Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York December 2014

Policy Expectations Survey Please respond by Monday, December 8, at 5:00 pm to the questions below. Your time and input are greatly appreciated.

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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 Expe	ectations									
1) a) Provide below your e	xpectations for changes,	if any, to the language re	eferencing each of the foll	owing topics in the Dece	mber FOMC statement.	Limit your responses to				
				omic conditions and th			Language Cha	iges Expected		
C			einvesting principal pay policy rates and forward		et federal funds rate:					
EV 14/1-1-1	4-41 f 4b1f	FOMO			Other:	Desiretions (OED)0				
b) what are your expec	tations for the release or	FOMC participants eco	nomic projections in the	advance materials of the	Summary or Economic F	Projections (SEP)?			1	Ī
-> \	**************************************	FOMO stole -				O	Designations (OFD)0			Į.
c) what are your expec	tations for the release or	FOWC participants year	end target federal fund	s rate projections in the	advance materials or the	Summary or Economic	Projections (SEP)?			ľ
d) What are your expec	tations for the Chair's po	est-FOMC press conferer	nce?							
2,										,
e) How do you expect the	ne December FOMC ever	nts to influence market p	erceptions of the stance of	of monetary policy, if at a	II? (1 = less accommoda	tive. 3 = neutral. 5 = mor	re accommodative)			
	e of monetary policy:				Please Explain:					ľ
2) a) Of the possible outco	omes below, provide the p	percent chance* you atta	ch to the timing of the firs	t increase in the federal	funds target rate or range	e. Also, provide your est	imate for the most likely n	neeting for the first increa	ase.	•
2014				20						
December 16-17	January 27-28	March 17-18	April 28-29	June 16-17	July 28-29	September 16-17	October 27-28	December 15-16	≥2016	
Percentages across i	ows snoula add to 100 p		a around the median resp ite for most likely meeti			ase in the target rate or	range in question 4a fron	i the October SPD.		
b) Provide the percent	chance you attach to the		or range <u>not</u> returning to			liftoff.	Į.			
,			g to ZLB during the 2 y							
Conditional on the targe	et <u>not</u> returning to the zer	o lower bound, provide the	ne percent chance* you at	tach to the net change in	the target rate or range	in each of the two years	following liftoff.			
			0 - 50	51 - 100	101 - 150	151 - 200	>200			
		year following liftoff:	basis points	basis points	basis points	basis points	basis points			
	Second	year following liftoff:	* Percentages across ro	ows should add to 100 p	ercent.					
	e of the most likely outcor wide your response in the		e target federal funds rate	or range, as applicable,	at the end of each perior	d below. If you expect a r	range, please provide boti	the top and bottom of the	ne range in the specified	fields below. If you
,	2014 Q4	2015 Q1	Quarters 2015 Q2	2015 Q3	2015 Q4	2016 H1	2016 H2	Half Years 2017 H1	2017 H2	2018 H1
Top of range:										
Bottom of range: Target rate:										
d) In addition, provide y	our estimate of the longe	r-run target federal funds	rate and your expectation	n for the average federal	funds rate over the next	10 years.				
		Longer run:			Expectation for ave	erage federal funds rate	e over next 10 years:			
 e) Of the possible outcomes of the range in providing 		ate the percent chance*	you attach to the target fe	deral funds rate or range	falling in each of the foll	owing ranges at the end	of 2015, 2016, and 2017	If you expect a target ra	nge for federal funds ple	ease use the midpoint
	,	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	4.54 0.000/	0.04 0.50%			
	Year-end 2015:	≤0.50%	0.51 - 1.00%			1.51 - 2.00%	2.01 - 2.50%	≥2.51%		
	Year-end 2016:		0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	≥2.51% ≥3.01%		
