

Technical Advantage

US yields, USD and gold ahead of US data

Key takeaways

- Trends since US CPI (Feb 13) say market conviction into new US data is long duration, bull flattener, bullish gold, bearish \$
- In this report we show these trends testing key technical levels that, if they hold, can favor a tactical reversal in March
- US data beats means short US10Y as yield remains > 4% and rises to 4.35% / 4.50%. Moderation/miss and yield can fall to 3.90%

US Yields: Higher in Q1, then peak, then lower on year

Our base case Q1 view called for US yields to retrace part of 4Q23. [Yield bottom patterns \(12 Feb 2024\)](#) suggested 2Y to +/- 4.80%, 5Y to 4.43/4.50%, 10Y to 4.50-4.60% and 30y to 4.70-4.80%. While the 2y and 5y yield came close to target, the 10y and 30y fell short. All yields have corrected back to their breakout points of the bottom patterns and/or key moving averages. Heading into US data, yields may resume their Q1 rise while US 2y > 4.48-4.50%, US 5Y > 4.06-4.10%, US 10y > 4.10% and US 30Y > 4.19%. Downside risk for yields will increase if levels break on daily closes with no sharp reversal the next day.

US Curve: Bull flattening approaches key supports

US 2s10s support lines at -46bps and -56bps. While above these one could argue that wave "III" steeper this year can still follow. US 5s30s supported in the 7bp to 2bp area. While above these one can argue a triple bottom and move steeper this year.

USD indices test last supports (before bottoms fail)

US dollar index charts have been showing head and shoulder bottom patterns in favor of more Q1 upside. This, like the yield bottoms, is also counter to our medium-term downtrend bias for 2024. Index prices are approaching levels that may weaken or invalidate the bottoms. Patterns begin to fail if closing 1-2 consecutive days below their respective 50d SMAs (DXY 103.39 and BBDXY 1235). Closing below their right shoulder lows (DXY 102.77 and BBDXY 1230) completes invalidation.

Gold: The first green is already here. Too soon / stretched?

Our base case [year ahead view \(Dec 2023\)](#) called for gold to resolve higher in 2024. Given our cross-asset countertrend Q1 view, the recent five-day rally surpassing a 5% gain was a bit of a surprise despite being in-line with our medium-term outlook. Gold is now the most overbought since March 8, 2022 where it peaked and declined from 2050 to 1650. While we are not calling for that, it is rational to expect price momentum to slow at some point and/or price to dip in given stretched daily RSI conditions. Our year ahead upside bias remains, such as 2246, 2369 while > 1975 (maybe 2500/2636.)

06 March 2024

FICC Technical Strategy
Global

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Title: Subtitle	Primary Author	Date Published
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Rates Technical Advantage: US yields on bottom watch	Paul Ciana, CMT	12 February 2024
Rates Technical Advantage: So goes January and so goes US 10Y yield?	Paul Ciana, CMT	07 February 2024
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Rates Technical Advantage: Countertrend Q1 underway	Paul Ciana, CMT	24 January 2024
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Timestamp: 06 March 2024 07:20PM EST

