

Rates Technical Advantage

From yield peaks to yield tops

Key takeaways

- An eventful Q4 has seen US 10y yield touch our target area, ending wave 5, a key peak at 5% and now a head & shoulders top.
- Top patterns in US yields are confirming Q4 peak yield technical signals and imply downtrends in H1.
- US 5y to 4.10% while <4.75%, 10y to 4.00% while <4.70%, steeper 5s30s while >0 bps, bonds to outperform commodities & BBDXY.

View: From yield peaks to yield tops in Q4

The transition in Q4 from yield uptrends to peaking yields continued to top patterns as the US CPI release was below survey. Global bond markets rallied, and tops in the daily charts of US yield formed, confirming a variety of bullish UST signals discussed last month (see our report, [Wringing out the bond bears 25 October 2023](#)) and after the Fed (see our report, [Ten FICC charts after the Fed 01 November 2023](#)). The US 2y yield formed a rising wedge top, and the US 5y and 10y yield formed head and shoulder tops. The US 30y yield formed the essence of a head and shoulders top, but its structure is less convincing and probably supports our steeper 5s30s view. In this report, we briefly recap what these yield top patterns mean, their typical targets, and where traders may stop.

US yield chart takeaways

1. US 2y yield's wedge top favors an initial decline to the 200d SMA at 4.65% and its measured move target at 4.50%, while below 5.09%. For 2s10s to still steepen, it may need to do a larger Fibonacci retracement to 4.40/4.20% (Chart 1).
2. US 5y yield's head and shoulders top favors a decline to 4.20%/4.10% while yield remains below the right shoulder highs of 4.75% (Chart 2).
3. US 10y yield's head and shoulders top favors a decline to its 200d SMA, or about 4.00%, while it remains below the right shoulder highs of 4.70% (Chart 3).
4. US 30y yield is trading sticky in the 4.60s. The essence of a head and shoulders top is present, but it is hard to find a proper neckline. Downside here may be limited or slower, supporting our steeper bias. If it fell with the 5y and 10y, the next yield support levels would be in the 4.40-4.30% area (Chart 5).
5. US 2s10s corrected flatter and is holding trend line support. We continue to favor a steeper trend. Ideally, it holds above -50bps and un-inverts in 1H24 (Chart 6).
6. US 5s30s corrected flatter and is also testing trend line support. We continue to favor a steeper bias. and ideally. it remains above 0 bps in Q4 (Chart 7).
7. Relatively speaking, bonds are still looking cheap versus commodities, metals, financials, and the BBDXY (Chart 8, Chart 9, Chart 10, Chart 11).

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For more on technical strategies such as Elliott wave, RSI divergence, MACD and TD Sequential, please see this report: [Technical Explained: In 2023 --> Get to know technical strategy 23 January 2023](#)

d = day

H&S = head and shoulders

MACD = moving average convergence/divergence

Measured move target = Height of a top pattern subtracted from the breakdown point.