		≤2.00%	2.01 - 2.50%	1.01 - 1.50% 2.51 - 3.00%	1.51 - 2.00% 3.01 - 3.50%					
	Year-end 2017:			2.51 - 3.00%		2.01 - 2.50%	2.51 - 3.00%	≥3.01%		
ou changed your expectation	ns for the most likely t	* Percentages across r	2.01 - 2.50% ows should add to 100 p the most likely path of	2.51 - 3.00%		2.01 - 2.50%	2.51 - 3.00%	≥3.01%		1
ou changed your expectatio the target rate or range si	ns for the most likely t	* Percentages across r iming of liftoff and/or t sestions were asked, ex	2.01 - 2.50% ows should add to 100 p the most likely path of	2.51 - 3.00%		2.01 - 2.50%	2.51 - 3.00%	≥3.01%		
you changed your expectation the target rate or range single 3) Of the possible outcom	ns for the most likely t nce the last time the qu	* Percentages across r iming of liftoff and/or t jestions were asked, e motivated you to	2.01 - 2.50% ows should add to 100 p the most likely path of coplain the factors that to make the change(s):	2.51 - 3.00% ercent.	3.01 - 3.50%	2.01 - 2.50% 3.51 - 4.00%	2.51 - 3.00%	≥3.01%		
the target rate or range si	ns for the most likely to nce the last time the que es below, provide the per	* Percentages across r iming of liftoff and/or t jestions were asked, e motivated you to	2.01 - 2.50% ows should add to 100 p the most likely path of coplain the factors that to make the change(s):	2.51 - 3.00% ercent.	3.01 - 3.50%	2.01 - 2.50% 3.51 - 4.00%	2.51 - 3.00%	≥3.01%		
the target rate or range si	ons for the most likely to nee the last time the quies below, provide the per Year-end 2014:	* Percentages across r iming of liftoff and/or t lestions were asked, es motivated you to reent chance* you attach	2.01 - 2.50% ows should add to 100 p he most likely path of cplain the factors that make the change(s): to the 10-year Treasury y	2.51 - 3.00% ercent. eleld falling in each of the	3.01 - 3.50%	2.01 - 2.50% 3.51 - 4.00% and of 2014 and 2015.	2.51 - 3.00% 4.01 - 4.50%	≥3.01% ≥4.51%		
the target rate or range si	ns for the most likely to nce the last time the que es below, provide the per	* Percentages across r iming of liftoff and/or t teestions were asked, e: motivated you te cent chance* you attach \$2.00%	2.01 - 2.50% ows should add to 100 p he most likely path of plain the factors that make the change(s): to the 10-year Treasury y 2.01 - 2.50%	2.51 - 3.00% ercent. sield falling in each of the 2.51 - 3.00% 3.01 - 3.50%	3.01 - 3.50% following ranges at the ϵ 3.01 - 3.50%	2.01 - 2.50% 3.51 - 4.00% and of 2014 and 2015. 3.51 - 4.00%	2.51 - 3.00% 4.01 - 4.50% 4.01 - 4.50%	≥3.01% ≥4.51% >4.50%		
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	No Change Prior to	December 2014		March 2015			
1	Liftoff	FOMC	January 2015 FOMC	FOMC	> March 2015 FOMC	Í	
	*Percentages across ro	ws should add to 100 p	percent				
b) If you see any possibility of further changes to the forward-guidance lar	nguage prior to liftoff, ple	ase describe the chang	jes you believe most likely				•
<u> </u>							
c) Conditional on the forward-guidance language being changed at the time	ne and in the way you co	nsider most likely, how o	do you expect this change	to impact financial cond	litions?		
Since September 2, various measures of the 5-year/5 year forward breake	even rate of inflation have	e declined roughly 35 ba	asis points. Provide your e	stimate of the decompos	ition of this decline. Pleas	se ensure your signs are correct.	
	Change in Expected	Change in Inflation	Change in Other Risk		Change in 5y/5y		
	Average CPI Inflation (bps)	Risk Premium (bps)	Premia (bps)	Sum of Changes (bps)	Breakevens (bps)		
L.				0	-35		•
Please explain the factors contributing to any change in your estimate of the expected average CPI Inflation rate:							
Please explain the factors contributing to any change in your							
estimate of the inflation risk premium:							
lease explain the factors contributing to any change in your estimate of the other risk premia:							
