%	10%	1%	0%	0%

		Next change is decrease							
		<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		16%	77%	6%	1%	0%	0%	0%	0%

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

		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		19%	36%	26%	12%	4%	2%	1%

		Year-end 2018						
		≤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		11%	17%	27%	22%	13%	8%	3%

ii) Please indicate the percent chance that you attach to moving to the ZLB at some point in 2016-2018.

**Probability of Moving to  
ZLB at Some Point in  
2016-2018**

25th Pctl	20%
Median	30%
75th Pctl	40%

If you placed a non-zero probability on moving to the ZLB at some point in 2016-2018 above, please indicate your estimate for the most likely timing of such an event.

**Timing of Moving to  
ZLB at Some Point in  
2016-2018**

25th Pctl	H1 2017
Median	H2 2017
75th Pctl	H1 2018

- iii) **Of the possible outcomes below, please indicate the percent chance that you attach to the target federal funds rate or range falling in each of the following ranges at the end of 2017 and 2018, conditional on moving to the ZLB at some point in 2016-2018. Only fill out these conditional probability distributions if you assigned a non-zero probability to moving to the ZLB at some point in 2016-2018. If you expect a target range, please use the midpoint of that range in providing your response.**  
(28 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	13%	52%	18%	8%	5%	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	15%	52%	15%	8%	5%	2%	2%	2%

- 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	-0.50%
Median	0.00%
75th Pctl	0.13%

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

*Some respondents indicated that they revised their responses to reflect a flatter expected path of the policy rate, which they noted was driven by recent weaker-than-expected labor market data, communications from some*

Committee participants, and an increased perceived likelihood of moving to the ZLB at some point during 2016-2018. Several respondents also cited the possibility of a “Brexit” vote as driving expectations for a more gradual path of policy normalization. Lastly, several respondents specifically indicated that there had been no meaningful change to their expectations since the last policy survey.

3. Of the possible outcomes below, 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						
		≤1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	3.51-4.00%	≥4.01%
Average		20%	40%	26%	10%	3%	1%	0%

		Year-end 2017						
		≤1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	3.01-3.50%	3.51-4.00%	≥4.01%
Average		15%	27%	28%	17%	9%	3%	1%

4. In a question in the March policy survey, respondents on average rated “changes in oil and commodity prices” as one of the most important factors in explaining changes in some components of the 5-year/5-year forward breakeven rate since mid-2014. Since the April FOMC meeting, prices on oil futures have increased while measures of the 5-year/5-year forward breakeven rate have declined. Please discuss your view on whether the relationship between oil prices and the forward breakeven rate has changed recently. If so, please discuss why.  
(27 responses)

Several respondents indicated that there had been no material change in the relationship between oil prices and the forward breakeven rate, while several other respondents indicated that the relationship between oil prices and forward breakeven rates appeared less strong than it had been previously. In explaining the recent changes in the forward breakeven rates, several respondents attributed the movements to U.S. policy expectations and/or movements in the U.S. dollar, changes in the levels of inflation risk premia, and structural changes in the economy and/or expected rates of global growth.

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

Several respondents suggested that aggregate ON RRP demand will remain near recent ranges. Several respondents also expected increased aggregate ON RRP demand given an expected increase in demand for short-term, high-quality assets stemming from money fund reform implementation in the second half of 2016. Additionally, several respondents expected ON RRP demand to increase alongside any increase in the federal funds target range.

6. 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."  
(28 responses)

**Months Forward**

	Treasuries*	Agency Debt and MBS
25th Pctl	15	15
Median	18	18
75th Pctl	18	21

\*Three respondents expect no end to reinvestments of Treasury securities and two respondents 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?**  
(28 responses)

	Level of Target Fed Funds Rate/Range
25th Pctl	1.13%
Median	1.39%
75th Pctl	1.75%

- 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.**  
(28 responses)

	Treasuries		
	No Change to Reinvestments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time
Average	24%	12%	64%

	Agency Debt and MBS		
	No Change to Reinvestments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time
Average	18%	14%	68%

- d) i) **Conditional on not moving to the ZLB at any point in 2016-2018, what is your mean expectation for the par value of the SOMA portfolio at the end of 2018? For reference, the current level of the SOMA portfolio, including inflation compensation and settled and unsettled agency MBS according to the May 25, 2016, H.4.1, was \$4259 billion.\***  
(24 responses)

	<b>SOMA Value at Year-end 2018 Conditional on <u>Not</u> Moving to ZLB (\$ bn)</b>
25th Pctl	3,636
Median	3,963
75th Pctl	4,050

- ii) **Conditional on moving to the ZLB at some point in 2016-2018, what is your mean expectation for the par value of the SOMA portfolio at the end of 2018?**  
(24 responses)

	<b>SOMA Value at Year-end 2018 Conditional on Moving to ZLB (\$ bn)</b>
25th Pctl	4,400
Median	4,750
75th Pctl	5,000

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

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

*Several respondents specifically noted that they made few significant changes to their responses in parts a-d since the last policy survey. Several other respondents explained that they shifted out their expectation for the most likely timing of a change to the Committee's policy on reinvestments as a result of having revised later their expectations for the timing of additional target rate hikes.*

7. a) **For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from June 1, 2016 - May 31, 2021. Please also provide your point estimate for the most likely outcome.**  
(28 responses)

	<b>≤1.00%</b>	<b>1.01- 1.50%</b>	<b>1.51- 2.00%</b>	<b>2.01- 2.50%</b>	<b>2.51- 3.00%</b>	<b>≥3.01%</b>
Average	7%	18%	36%	25%	10%	4%

**Point estimate for most likely outcome:**  
(28 responses)

	<b>Most Likely Outcome</b>
25th Pctl	1.78%
Median	2.00%
75th Pctl	2.00%

- b) **For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from June 1, 2021 - May 31, 2026. Please also provide your point estimate for the most likely outcome.**  
(28 responses)

	<b>≤1.00%</b>	<b>1.01-1.50%</b>	<b>1.51-2.00%</b>	<b>2.01-2.50%</b>	<b>2.51-3.00%</b>	<b>≥3.01%</b>
Average	5%	14%	31%	29%	14%	7%

**Point estimate for most likely outcome:  
(28 responses)**

	<b>Most Likely Outcome</b>
25th Pctl	2.00%
Median	2.00%
75th Pctl	2.25%