RSI = relative strength index

SMA = simple moving average

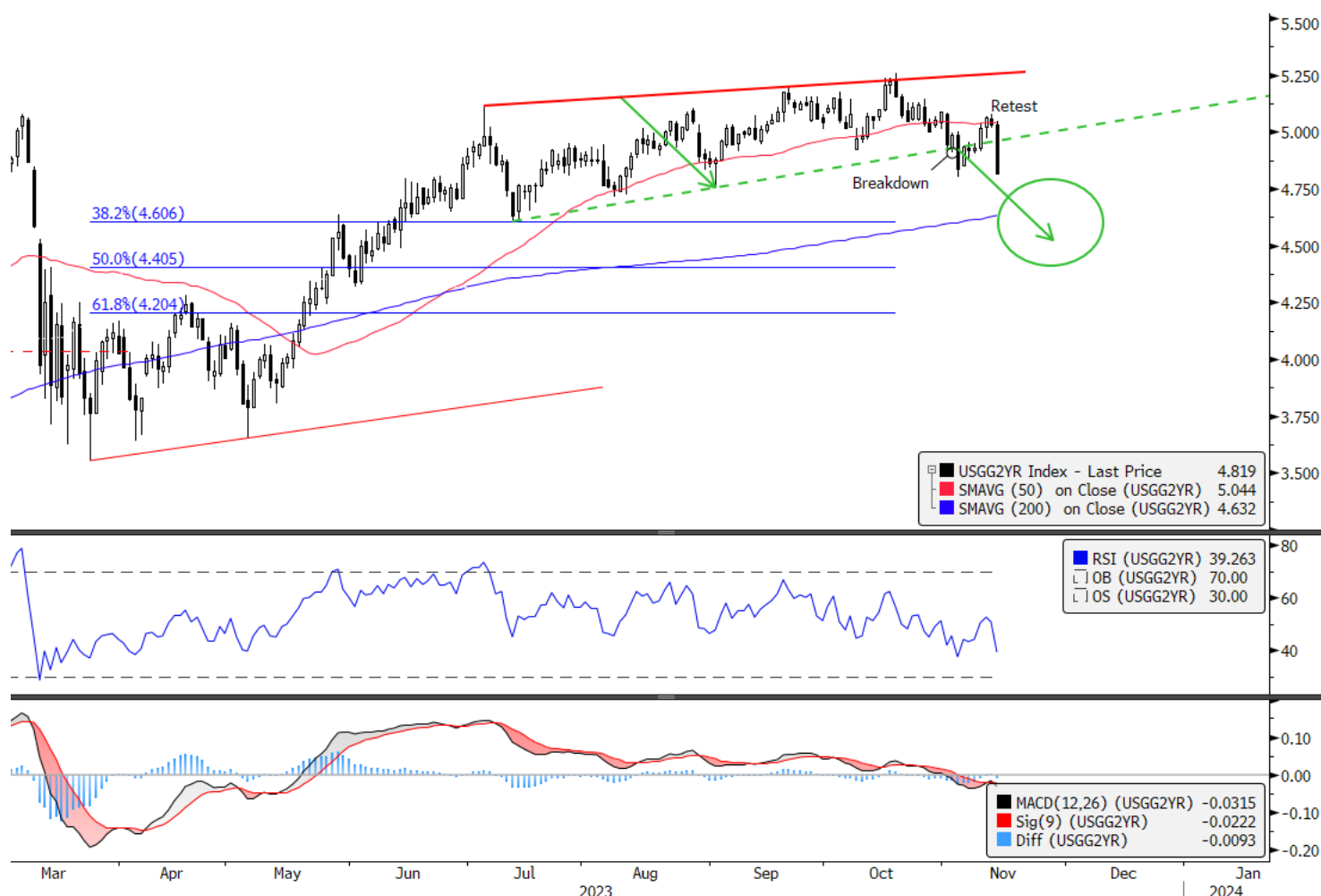
y = year

Chart Appendix

US 2y yield: Classic breakdown, retest, resumption lower

Chart 1: US 2y Yield – Daily Chart

Rising wedge top said drop was coming. Breakdown started in early November, bounce back to 50d SMA retest held, and now down it goes next to 4.65%/4.50%. Ideally, yield remains below the 5.09% retest point.



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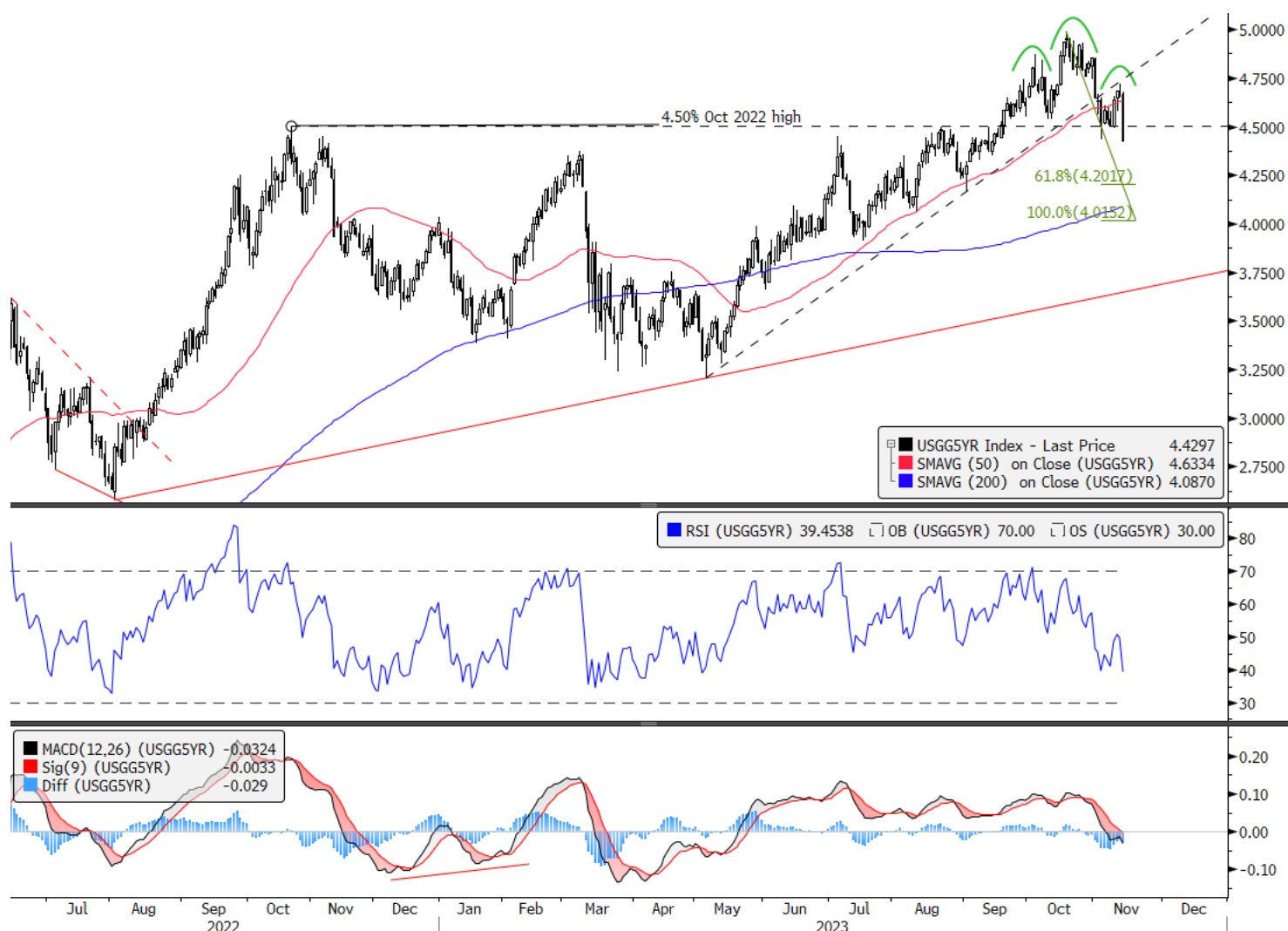
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US 5Y yield: Head and shoulders top says drop to 4.10%

