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Global Economics & Strategy

Deep Speak: September FOMC

Economics

Global

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A new LLM-based tracker of central bank sentiment and thematic shifts

We developed an AI-based approach to measure policy tone for the Fed, ECB, and BoJ. Using LLMs, we analyze policy-relevant remarks in speeches, interviews and press conferences and score them on a hawkish/dovish scale, offering insights into sentiment shifts as well as thematic drivers and speakers' contributions. Updated daily, the dataset spans over two decades and is accessible via an interactive dashboard and a Python API (>Access Dataset).

More substance, different delivery, same hawkish signal

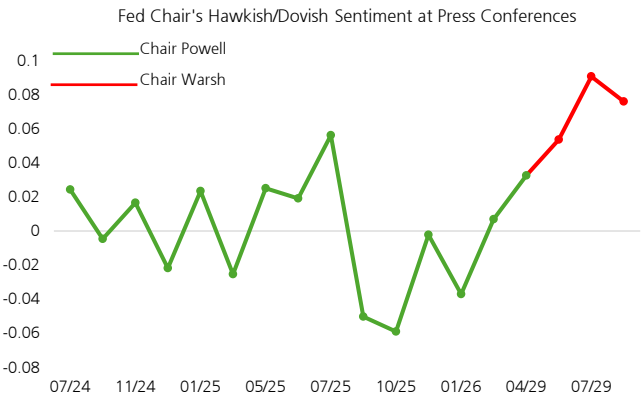
Kevin Warsh's third press conference sustained the hawkish tilt established since he became Chair (Figure 1), with aggregate sentiment unchanged from Jackson Hole (Figure 2). Inflation remained the principal source of hawkishness, while a firmer growth assessment reinforced the signal (Figure 4).

The greater change was in delivery. Despite a roughly 40% shorter press conference, Chair Warsh provided substantially more policy content than in July, with the policy-relevant share of content rising from 8% to 23%. This marks a departure from the sparse guidance of his first two press conferences, although, in absolute terms, his communication remains more compressed than was typical under Powell (Figure 5).

The narrative has also become more conventional. After task forces dominated the Chair's June debut and market pricing moved to the foreground in July, September centred more clearly on the policy outlook and reaction function. The focus on price stability emerged as the model's central message (Figure 7), while full employment also featured prominently in the broader narrative (Figure 6).

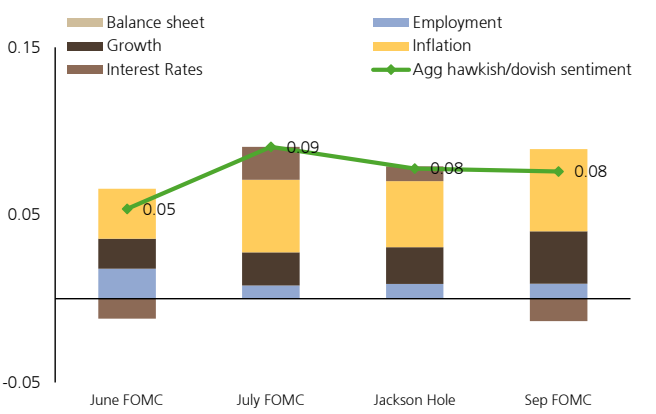
Taken together, Deep Speak reads the press conference as a change in delivery rather than direction: more policy substance and a clearer reaction function, but the same hawkish signal. See also here for our economists' assessment.

Figure 1: Warsh's third press conference sustains the hawkish tilt



Source: UBS Evidence Lab, Fed. Note: All analyses exclude reporters' turns. (> Access Dataset)

Figure 2: Overall hawkishness was unchanged from Jackson Hole

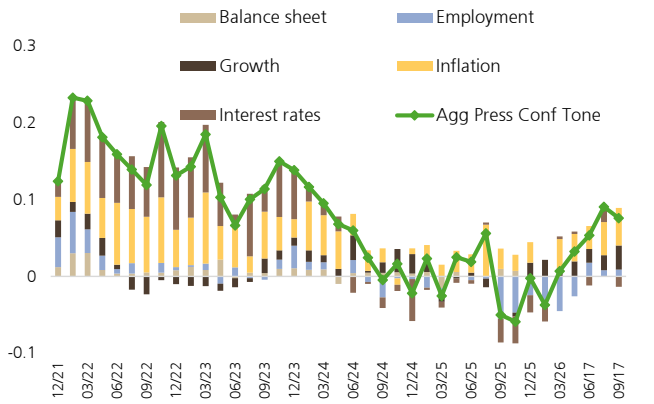


Source: UBS Evidence Lab, Fed. (> Access Dataset)

