BoE Communication and Market Uncertainty

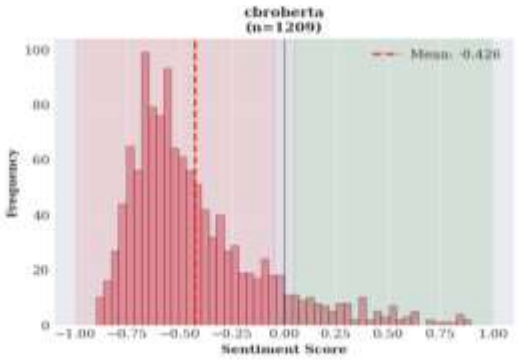
Quantifying How Words Move Markets (1997 – 2022)

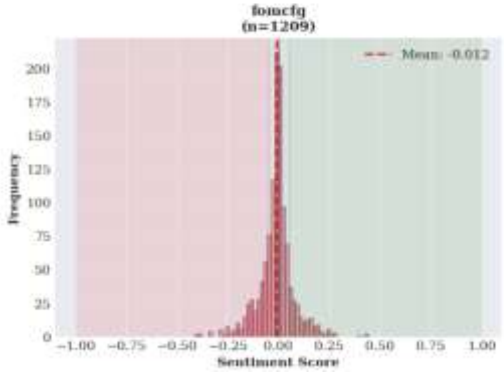
Research Question

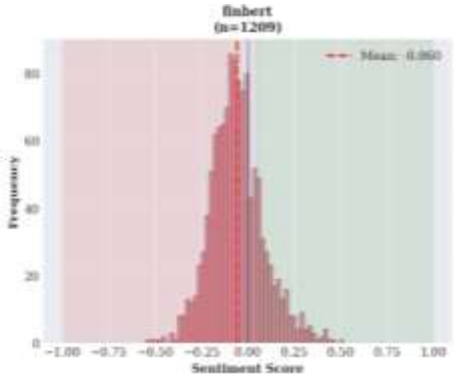
Can the Bank's communication tone influence how markets behave?

Scope: 25 years • 1,200+ speeches • 3 sentiment models • 5 market indicators.

Finding the right voice :The Distribution Problem



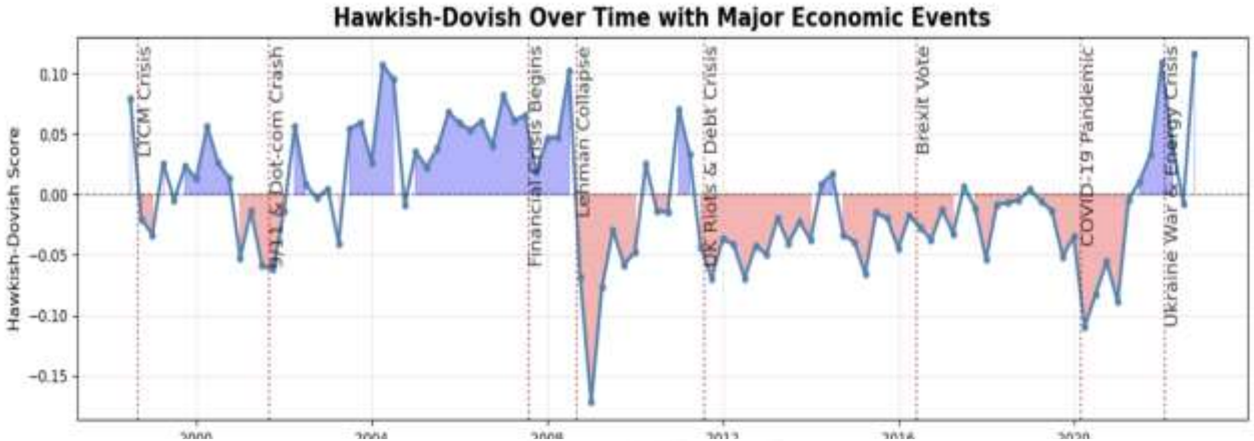




Model	Tone Bias	Verdict
CB-RoBERTa	87 % negative → too pessimistic	✕ Over-reacts to neutral policy language
FOMC-RoBERTa	Near-zero mean → neutral	⚙ Useful for stance (hawk / dove)
FinBERT	Balanced, interprets prudence not fear	✓ Best for sentiment tracking