Chart 2: US 5y Yield – Daily Chart

US 5y yield's head and shoulders top favors drop to 4.20%/4.10% while below the right shoulder high at 4.75%



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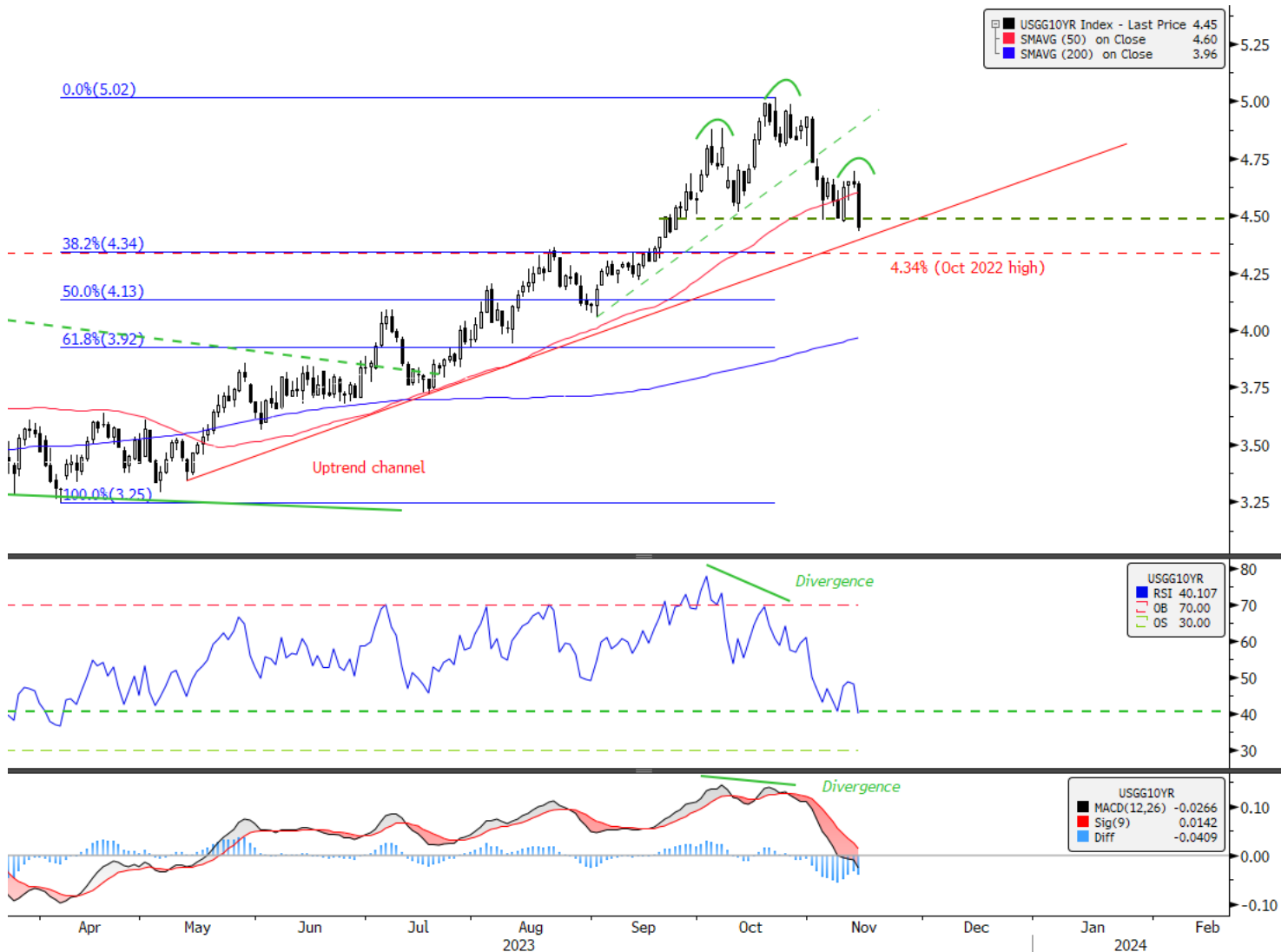
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US 10y yield: Head & shoulders says drop to 200d at 4%

A top that we have been on watch for, or the head and shoulders top, has emerged. After US CPI came in softer than expected, yields declined to form the right shoulder and break the neckline. This pattern suggests that the 10y yield can decline to the 200d SMA at about 4% provided that yield remains below the right shoulder high of 4.70%. As the chart shows, there are some relevant yield support levels coming up, such as the trend line/old breakout point/38.2% retracement of about 4.34%. The yield decline should accelerate below this to the 50% retracement at 4.13% and eventually meet the 200d SMA near 4%.

