

RESPONSES TO SURVEY OF MARKET PARTICIPANTS

Markets Group, Federal Reserve Bank of New York



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The **Survey of Market Participants** 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 participants are not involved in the survey's design.

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

Responses were received from 25 market participants. Except where noted, all 25 participants responded to each question. In some cases, participants may not have provided complete responses (e.g. 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 Answers may not sum to 100 percent due to rounding.

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- 1a)** 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:
(24 responses)

Many respondents indicated that they expected no material change to the Committee's characterization of current economic conditions.

Economic outlook:
(24 responses)

Many respondents indicated that they expected no material change to the Committee's characterization of the economic outlook.

Communication on the expected path of the target federal funds rate:
(24 responses)

Some respondents indicated that they expected no material changes to this section of the statement, while several others indicated that they expected the Committee to note an increase in the target federal funds range. With respect to the clause "[t]he stance of monetary policy remains accommodative," several respondents indicated that they expected or saw a possibility that the Committee would remove this language, while several others indicated that they expected the language would be modified.

Other:
(9 responses)

Respondents did not provide substantial commentary in this section.

- 1b)** What are your expectations for the medians of FOMC participants' economic projections in the Summary of Economic Projections (SEP)?
(24 responses)

Some respondents indicated that they expected no change to participants' median economic projections, while some indicated that they expected an upward revision to the median 2018 GDP growth forecast. Several respondents indicated that they expected no change to the median 2019 or 2020 GDP growth forecast, while several expected the median forecast for 2021 GDP growth to be lower than the 2020 median. Several respondents indicated that they did not expect revisions to median inflation forecasts. Finally, several respondents indicated that they did not expect revisions to the 2018, 2019, 2020, or longer-run unemployment rate forecasts, while several others indicated that they did expect an upward revision to the median 2018 unemployment rate forecast.

- 1c)** What are your expectations for the most likely levels of the medians of FOMC participants' target federal funds rate projections in the SEP? Please provide your responses out to three decimal places.

(24 responses)

	Year-end 2018	Year-end 2019	Year-end 2020	Year-end 2021	Longer Run
25th Pctl	2.375%	3.125%	3.375%	3.188%	2.875%
Median	2.375%	3.125%	3.375%	3.375%	2.875%
75th Pctl	2.375%	3.125%	3.375%	3.375%	2.875%

Please comment on the balance of risks around your expectations.

(24 responses)

Several respondents indicated that they viewed the balance of risks around their expectations for the median target federal funds rate projections as tilted to the upside, with some indicating that they saw upside risk to their expectation for the year-end 2020 median projection in particular.

- 1d)** Additionally, please describe any expected changes to the distributions of FOMC participants' target rate projections, if applicable.

(22 responses)

Several respondents indicated that they expected no material change in the distributions of participants' target federal funds rate projections, while several indicated that they expected the distribution of projections for year-ends 2018 and/or 2019 to narrow, and several indicated that they expected the distribution of projections for year-end 2020 to widen.

- 1e)** What are your expectations for the Chairman's press conference?

(22 responses)

Several respondents noted that they expected the Chairman's remarks to be consistent with his previous communications, including his speech at the Jackson Hole symposium. Several respondents indicated that they expected the Chairman to reiterate that the continued gradual removal of policy accommodation remains appropriate, and several expected him to discuss global developments, including trade policy developments and/or volatility in emerging market assets. Finally, several respondents indicated that they expected the Chairman to discuss the economic outlook and/or recent economic growth.

- 2a)** 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 of the following quarters and half years below. For the time periods at which you expect a target range, please indicate the midpoint of that range in providing your response.

	Sep 25-26 2018	Nov 7-8 2018	Dec 18-19 2018	Jan 29-30 2019	Mar 19-20 2019	Apr 30-May 1 2019	Jun 18-19	
25th Pctl	2.125%	2.125%	2.375%	2.375%	2.375%	2.625%	2.625%	
Median	2.125%	2.125%	2.375%	2.375%	2.625%	2.625%	2.875%	
75th Pctl	2.125%	2.125%	2.375%	2.375%	2.625%	2.625%	2.875%	
# of Responses	25	25	25	25	25	25	25	
	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 H1	2021 H2
25th Pctl	2.875%	2.875%	2.875%	2.875%	2.875%	2.875%	2.875%	2.500%
Median	2.875%	3.125%	3.125%	3.125%	3.125%	3.125%	3.125%	3.063%
75th Pctl	3.125%	3.125%	3.375%	3.375%	3.375%	3.375%	3.375%	3.375%
# of Responses	25	25	25	25	25	25	24	24

2b) 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	2.750%	2.250%
Median	2.875%	2.500%
75th Pctl	3.000%	2.625%

2c) Please indicate the percent chance that you attach to the following possible outcomes for the Committee's next policy action between now and the end of 2018.

	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 Through the End of 2018
Average	95%	1%	4%

2d) Conditional on the Committee's next policy action between now and the end of 2018 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 Committee's next policy action between now and the end of 2018 being an increase.

