Survey of Market Participants

Markets Group, Federal Reserve Bank of New York

June 2016

Policy Expectations Survey

Please respond by **Monday, June 6, 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.

Participant:

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

	Language Changes Expected
Current economic conditions:	
Economic outlook:	
Communication on the expected path of policy rates and forward guidance on the target federal funds rate:	
Communication on the Committee's policy of reinvesting principal payments on Treasury and agency securities:	
Other:	

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

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

Year-end 2016:   **Year-end 2017:**   **Year-end 2018:**   **Longer Run:**

Please explain any assumptions underlying your expectations.

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

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.

	2016					2017
	June 14-15	**July 26-27**	**September 20-21**	**November 1-2**	**December 13-14**	**January 31-February 1**
Target rate / midpoint of target range:						

	Quarters				Half Years		
	2017 Q1	**2017 Q2**	**2017 Q3**	**2017 Q4**	**2018 H1**	**2018 H2**	**2019 H1**
Target rate / midpoint of target range:							

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.

Longer run: **Expectation for average federal funds rate over next 10 years:**

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. <u>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.</u>

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

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 in 2016**

Responses should add up to 100 percent.

ii) Conditional on the Committee's next policy action in 2016 being an <u>increase</u> 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. <u>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	**Increase Occurs at July FOMC meeting**	**Increase Occurs at September FOMC meeting or later**

Responses should add up to 100 percent.

iii) Conditional on the Committee's next policy action in 2016 being a <u>decrease</u> 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. <u>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.</u>

Decrease Occurs at June FOMC meeting	**Decrease Occurs at July FOMC Meeting**	**Decrease Occurs at September FOMC Meeting or Later**

Responses should add up to 100 percent.

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.

				Year-end 2016				
	<0.0%	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%
Next change is increase, occurs at Jul. meeting or earlier:								
Next change is increase, occurs at Sep. meeting or later:								
Next change is decrease:								

Responses across each row should add up to 100 percent.

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.

	≤1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	≥3.51%
Year-end 2017:							
Year-end 2018:							

Responses across each row should add up to 100 percent.

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

Probability of moving to the ZLB at some point in 2016-2018: [   ]

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.

Most likely timing of moving to the ZLB at some point in 2016-2018 (in half years): [   ]

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.

	<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%
Year-end 2017:								
Year-end 2018:								

Responses across each row should add up to 100 percent.

iv) What is your estimate of the target federal funds rate or range at the effective lower bound?

Level of the target federal funds rate or range at the effective lower bound (in percent): [   ]

For parts a-d, please explain the factors behind any change to your expectations, where applicable, 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.

	≤1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	3.51 - 4.00%	≥4.01%
Year-end 2016:							
Year-end 2017:							

Responses across each row should add up to 100 percent.

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.

[   ]

5) What are your expectations for the ON RRP facility over the next year?

[   ]

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."
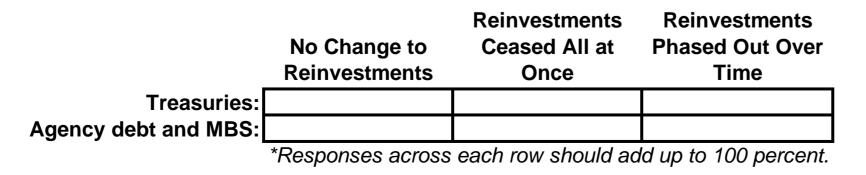
a) Provide your estimate for the most likely timing (in months forward) of a change to the Committee's policy on reinvesting payments of principal on Treasuries and/or agency debt and MBS. If you do not expect the FOMC to change its policy on reinvestments for either or both asset classes during the process of policy normalization, please enter "N/A."

	Months forward
Treasuries:	
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?

Level of target federal funds rate or range (in percent):

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.

	No Change to Reinvestments	Reinvestments Ceased All at Once	Reinvestments Phased Out Over Time
Treasuries:			
Agency debt and MBS:			

Responses across each row should add up to 100 percent.

d) i) <u>Conditional on **not** moving to the ZLB at any point in 2016-2018</u>, 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.*

Expected value of SOMA at year-end 2018, Conditional on <u>Not</u> Moving to the ZLB ($ billions): [   ]

ii) <u>Conditional on moving to the ZLB at some point in 2016-2018</u>, what is your mean expectation for the par value of the SOMA portfolio at the end of 2018?

Expected value of SOMA at year-end 2018, Conditional on Moving to the ZLB ($ billions): [   ]

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

[   ]

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

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.

≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	≥3.01%		Point estimate for most likely outcome:
							[ ]

Responses should add up to 100 percent.

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.

≤1.00%	1.01-1.50%	1.51-2.00%	2.01-2.50%	2.51-3.00%	≥3.01%		Point estimate for most likely outcome:
							[ ]

* *Responses should add up to 100 percent.*

2) **d)** ii) 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.

Most likely timing of moving to the ZLB at some point in 2016-2018 (in half years):
H1 2016
H2 2016
H1 2017
H2 2017
H1 2018
H2 2018