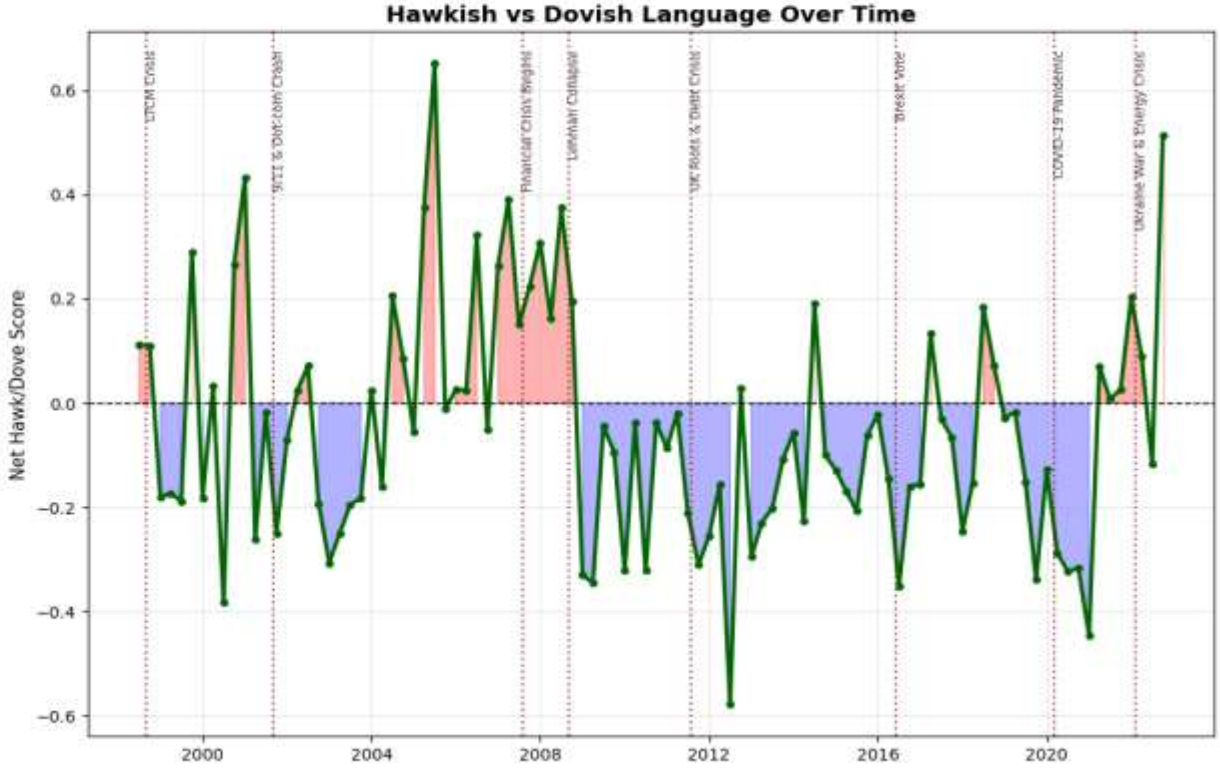
Decision: We tested five models — **FINBERT** captured the banks naturally **CAUTIOUS TONE**

How the Bank’s Tone Evolved — From Reactive to Controlled.



Sentiment volatility halved after 2008, showing the BoE became more deliberate in tone.