	Increase Occurs at September FOMC Meeting	Increase Occurs at November FOMC Meeting	Increase Occurs at December FOMC Meeting
Average	94%	2%	4%

2e) 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 2018. If you expect a target range, please use the midpoint of that range in providing your response.

Federal Funds Rate or Range at the End of 2018								
	≤ 1.00%	1.01-1.25%	1.26 - 1.50%	1.51-1.75%	1.76-2.00%	2.01 - 2.25%	2.26 - 2.50%	≥2.51%
Average	0%	0%	1%	2%	4%	28%	61%	3%

2f-i) 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 2019, 2020 and 2021, conditional on **not** moving to the zero lower bound (ZLB) at any point between now and the end of 2021. If you expect a target range, please use the midpoint of that range in providing your response.
(24 responses)

Year-end 2019							
	≤ 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	3%	3%	6%	15%	36%	29%	9%

Year-end 2020							
	≤ 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	5%	4%	6%	12%	26%	29%	17%

Year-end 2021							
	≤ 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	8%	6%	9%	13%	23%	25%	16%

2f-ii) Please indicate the percent chance that you attach to moving to the ZLB at some point between now and the end of 2021.

Probability of Moving to ZLB at Some Point between Now and the End of 2021	
25th Pctl	10%
Median	23%
75th Pctl	30%

Please comment on the change, if any, to your response compared to question 3f, part ii in the survey on July 23, as well as the degree to which this arises from a change in your outlook, the change to the question's forecast horizon, or both.

(21 responses)

Some respondents indicated that the changes to their responses arose from the change to the question's forecast horizon, while several others noted that their responses had not materially changed from the survey on July 23.

2f-iii) 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 2019, 2020 and 2021, conditional on moving to the ZLB at some point between now and the end of 2021. Only fill out these conditional probability distributions if you assigned a nonzero probability to moving to the ZLB at some point between now and the end of 2021. If you expect a target range, please use the midpoint of that range in providing your response. (24 responses)

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	9%	34%	11%	7%	5%	6%	9%	17%

Year-end 2020								
	< 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%	41%	14%	13%	10%	5%	2%	3%

Year-end 2021								
	< 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%	55%	15%	8%	4%	1%	0%	0%

2f-iv) What is your estimate of the target federal funds rate or range at the effective lower bound? (24 responses)

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

2g) For parts a-f, please explain the factors behind any change to your expectations, where applicable, since the last policy survey. (18 responses)

Several respondents indicated no material changes to their expectations.

3a) Provide your estimate of the most likely outcome for the 10-year Treasury yield at the end of each period below. In addition, provide your estimate of the longer-run level of the 10-year Treasury yield.

	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 H2
25th Pctl	3.00%	3.05%	3.10%	3.13%	3.20%
Median	3.00%	3.10%	3.20%	3.25%	3.30%
75th Pctl	3.00%	3.20%	3.25%	3.30%	3.40%
# of Responses	25	25	25	25	25

	2020 H1	2020 H2	2021 H1	2021 H2	Longer Run
25th Pctl	3.25%	3.15%	3.00%	2.90%	3.00%
Median	3.30%	3.25%	3.25%	3.15%	3.20%
75th Pctl	3.50%	3.45%	3.40%	3.38%	3.40%
# of Responses	25	25	25	25	24

3b) Provide your estimate of the most likely outcome for the 30-year fixed primary mortgage rate at the end of each period below. In addition, provide your estimate of the longer-run level of the 30-year fixed primary mortgage rate.

	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 H2
25th Pctl	4.50%	4.60%	4.75%	4.77%	4.75%
Median	4.55%	4.68%	4.81%	4.90%	5.00%
75th Pctl	4.75%	4.75%	4.90%	5.00%	5.20%
# of Responses	22	22	22	22	22

	2020 H1	2020 H2	2021 H1	2021 H2	Longer Run
25th Pctl	4.75%	4.70%	4.50%	4.40%	4.50%
Median	5.00%	4.98%	4.88%	4.75%	4.90%
75th Pctl	5.10%	5.10%	5.10%	5.10%	5.10%
# of Responses	22	22	22	22	22

4a) Please indicate the percent chance that you attach to the following possible outcomes for the par value of the SOMA portfolio at the end of 2021, conditional on **not** moving to the ZLB at any point between now and the end of 2021. For reference, the level of the SOMA portfolio on September 5, 2018 was \$4020 billion, including inflation compensation and settled and unsettled agency MBS, according to the most recent H.4.1 release. Levels referenced below are in \$ billions.
(22 responses)

	≤ 3000	3001 - 3500	3501 - 4000	4001 - 4500	≥ 4501
Average	19%	41%	29%	9%	2%

4b) Please indicate the percent chance that you attach to the following possible outcomes for the par value of the SOMA portfolio at the end of 2021, conditional on moving to the ZLB at any point between now and the end of 2021. Only fill out this conditional probability distribution if you assigned a non-zero

probability to moving to the ZLB at some point between now and the end of 2021 in question 2. Levels referenced below are in \$ billions.