Rates Chart Appendix

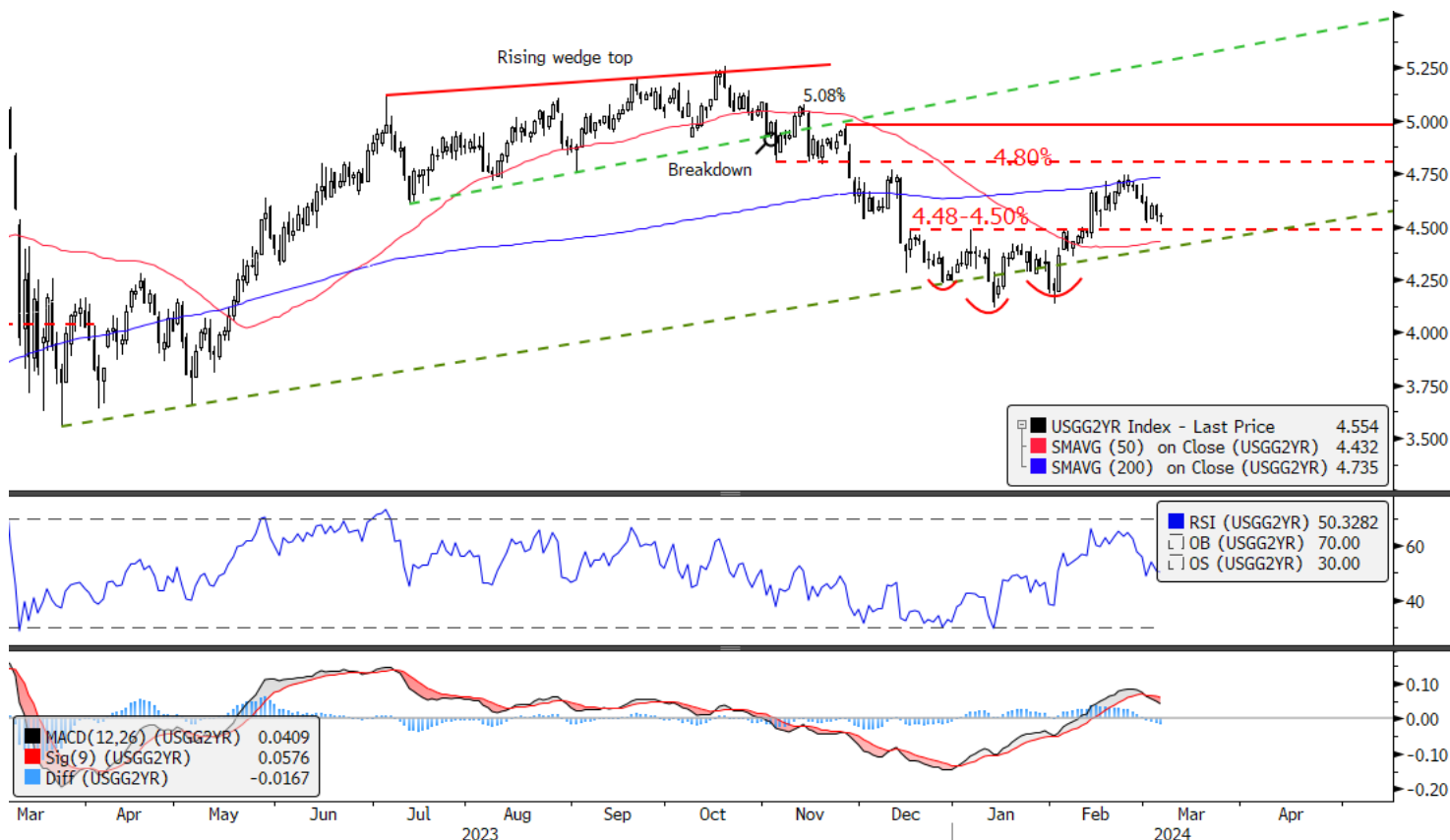
- Our base case Q1 view called for US yields to retrace part of 4Q23. [Yield bottom patterns \(12 Feb 2024\)](#) suggested 2Y to +/- 4.80%, 5Y to 4.43/4.50%, 10Y to 4.50-4.60% and 30y to 4.70-4.80%.
- While the 2y and 5y yield came close to target, the 10y and 30y fell short. All yields have corrected back to their breakout points of the bottom patterns and/or key moving averages.
- Heading into US data, yields may resume their Q1 rise while US 2y > 4.48-4.50%, US 5Y > 4.06-4.10%, US 10y > 4.10% and US 30Y > 4.19%. Downside risk for yields will increase if levels break on daily closes with no sharp reversal the next day.
- US 2s10s support lines at -46bps and -56bps. While above these one could argue that wave "III" steeper this year can still follow. US 5s30s supported in the 7bp to 2bp area. While above these one can argue a triple bottom and steeper this year.

US 2Y yield

A head and shoulders base had formed last month with upside to +/-4.80. Most of this was reached with a high of 4.74%. Since reaching this level, yield has corrected lower to retest the breakout level of 4.48-4.50%. The 50d SMA (now 4.43% and rising) may offer more support to this level in the coming days. While yield is above these levels, we can favor a short 2y view. If yield moves below this, we think the risk of a decline to 4.20% will have increased.