How the Bank’s Tone Mirrors the Economic Cycle



Key Takeaways

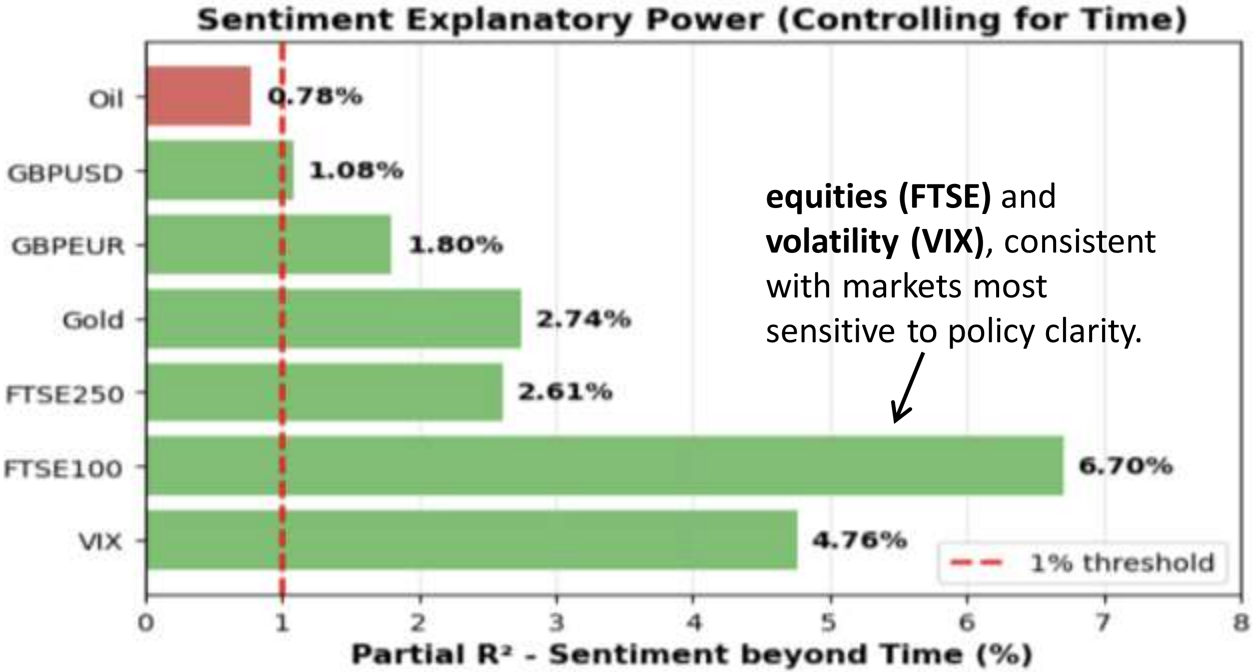
Hawkish = tightening & crisis control.
Seen in 2006-07 (pre-GFC) and 2021-22 (energy shock).

Dovish = recession & recovery support.
Seen post-2008 and during COVID-19.

Post-2012: tone swings narrow → *more predictable & disciplined communication.*

ECONOMIC MARKERS AND SENTIMENT

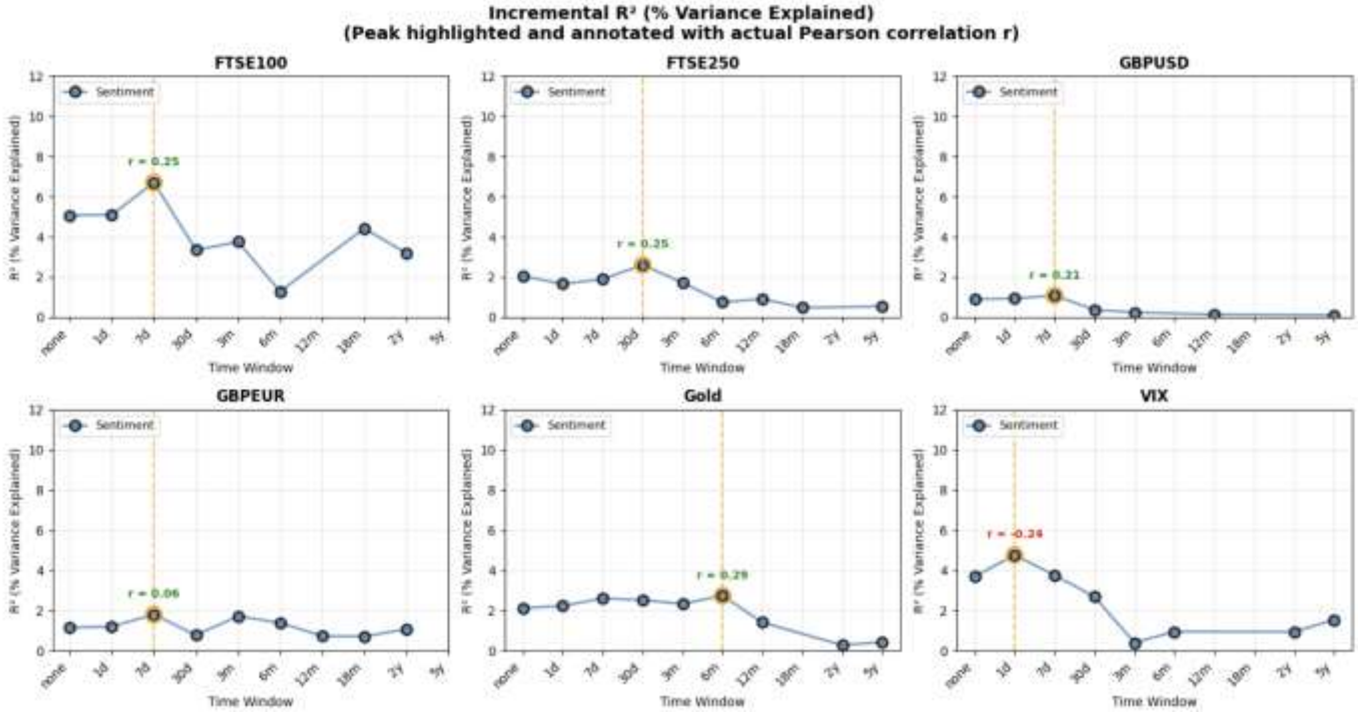
Sentiment shapes perception more than price