Chart 3: US 10y Yield – Daily Chart

US 10y yield support: 4.34%, 4.13%, 4.00% | US 10y yield resistance: 4.70%, 4.88%, 5.02%



USGG10YR Index (US Generic Govt 10 Yr) RB: US 10yr Daily Daily 14MAR2018-14NOV2023

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Source: BofA Global Research, Bloomberg, DeMark Analytics

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10y Weekly: Key line at about 4.15-4.2% in Q4

Chart 4: US 10y Yield – Weekly Chart (G692)

Typical wave 5 upside was reached, divergent RSI was in favor of yield nearing peak. Daily chart found a top. Down it can go to the green line at about 4.15-4.20%, a bounce from there and lower in 1H24. A risk here is a larger top being formed on the weekly chart where yield reaches 4.20, then retests 5% and drops below 4% in 2H24.



Source: BofA Global Research, Bloomberg

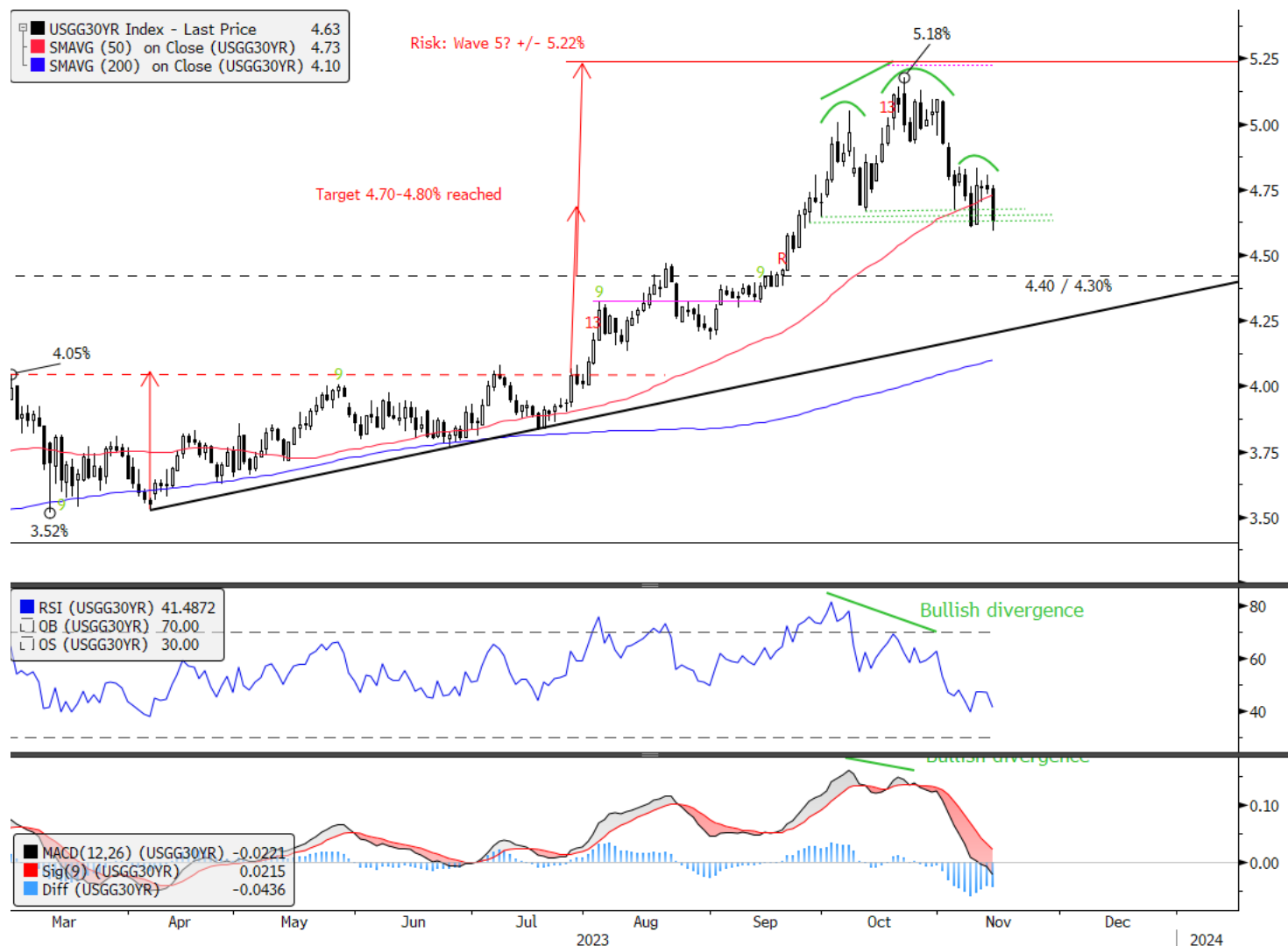
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US 30y yield: An awkward top