a) Provide the percent chance* you attach to the unemployment rate falling	g within the following rar	nges at the time of the fir	rst increase in the target f	ederal funds rate or rang	Ю.		
Unemployment rate:	< 5.5 %	5.5 - 5.9%	6.0 - 6.5%	> 6.5%	T		
	*Percentages across ro	ws should add up to 10	00 percent.		1		
b) Provide the percent chance* you attach to inflation between 1 and 2 years	ars ahead falling within t	he following ranges at th	ne time of the first increas	e in the target federal fur	nds rate or range.		
Inflation between 1 and 2 years ahead at liftoff:	< 1.25%	1.25 - 1.74%	1.75 - 2.24%	2.25 - 2.74%	≥ 2.75%	İ	
		ws should add up to 10				•	
c) Provide your estimate for the most likely value of the following indicators the announcement of liftoff. For reference, the level of total U.S. employee							
					_		
		Labor fo	Unemployment rate: orce participation rate:		+		
		. employees on nonfa	rm payrolls (millions): erage hourly earnings:		Ī		
	Inflat		2-month PCE Inflation: years ahead (at liftoff):		İ		
d) Provide your forecast for the expected levels of the following indicators				nter the range. If you do	not believe a particular to	ol will be used during one or more of the time per	iods below, please
enter "N/A".		1 Quarter Prior to	Immediately Following	4 V F-#	3 Years Following		
Rate of interest on excess n	eserves (in percent):	Liftoff	Liftoff	1 Year Following Liftoff	Liftoff		
Target federal funds rate of							
O/N R	RRP rate (in percent): h LIBOR (in percent):			-			
Overnight Treasury GCF re							
Usage or Please note how you expect the Committee's approach to policy normaliza		Additionally, please con	nment on any changes yo	Lexpect over time in the	relative levels of money r	narket rates and the expected amount of O/N RR	P usage.
	270110 Over unite.	, picase cull	uny onlanges yo		or money I		
1							
On December 1, the Desk released a statement indicating that it would Please discuss how you expect these operations to impact money market					erm RRP operations migh	nt work as a supplementary tool to help control the	e federal funds rate.
					erm RRP operations migh	nt work as a supplementary tool to help control th	e federal funds rate.
Please discuss how you expect these operations to impact money market	functioning and your exp	pectations for various m	oney market rates at year	end.			
	functioning and your exp	pectations for various m	oney market rates at year-	end. easuries and/or agency of	debt and MBS. In additio	n, please provide your expectation for the timing,	
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Dropdown Selections

1 -- Less Accommodative Perceived stance of monetary policy:

2 3 -- Neutral 4 5 -- More Accommodative

2) a) Of the possible outcomes below, provide the percent chance' you attach to the timing of the first increase in the federal funds target rate or range. Also, provide your estimate for the most likely meeting for the first increase

Estimate for most likely meeting for first increase in target rate or range:

December 2014
January 2015
March 2015
April 2015
June 2015
July 2015
September 2015
October 2015
December 2015
>= 2016

5) Following the release of the advance materials of the September Summary of Economic Projections, the path of the federal funds rate as implied by futures contracts was below the median target rates (or midpoints of the target ranges) provided in the overview of FOMC participants' assessments of appropriate monetary policy.

Please rate the importance of each of the following factors in explaining the difference between the medians in the SEP and the market-implied rate path (1 = not important, 5 = very important).

Importance of Factor:

5 -- Very Important

2 1 -- Not Important

9) 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 or range. 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:

Q4 2014
Q1 2015
Q2 2015
Q3 2015
Q4 2016
Q4 2016
Q2 2016
Q3 2016
Q4 2016
Q1 2017
Q2 2017
Q3 2017
Q4 2017
>= Q1 2018