equities (FTSE) and **volatility (VIX)**, consistent with markets most sensitive to policy clarity.

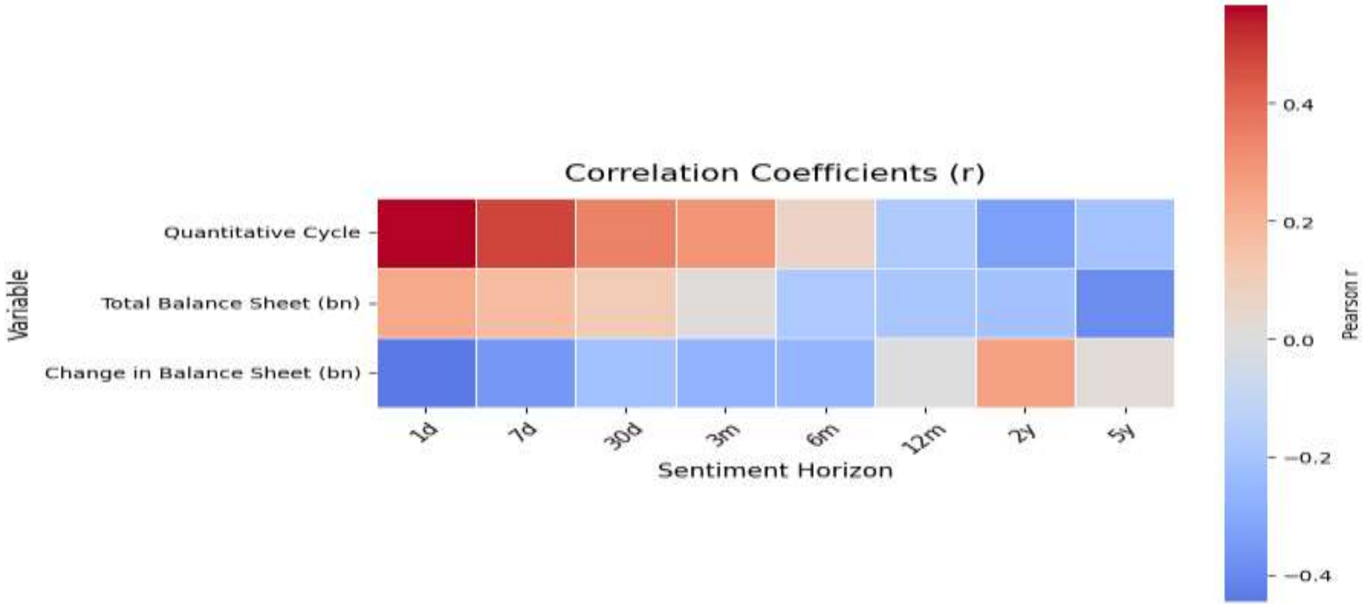
Key takeaway: BoE communication influences sentiment, not markets directly — its tone anchors expectations but rarely drives price on its own.

Market reactions peak within 1–4 weeks of speeches



Key takeaway : Across all markets, sentiment has strongest predictive power within 7–30 days — then fades.