We would not put this head and shoulders top pattern in a technical textbook due to the small size of the right shoulder and indecisive break down thus far. However, given the narrative of this report and our view that wave 5 up in yields would find peak in Q4, such as 30y at +/- 5.22%, then tops in Q4 to decline in 1H24, the “shoe fits” while yield is below 4.84%. Such hesitation likely supports our steeper 5s30s view, recapped next.

Chart 5: US 30y Yield – Daily Chart

US 30y yield support: 4.60%, 4.47%, 4.30% | US 30y yield resistance: 4.84%, 4.93%, 5%, 5.21%, 5.44%



USGG30YR Index (US Generic Govt 30 Yr) RB: US 30yr Daily Daily 01OCT2022-14NOV2023

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Source: BofA Global Research, Bloomberg, DeMark Analytics

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US 2s10s: Holding a steeper trend while > -50bp

Chart 6: US 2s10s – Daily Chart

We have believed that a wedge bottom in the curve formed in March 2023 and then a double bottom began in July 2023 and was confirmed in September 2023. This correction should find support, ideally at/above -50 and trade range bound or higher in 1H24 to un-inversion. Given all the head and shoulder tops in yields, one risk would be a right shoulder forming in December for a top in 2s10s and unexpected flattener in 1H24.



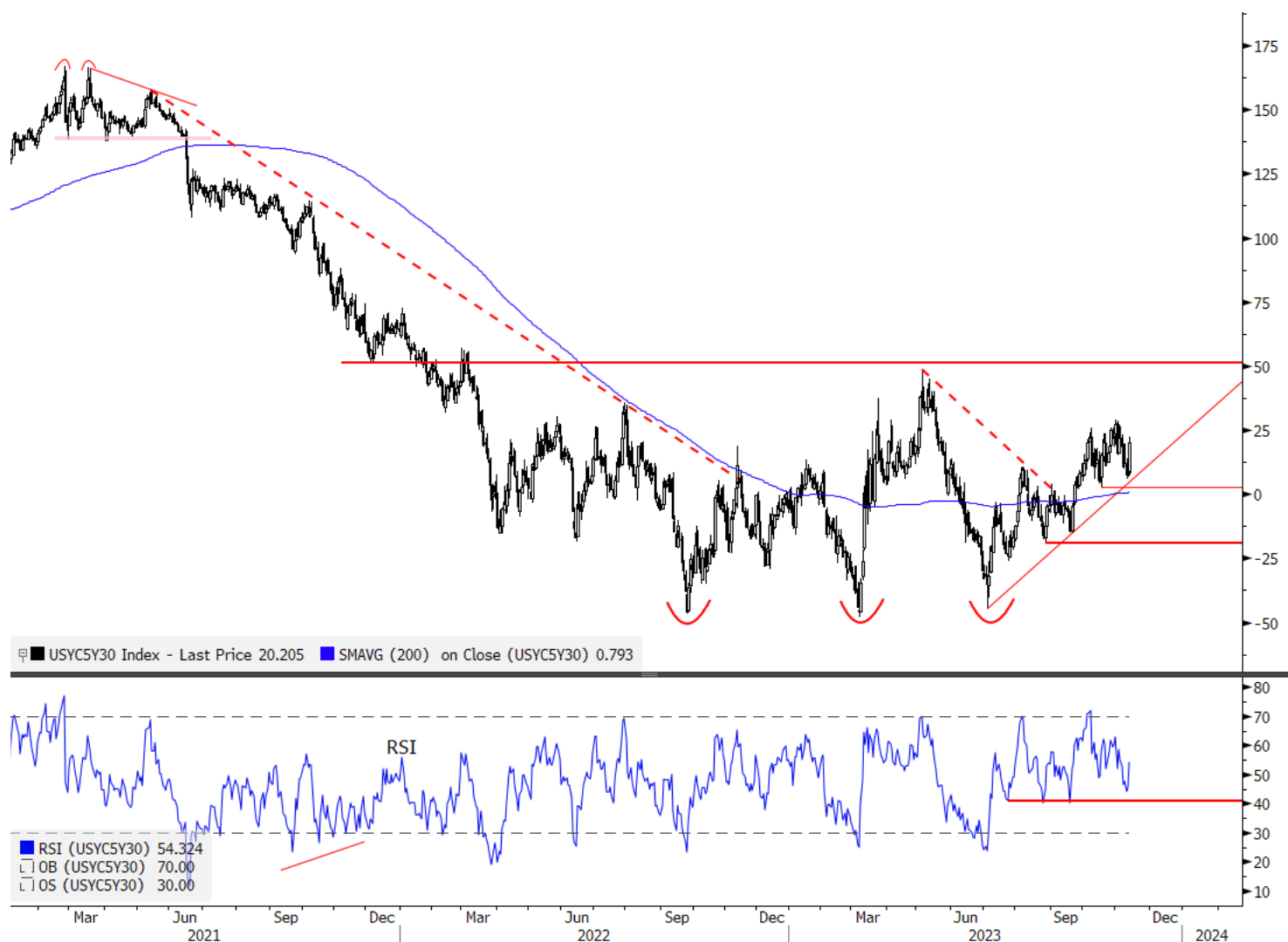
Source: BofA Global Research, Bloomberg

