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Predicting monetary policy with federal funds futures prices

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Abstract

In theory, prices of current-month federal funds futures contracts should reflect market expectations of near-term movements in the federal funds rate and thus the Federal Reserve's funds rate target. This article shows that futures-based proxies for funds rate expectations have weak predictive power for the average funds rate using daily data but are more successful in predicting the average funds rate and the funds rate target around target changes and meetings of the Federal Open Market Committee. However, the futures-based expectations have a systematic bias related to the last days of the month and, in particular, calendar months. © 2001 John Wiley & Sons, Inc. Jrl Fut Mark 21:377–391, 2001

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Citing Literature

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