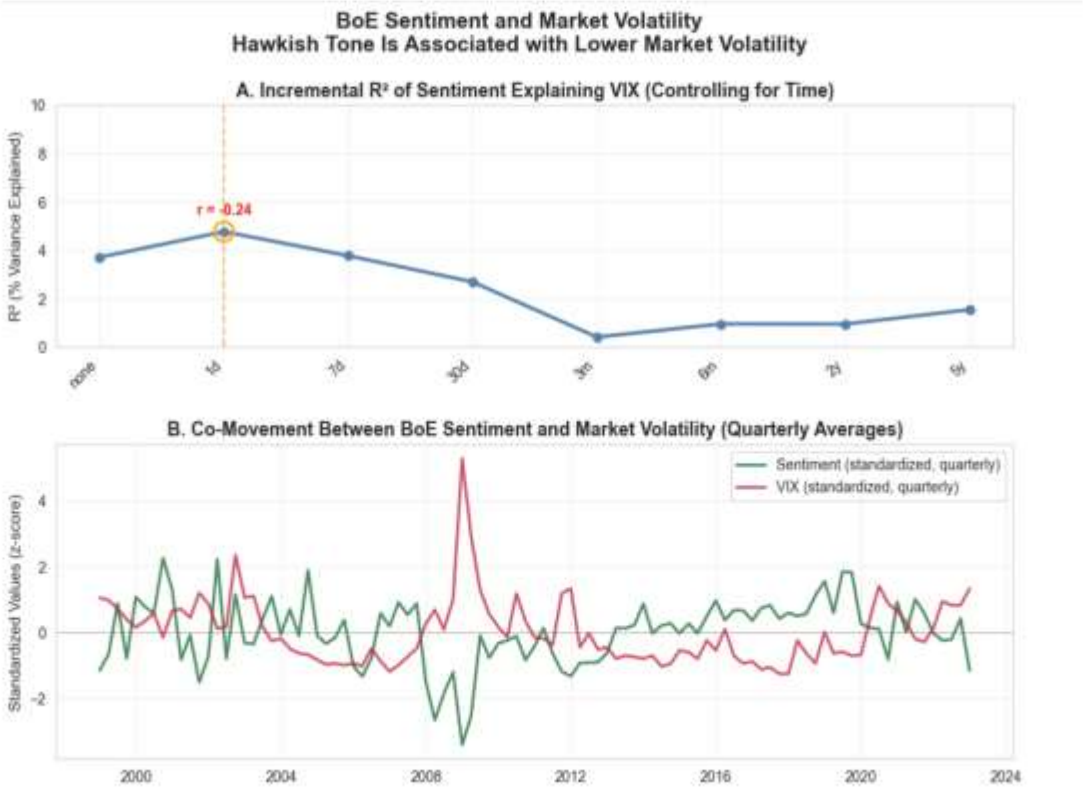
Markets absorb QE/QT signals quickly, then look ahead



QE/QT influences sentiment *briefly and predictably* — the signal is fast-moving and largely front-loaded.

Beyond the first quarter, investors focus on forward guidance, not previous balance-sheet levels.

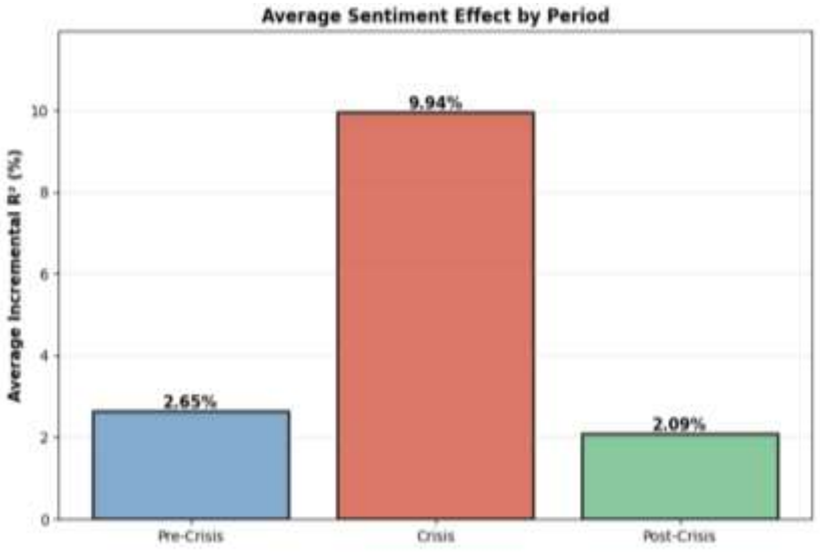
Clear, hawkish tone reduces market uncertainty