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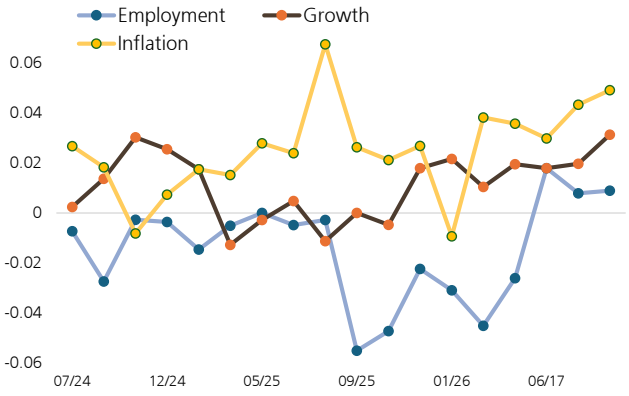
FED Press Conference Deep Dive

Figure 3: The hawkish reading was inflation-led...



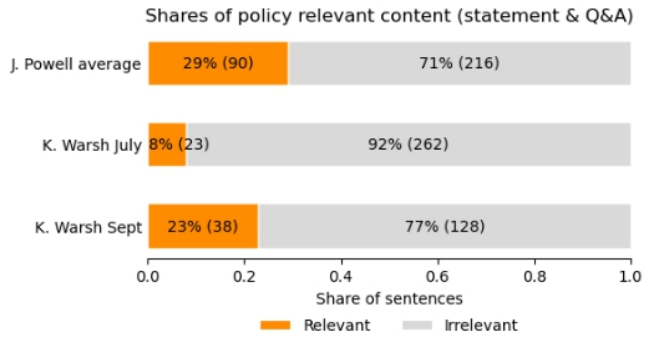
Source: UBS Evidence Lab, Fed. (> Access Dataset)

Figure 4: ...with a firmer growth assessment adding support



Source: UBS Evidence Lab, Fed. (> Access Dataset)

Figure 5: A shorter press conference carried more policy substance



Source: UBS Evidence Lab, Fed. Absolute number of sentences in brackets: September press conference was effectively ca.50% shorter than typical (> Access Dataset)

Figure 6: A more conventional press conference narrative takes shape



Source: UBS Evidence Lab, Fed. (> Access Dataset)

Figure 7: September's core message: Price stability comes first



Source: UBS Evidence Lab, Fed. Note: from the average of the Chair's sentences embeddings. (> Access Dataset) .

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Central Banks Policy Sentiment Tracker (>Access Dataset)

This report leverages the following UBS Evidence Lab asset: Central Banks Policy Sentiment Tracker. Key themes and brand mentions are based on data collected from press conference and speeches. We carefully adjust for the specific context in which language/terms may appear under each theme to make sure that every mention is of high relevancy to the theme definition.

Central Banks Policy Sentiment Tracker Monthly Summary (>Access Dataset)

This report leverages the following UBS Evidence Lab asset: Central Banks Policy Sentiment Tracker Monthly Summary Key themes and sentiment are based on data collected from central banks transcripts. Figures, Tables and References are not parsed. Sentences are considered for thematic and sentiment analyses only if they are centered on a topic relevant for monetary policy.

Valuation Method and Risk Statement

Risks of multi-asset investing include but are not limited to market risk, credit risk, interest rate risk, and foreign exchange risk. Correlations of returns among different asset classes may deviate from historical patterns. Geopolitical events and policy shocks pose risks that can reduce asset returns. Valuations may be adversely affected during times of high market volatility, thin liquidity, and economic dislocation.

Options, structured derivative products and futures (including OTC derivatives) are not suitable for all investors. Trading in these instruments is considered risky and may be appropriate only for sophisticated investors. Prior to buying or selling an option, and for the complete risks relating to options, you must receive a copy of "The Characteristics and Risks of Standardized Options." You may read the document at http://www.theocc.com/publications/risks/riskchap1.jsp or ask your salesperson for a copy. Various theoretical explanations of the risks associated with these instruments have been published. Supporting documentation for any claims, comparisons, recommendations, statistics or other technical data will be supplied upon request. Past performance is not necessarily indicative of future results. Transaction costs may be significant in option strategies calling for multiple purchases and sales of options, such as spreads and straddles. Because of the importance of tax considerations to many options transactions, the investor considering options should consult with his/her tax advisor as to how taxes affect the outcome of contemplated options transactions. All options discussed in this report are OTC options.