Chart 1: US 2y Yield – Daily Chart

Yield support: 4.48-4.50%, rising 50d SMA now at 4.43%, 4.35%, 4.20, 4.11, 4.00, 3.81, 3.65. Yield resistance: 4.65, 4.74, 4.80%, 4.95, 5.08%, 5.25%



USGG2YR Index (US Generic Govt 2 Yr) RB: US 2yr Daily Daily 13MAR2020-06MAR2024

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Source: BofA Global Research, Bloomberg

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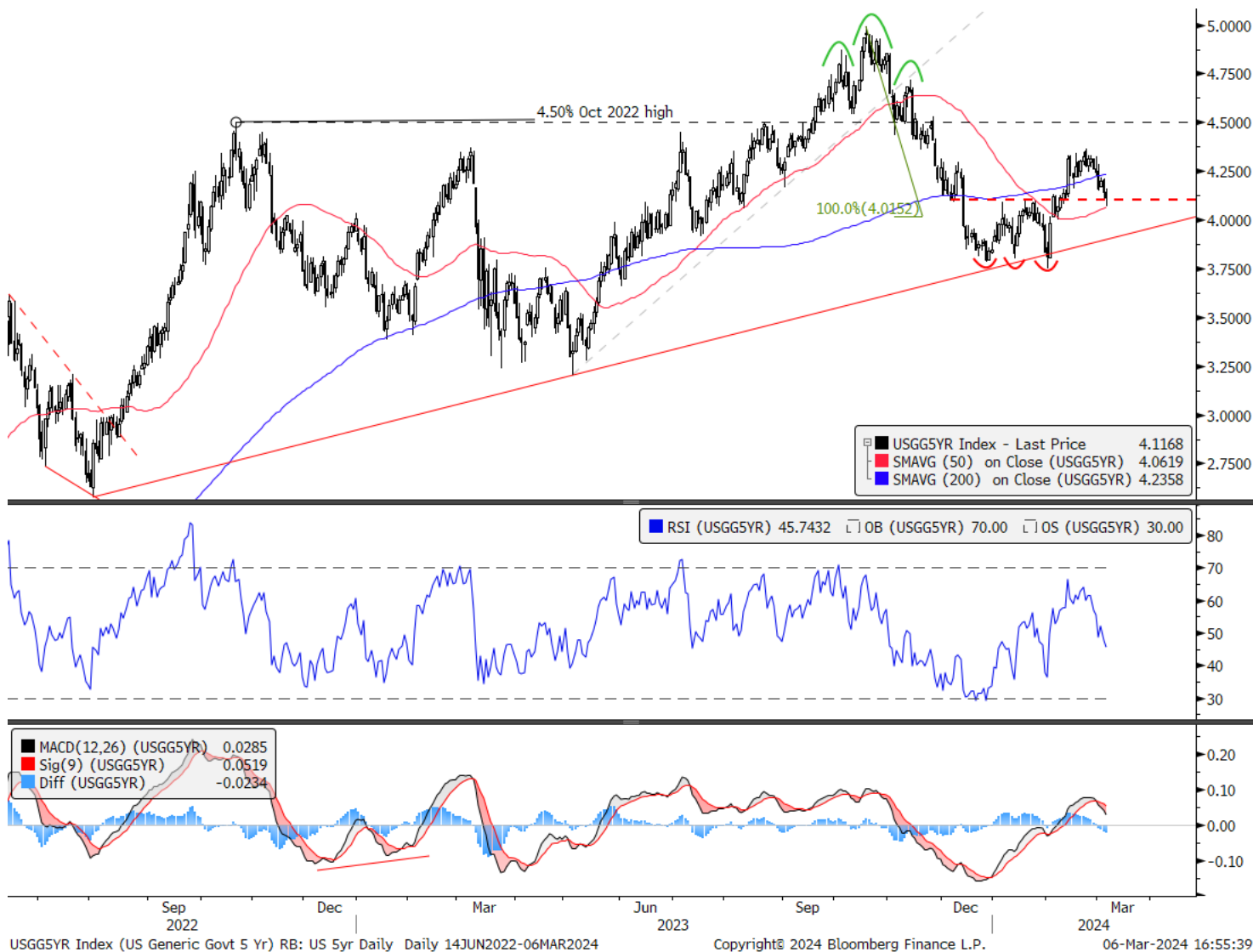


