Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

September 2016

Policy Expectations Survey

Please respond by **Monday, September 12 at 2:00 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*:**

1) a) Provide below your expectations for changes, if any, to the language referencing each of the following topics in the September 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' economic projections in the Summary of Economic Projections (SEP)?

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

Year-end 2016: **Year-end 2017:** **Year-end 2018:** **Year-end 2019:**

Longer Run:

Please explain any assumptions underlying your expectations.

d) What are your expectations for the Chair's press 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			
	September 20-21	**November 1-2**	**December 13-14**	**January 31 - February 1**	**March 14-15**	**May 2-3**	**June 13-14**
Target rate / midpoint of target range:							

	Quarters				Half Years		
	2017 Q3	**2017 Q4**	**2018 Q1**	**2018 Q2**	**2018 H2**	**2019 H1**	**2019 H2**
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) 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.*

d) 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 Committee's next policy action in 2016 being an increase.

Increase Occurs at September FOMC meeting	**Increase Occurs at November FOMC meeting**	**Increase Occurs at December FOMC meeting**

**Responses should add up to 100 percent.*

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

	<0.0%	0.00 - 0.25%	0.26 - 0.50%	0.51 - 0.75%	0.76 - 1.00%	1.01 - 1.25%	1.26 - 1.50%	≥1.51%
Year-end 2016:								

**Responses across each row should add up to 100 percent. Bins were centered around average responses to question 3c, part iv from the July SPD and SMP.*

f) 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 2017, 2018 and 2019, conditional on **not** moving to the zero lower bound (ZLB) at any point during 2016-2019. 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:							
Year-end 2019:							

**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 2016-2019.

Probability of moving to the ZLB at some point in 2016-2019:

If you placed a non-zero probability on moving to the ZLB at some point in 2016-2019 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 2016-2019 (in half years):

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 2017, 2018 and 2019, conditional on moving to the ZLB at some point in 2016-2019. Only fill out these conditional probability distributions if you assigned a non-zero probability to moving to the ZLB at some point in 2016-2019. 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:								
Year-end 2019:								

**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-f, please explain the factors behind any change to your expectations, where applicable, since the last policy survey.

3) 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.

	≤1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.50%	2.51 - 3.00%	3.01 - 3.50%	≥3.51%
Year-end 2016:							
Year-end 2017:							

**Responses across each row should add up to 100 percent.*

4) Measures of implied volatility across equity and long-term interest rate markets are currently running below their long-run averages*, and measures of implied volatility across foreign exchange markets have declined since earlier in the year. Please rate the importance of the factors below in explaining the current low level of implied volatility across these markets **(5 = very important, 1 = not important)**.

Fed policy actions and communications	Advanced foreign central bank policy actions and communications	Emerging market central bank policy actions and communications	Reduced uncertainty around global economic outlook	Fiscal policy globally	Reduced political uncertainty globally	Low levels of realized volatility	More active selling of volatility for yield enhancement	Other	If "Other", please explain

Please explain your response, including any assumptions or underlying views.

*Refers to an average of daily measures of implied volatility since 1994.

5) a) From July 1 to September 7, the 3-month USD LIBOR-OIS spread increased from 28 to 40 basis points. Please indicate your expectations for the most likely level of the 3-month USD LIBOR-OIS spread over the timeframes below.

In the week before the money market mutual fund reform implementation deadline on October 14, 2016* (in bps):

In the first few weeks of December (in bps):

* In 2014, the Securities and Exchange Commission (SEC) adopted amendments to Rule 2a-7, which governs money market mutual funds (MMMFs) under the Investment Company Act. The final deadline for MMMFs to implement these reforms is on October 14, 2016.

b) If your expectation for the 3-month USD LIBOR-OIS spread differs across these two timeframes, please explain.

c) Do you think that the recent widening of the 3-month USD LIBOR-OIS spread (or any anticipated further widening, if applicable) has had a significant impact on broader U.S. financial conditions? Please explain.

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

7) 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) Conditional on **not** moving to the ZLB at any point in 2016-2019, what is your mean expectation for the par value of the SOMA portfolio at the end of 2019? For reference, the current level of the SOMA portfolio, including inflation compensation and settled and unsettled agency MBS according to the August 31, 2016 H.4.1, was $4266 billion.*

Expected value of SOMA at year-end 2019, Conditional on Not Moving to the ZLB ($ billions):	

ii) Conditional on moving to the ZLB at some point in 2016-2019, what is your mean expectation for the par value of the SOMA portfolio at the end of 2019?

Expected value of SOMA at year-end 2019, 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.

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

	GDP (Q4/Q4 Growth)	Core PCE Deflator (Q4/Q4 Growth)	Headline PCE Deflator (Q4/Q4 Growth)	Unemployment Rate (Q4 Average Level)
2016:				
2017:				
2018:				
2019:				
Longer run:				

9) a) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from September 1, 2016 - August 31, 2021 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%

**Responses should add up to 100 percent.*

Point estimate for most likely outcome:	

b) For the outcomes below, provide the percent chance* you attach to the annual average CPI inflation rate from September 1, 2021 - August 31, 2026 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%

** Responses should add up to 100 percent.*

Point estimate for most likely outcome:	

10) a) What percent chance do you attach to the U.S. economy **currently** being in a recession*?

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

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

Recession currently:	
Recession in 6 months:	
Global recession in 6 months:	

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

*NBER-defined recession

**Previous IMF staff work has suggested that a "global recession" can be characterized as a period during which there is a decline in annual per-capita real global GDP, backed up by a decline or worsening in one or more of the following global macroeconomic indicators: industrial production, trade, capital flows, oil consumption and unemployment.

Dropdown Selections

2) f) ii) If you placed a non-zero probability on moving to the ZLB at some point in 2016-2019 above, please indicate your estimate for the most likely <u>timing</u> of such an event.

Most likely timing of moving to the ZLB at some point in 2016-2019 (in half years):	H2 2016
	H1 2017
	H2 2017
	H1 2018
	H2 2018
	H1 2019
	H2 2019

4) Measures of implied volatility across equity and long-term interest rate markets are currently running below their long-run averages*, and measures of implied volatility across foreign exchange markets have declined since earlier in the year. Please rate the importance of the factors below in explaining the current low level of implied volatility across these markets **(5 = very important, 1 = not important).**

Rating:	5
	4
	3
	2
	1