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US 5s30s: Steeper trend holding while > 0

Chart 7: US 5s30s – Daily Chart

The triple bottom forming in US 5s30s remains on track, and ideally, it does not cross below 0 bps again. We continue to prefer a steeper bias while closing above 0.



Source: BofA Global Research, Bloomberg

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Bonds still looking relatively cheap (again)

Chart 8: Bonds versus commodities ratio

US1/BCOM ratio is near parity, again, which is where it bottomed in 2022 and 2014.



Source: BofA Global Research, Bloomberg

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Chart 9: Bonds versus Industrial metals

A triangle pattern may be forming, which means that the next leg is higher, in favor of bonds.



Source: BofA Global Research, Bloomberg

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Chart 10: Bonds versus S&P Financials

On a price-to-price basis, bonds are the cheapest since 2007 versus financials

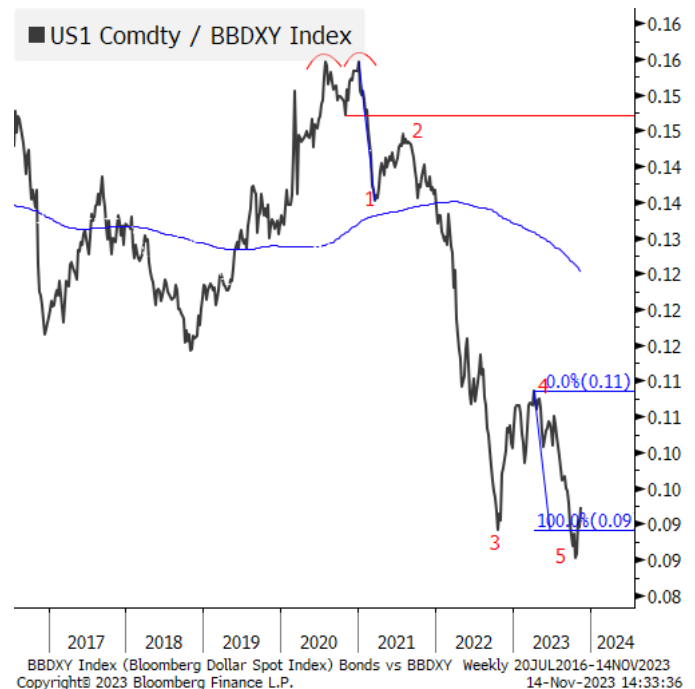


Source: BofA Global Research, Bloomberg

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Chart 11: Bonds versus BBDXY

This ratio has exceeded its wave 5 target, which means that the relative trend of the bond market underperforming the BBDXY is near an end.



Source: BofA Global Research, Bloomberg

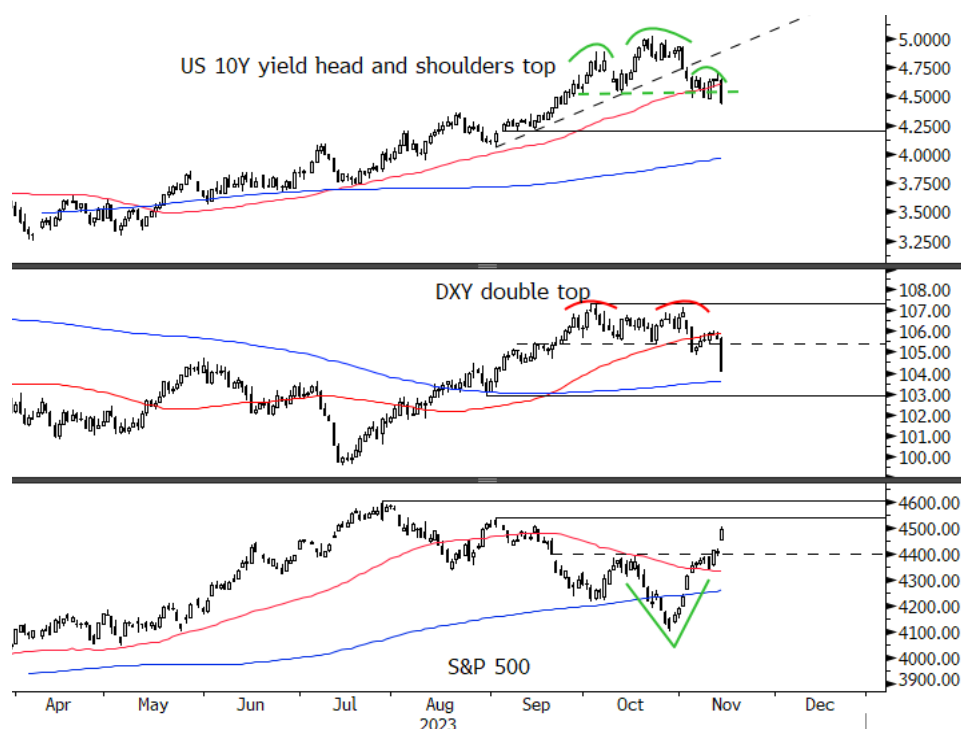
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4Q23 is continuing to repeat 4Q22; can anything stop it?