(22 responses)

	≤ 4000	4001 - 4500	4501 - 5000	5001 - 5500	≥ 5501
Average	14%	25%	28%	20%	13%

- 4c)** For parts a and b, please comment on the change, if any, to your responses compared to questions 4a and 4b in the survey on June 4, as well as the degree to which this arises from a change in your outlook, the change to the questions' forecast horizons, or both.

(20 responses)

Several respondents noted that their responses had not materially changed from the survey on June 4, while several others indicated that changes to their responses reflected the change to the question's forecast horizon.

- 5a)** In the June 2017 addendum to the Policy Normalization Principles and Plans, the Committee outlined its approach for reducing the Federal Reserve's holdings of Treasury and agency securities. Please provide your estimates for the effects (in basis points), if any, on the 10-year Treasury yield and 30-year production coupon MBS option-adjusted spread from the implementation of reinvestment caps on maturing securities last year through the end of this month (October 2017 through September 2018), as well as from October 2018 through September 2019 and from October 2019 through September 2020.

(13 responses)

	10-Year Treasury Yield			30-Year MBS Option-Adjusted Spread		
	Oct 2017-Sep 2018	Oct 2018-Sep 2019	Oct 2019-Sep 2020	Oct 2017-Sep 2018	Oct 2018-Sep 2019	Oct 2019-Sep 2020
25th Pctl	5	5	0	4	2	0
Median	10	8	5	10	10	5
75th Pctl	10	15	8	10	10	10

- 5b)** Please explain any assumptions underlying your responses in part a.

(18 responses)

Respondents did not provide substantial commentary in this section.

- 5c)** Please describe how your views have changed since October 2017, if at all, regarding the financial market effects of the Committee's approach for reducing the Federal Reserve System's holdings of Treasury and agency securities. In addition, please indicate whether any changes in your views resulted from changes to your expectations for the size and composition of the Federal Reserve System's balance sheet, changes to your expectations for the impact of a given change in the size or composition of the balance sheet, or both.

(20 responses)

Several respondents indicated that their views had not changed significantly since October 2017, while several others indicated

that they had lowered their estimates of the impact of balance sheet normalization.

- 6a)** Recently, emerging market currencies and other emerging market assets have exhibited an increase in volatility. Please comment on your views regarding the factor(s) you think were most important in driving this price action.
(24 responses)

Most respondents cited tighter U.S. monetary policy, rising U.S. interest rates, U.S. dollar strength, or another U.S.-related factor as contributing to the increase in volatility, while many cited idiosyncratic factors or fundamental vulnerabilities in some emerging market economies, including country-specific political risk. Finally, some respondents cited concerns over trade policy developments.

- 6b)** Please comment on how you expect the recent volatility in emerging market assets to evolve over the remainder of the year.

Many respondents indicated that they expected volatility in emerging market assets to remain elevated, while several others indicated that they expected it to subside. Several respondents indicated that they viewed the evolution of volatility in these assets as depending on idiosyncratic country-specific factors, expectations for U.S. monetary policy, and/or uncertainty surrounding trade policy.

- 6c)** Please indicate to what degree volatility in emerging market assets has impacted your outlook for the U.S. economy or U.S. monetary policy, if at all. If you expect an impact, please describe the channel(s) through which you would expect this impact to operate.

Most respondents indicated that volatility in emerging market assets had had little to no impact on their U.S. outlook. However, several respondents indicated that they would expect any impact on the U.S. to operate through a stronger U.S. dollar, weaker net exports, and/or effects on China.

- 7a)** Provide your estimate of the most likely outcome for the U.S. federal fiscal deficit (as a percent of GDP) for fiscal years 2019, 2020 and 2021.
(23 responses)

	FY 2019	FY 2020	FY 2021
25th Pctl	4.50%	4.75%	5.00%
Median	4.80%	5.00%	5.00%
75th Pctl	5.00%	5.40%	5.50%

- 7b)** Please explain changes, if any, to your estimates in part a since the last time this question was asked.
(18 responses)

Some respondents indicated that there had been no or minimal changes to their U.S. federal fiscal deficit estimates since the last time this question was asked.

8a) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from September 1, 2018 - August 31, 2023 falling in each of the following ranges. Please also provide your point estimate for the most likely outcome.

	≤ 1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	≥ 3.01%
Average	3%	10%	28%	36%	17%	5%

Most Likely Outcome	
25th Pctl	2.00%
Median	2.20%
75th Pctl	2.25%

8b) For the outcomes below, provide the percent chance you attach to the annual average CPI inflation rate from September 1, 2023 - August 31, 2028 falling in each of the following ranges. Please also provide your point estimate for the most likely outcome.

	≤ 1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	≥ 3.01%
Average	5%	12%	25%	34%	17%	7%

Most Likely Outcome	
25th Pctl	2.00%
Median	2.15%
75th Pctl	2.25%