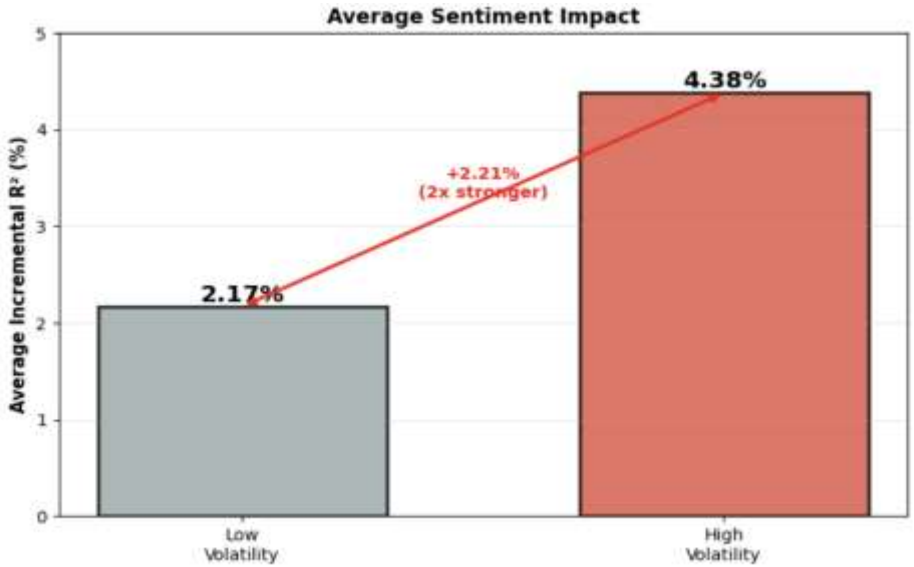
When the Bank speaks ***__clearly__*** *and* ***__firmly HAWKISH__***, the market relaxes — uncertainty falls.

But when the Bank sounds *unsure or change policy rapidly*, volatility spikes almost immediately.