After the Fed meeting on November 1, we recapped ten charts that started to look like 4Q23 was repeating 4Q22 (see our report, [Technical Advantage 01 November 2023](#)). The market's reaction to US labor data on November 3 and US CPI on November 14 continued to support this repeat scenario. The bond market has rallied to form yield tops, the DXY formed a double top (see our report, [Global FX Weekly 10 November 2023](#)), and more bullish equity technical signals occurred, such as the breadth thrust in a seasonally strong Q4 (see our report, [Chart Blast 6 November 2023](#)). Can anything stop this momentum? It is hard to fight the tape; however, the US labor market data on December 1 and Fed on December 13 are two key events that we will have our eyes on to see if the US labor market starts weakening faster than surveyed or if the Fed delivers a believable hawkish message.

Chart 12: US 10y head and shoulders top, DXY double top, and pivot low in SPX in 4Q23 reminiscent of 4Q22

4Q23 currently repeating 4Q22 ... what can stop it? The risks are weaker-than-expected non-farm payrolls (NFP) on December 1 or Fed on December 13.



USG10YR Index (US Generic Govt 10 Yr) Comparing technicals Daily 30MAR2023-14NOV2023 Copyright© 2023 Bloomberg Finance L.P. 14-Nov-2023 14:45:08

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Chart Alpha

Exhibit 1: Closed trades

Approximately two years of closed technical and/or collaborative cross strategy trades in the alpha, technical advantage, and year-ahead reports

Report	Trade description	Entry date	Entry level	Spot target 1	Spot target 2	Spot target 3	Stop	Close date	Level closed
EM Alpha	Buy EURZAR	10/2/2023	20.15	-	20.75	21.15	19.60	11/1/2023	19.60
FX Alpha	Buy CADMXN	10/23/2023	13.3338	-	14.00	-	13.00	10/31/2023	13.00
FX Alpha	Buy EURSEK 3m zero-cost collar spot ref 11.5456	10/13/2023	3m 11.8380 call for 0.5676% EUR, vol 7.394%; sell 3m 11.3143, vol 6.701%, zero-cost	11.84	-	-	-	10/30/2023	1.12%
FX Alpha	Buy GBPAUD 6m put seagull	9/8/2023	0.3827% GBP (long 6m put spread, 1.94 / 1.90)	1.94	1.90	-	2.05	9/22/2023	1.2341% GBP
FX Technical Advantage	Short USDCAD	8/29/2023	1.3570	1.3497	1.346	1.335	1.3725	9/13/2023	1.3550
Commodities Technical Advantage	Buy CTZ3	9/5/2023	89.0600	94.60	96.5	100	86.3	9/7/2023	86.30
FX Alpha	Sell 2m 25-delta OTM EUR/GBP put	6/24/2023	0.31% EUR (strike ref: 0.8472, spot ref: 0.8592, vol ref: 5.584)	24-Aug-23	-	-	-	8/3/2023	Spot ref 0.86470, vol ref: 4.214)
FX Alpha	Buy USDSEK via 3m collar (spot ref is 10.2724)	7/19/2023	Buy 3m 10.73 call for 0.7795% USD (vol ref: 12.296%) and sell 3m 9.8960 put for the same price (vol ref: 10.202%).	10.5	10.7	-	9.896	8/1/2023	1.3316% USD with spot ref 10.6109
Technical Advantage	Buy USDMXN	6/27/2023	17.10	17.50	18.00	-	16.90	7/12/2023	16.90
FX Technical Advantage	Short GBPUSD	4/25/2023	1.2420	1.2367	1.223	1.216	1.255	4/28/2023	1.255
FX Alpha	Buy 3m USDSEK call spread	1/20/2023	1.4689% USD strikes 10.2466 & 10.70, spot ref 10.2971, vol refs 12.752/13.307)	10.25	10.5	10.7	-	3/7/2023	.82% USD (spot ref 10.7008, vol refs 12.18/11.943)
Rates Technical Advantage	5s30s steepener	2/12/2023	-12	0	10	20	-25	2/24/2023	-25
Rates Technical Advantage	Short US 10Y	1/22/2023	3.48%	3.70%	3.82%	3.90%	3.30%	2/17/2023	3.82%
2023 FICC Technical Views	Short USDCAD via 6m 1.33/1.30 put spread	12/2/2022	65 USD pips (Spot ref: 1.3489, vol: 7.668%/8.035%)	1.33	1.319	1.30	-	2/1/2023	74.53 USD pips (spot ref: 1.33, vol: 6.893% / 7.237%)
EM Alpha	Long USDZAR	1/19/2023	17.23	-	17.46	17.75	17.86	2/1/2023	17.40
Global Rates, FX, EM 2023 Year Ahead	Short 10Y UST	11/20/2022	3.75%	3.60%	4.00%	4.25%	3.40%	1/18/2023	3.40%
FX Technical Advantage	Buy USD/CLP	11/20/2022	925	898	980	1000	865	12/12/2022	865
FX Technical Advantage	Buy DXY dip	9/12/2022	108.33	110.35	112.1	115	105	11/4/2022	110.87
Chart Alpha	Buy USD/ZAR	11/15/2022	17.30	18.00	18.50	-	<16.90	12/1/2022	17.90
Technical Advantage	Sell gold's bounce	10/3/2022	1702.00	1615.00	1560.00	1440.00	1740	11/10/2022	1760
Rates Technical Advantage	Short 10Y > 3.1%	8/31/2022	3.16%	3.38%	3.50%	3.96%	<2.95%	10/11/2022	3.94%
Technical Advantage	Buy USDKRW	6/12/2022	1279.04	1321	1374	1400	1210	10/6/2022	1406
Commodities Technical Advantage	Buy USDCPL breakout	6/24/2022	917	920	945	985	872.75	07/15/2022	985.00
Commodities Technical Advantage	Sell HG1 breakdown	6/22/2022	394.4	350	335	314	421.9	7/15/2022	323.40
Commodities Technical Advantage	Buy crude oil	6/2/2022	116.87	130.3	140	-	111.2	6/17/2022	109.56
Chart Alpha	Buy Euro	5/4/2022	1.0610	1.0800	1.0850	-	-	5/12/2022	1.0470
Chart Alpha	Sell USDCHF	5/4/2022	0.9740	0.9602	0.9525	-	-	5/5/2022	0.9825
Rates Alpha	Buy 10Y UST	4/14/2022	2.83%	3.05%	2.56%	2.40%	2.25%	1/0/1900	3.10%