In turbulent times, tone *is* policy

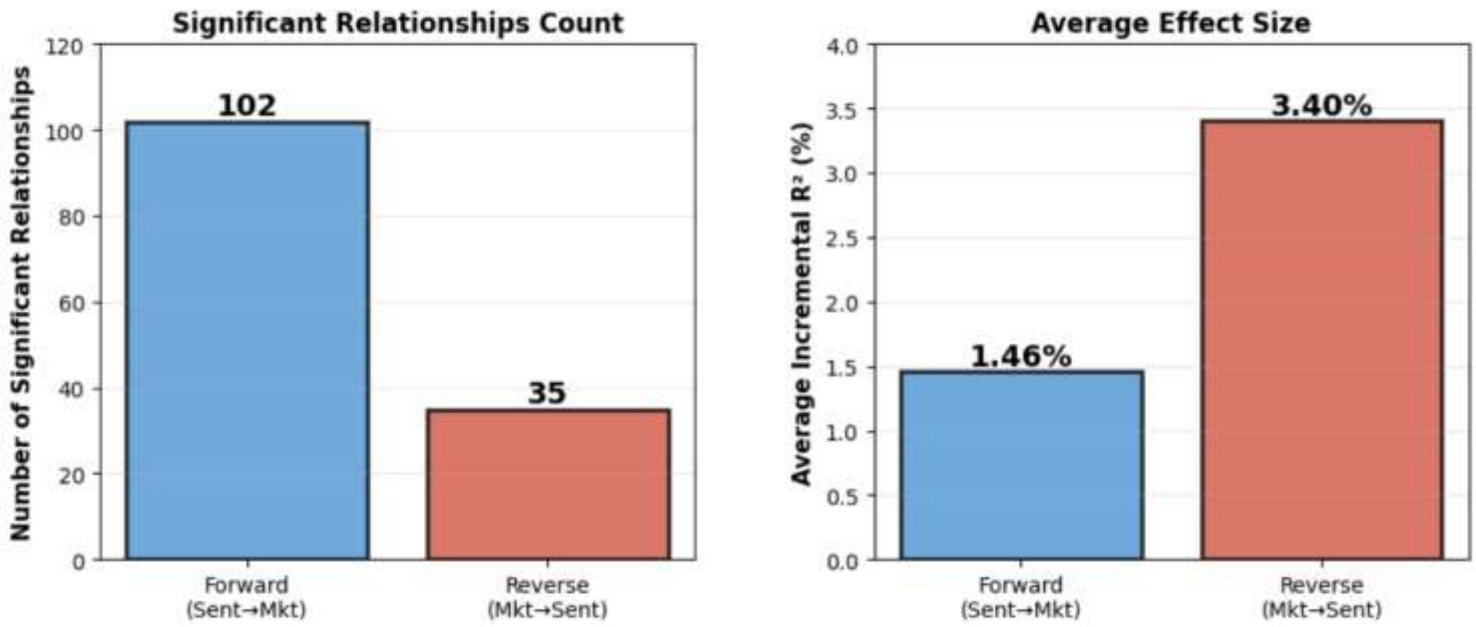


The market responds best to sentiment in a crisis



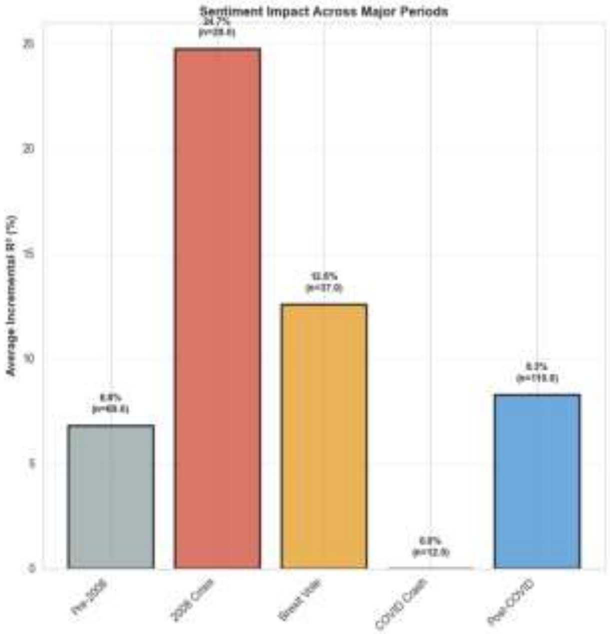
Sentiment has 2x more impact with mixed messages

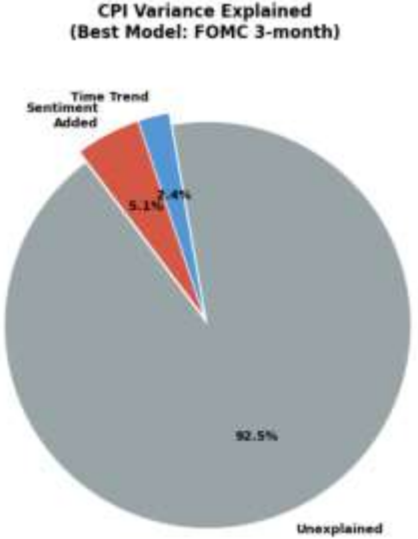
Sentiment moves markets first, but markets shape sentiment deeper

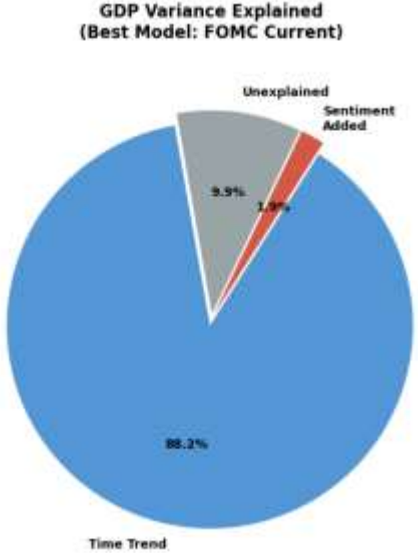


The Bank sets the tone, but the market sets the mood.

Sentiment shapes expectations, not economics







•Strongest sentiment impact during financial crises — tone matters most when stability is at risk.
•BoE communication explains **inflation psychology (CPI)** more than **real activity (GDP)**.

The Bank’s words move expectations, not output.

Where do we go from here ?

Key Reflection:

We've seen that **language isn't neutral** — it shapes expectations, stabilises markets, and signals intent.

Tone has become policy.

But as the financial world evolves, *so does the voice that guides it.*

🚀 **Next Phase:**

As AI and digital finance rewrite how information spreads, the mechanics of trust and authority are shifting.

The next stage of this journey moves from macro to micro — zooming in on AI, crypto, and key policy moments to see how language moves markets in real time.

When machines speak for markets…

who sets the tone?