Exhibit 1: Closed trades

Approximately two years of closed technical and/or collaborative cross strategy trades in the alpha, technical advantage, and year-ahead reports

Report	Trade description	Entry date	Entry level	Spot target 1	Spot target 2	Spot target 3	Stop	Close date	Level closed
FX Alpha	Buy AUD/NZD by owning a 6m call spread	1/27/2022	0.7764% (Spot: 1.069, 1.0753 (atmf) and 1.0944	1.0743	1.0817	1.0944	-	4/22/2022	1.2168% AUD
Global Rates, FX, EM Year Ahead	Buy USD/MXN	11/23/2021	20.70	20.50	21.93	22.67	-	3/9/2022	21.25
2022 FICC Technical Advantage	Sell AUD/USD by owning a 3m .69/.65 put spread	12/3/2021	74 USD pips, spot ref: .7020, vol: 10.74%/12.32%	0.718	0.69	0.65	-	3/3/2022	0.00
FX Alpha	Buy USD/JPY	11/23/2021	112.60 (Raised stop loss, spot ref 115)	114.5	117	-	112.6	2/24/2022	115.40
Global Rates, FX, EM Year Ahead	Buy USD/CHF 3m .94/.97 call spread, expiry Feb 21 2022	11/23/2021	Spot ref: .9258, vol ref: 6.839%/6.949% for 0.5359% USD	0.9259	0.94	0.97	-	2/23/2022	0.00
Chart Alpha	Buy EUR/ZAR (Raise stop)	2/4/2022	17.20 (Raise stop to 17.25, spot ref: 17.73)	17.82	18.25	18.5	17.25 (raised from 16.70)	2/10/2022	17.25
Chart Alpha	Buy EUR/ZAR	1/25/2022	17.20	17.82	18.25	18.5	16.7	2/4/2022	17.73
FX Alpha	Buy USD/JPY (Raise stop)	10/1/2021	110.30 (raise stop loss to 110.80, spot ref 113.40)	114.5	117	-	110.3 (Raised from 108)	10/14/2021	110.80
FX Alpha	Buy USD/JPY at 110.25	9/8/2021	110.25 (raise stop to 110.30, spot ref 111.40)	112.2	114.5	-	108	10/1/2021	108.00
FX Alpha	Buy USD/SEK 3m CS 1x2 8.6806 / 8.9303	8/13/2021	0.41%	-	8.93	9.04	-	9/20/2021	0.61%
Chart Alpha	Buy EUR/ZAR	8/26/2021	17.53	18.07	18.61	-	17.00	9/3/2021	17.00
EM Alpha	Buy EUR/ZAR	6/25/2021	16.8	16.88	200d SMA	17.98	17	8/3/2021	17.15

Source: BofA Global Research, Bloomberg

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