US 5Y yield

A triple bottom was confirmed last month with upside to 4.43/4.50%. A portion of this was reached with a high of 4.36% however yield has turned lower since. It is retesting the breakout point at 4.10% with the rising 50d SMA at 4.06%. We think while yield is above these levels it's possible to favor a short into US data. However, if below these levels the potential for a decline to the rising trend line near 3.90% and/or trailing lows near 3.80% will have increased.

Chart 2: US 5y Yield – Daily Chart

Yield support: 4.10-4.06%, 3.90%, 3.83%, 3.75%, 3.61%, 3.50%, 3.25%. Yield resistance: 4.15%, 4.26%, 4.40%, 4.50%.



Source: BofA Global Research, Bloomberg

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US 10Y yield

A double bottom pattern had developed in early Q1 favoring a rise to 4.50-4.60%. This rise faltered after reaching an intra-session high of 4.35%. The correction since is testing a pocket of yield support from the 50d and 200d SMA between 4.10-4.17%. Provided yield is closing in or above this pocket, we think it's possible for yields to rise again in Q1. However, closing below this will decrease the validity of the pattern and its upside conviction in Q1. Downside to the trend line at 3.90% may then follow.

Chart 3: US 10y Yield – Daily Chart

Yield support: 4.17-4.10%, 4.00%, 3.91%, 3.78-3.81%, 3.50%, 3.26%. Yield resistance: 4.20%, 4.34%, 4.55%



USGG10YR Index (US Generic Govt 10 Yr) RB: US 10yr Daily Daily 29NOV2022-06MAR2024

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Source: BofA Global Research, Bloomberg

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Yields rise in Q1, peak, move sideways and lower after

Our base case year ahead view is that yields rise in Q1 and possibly into Q2. We view this as a buying opportunity for 2H24. Our seasonality and cycle work suggest that there is risk of yields remaining elevated into early Q2. (Report references: [Rates Technical Advantage: US yields on bottom watch 12 February 2024](#) [Rates Technical Advantage: So goes January and so goes US 10Y yield? 07 February 2024](#), [Rates Technical Advantage: Countertrend Q1 underway 24 January 2024](#)).

Wave B higher in yield to see 4.25-4.5% in 1H24 would be typical

Our Elliott wave trend following process indicated that the global cycle of rising yields during the last few years (since 1H20) reached a major turning point in 4Q23 or the end of wave (5) at 5.02%. Typically, three corrective waves lower in yield follow as estimated by labels (A), (B) and (C). In 4Q23, the decline in US 10Y yield reached and exceeded our head and shoulders target of 4%. This represents corrective wave (A). Wave (B) should be higher but less likely to be a new high. A reasonable wave sees +/- 4.5%. Then wave (C) down follows to retest the end of (A) (3.78%) or lower lows, such as 3.25%.

Risks to a typical Elliott wave count like the below

There is no top pattern in this weekly chart. Since 1962, we have seen many double tops in 10Y yield form. If another formed, then 5% would be retested in wave (B) before a large (C) down. A triangle pattern could form, which would mean that yield goes up to 4.75%, down to 4%, up to 4.50%, and then down to 4.25%. Assuming that yield were to break below the bottom of the pattern, it would go lower to 3.25% / 2.67%. If yield were to break higher, then a base would form to signal new yield highs coming. A triangle base would also mean that (5) is really the end of wave (3), that (3) is the end of a smaller wave sequence, and that the yield up cycle is not over, making 5.5% and even 6.25% (38.2% retracement of the 1980-2020 decline) possible.

Chart 4: US 10Y yield – weekly chart

Wave 5 up ended at 5.02% in 4Q23. Three waves lower should follow, whereby wave (A) down is complete, wave (B) is under way, and then wave (C) is down later this year / next year to 3.78%, 3.25%, and maybe 3.00%.



Source: BofA Global Research, Bloomberg

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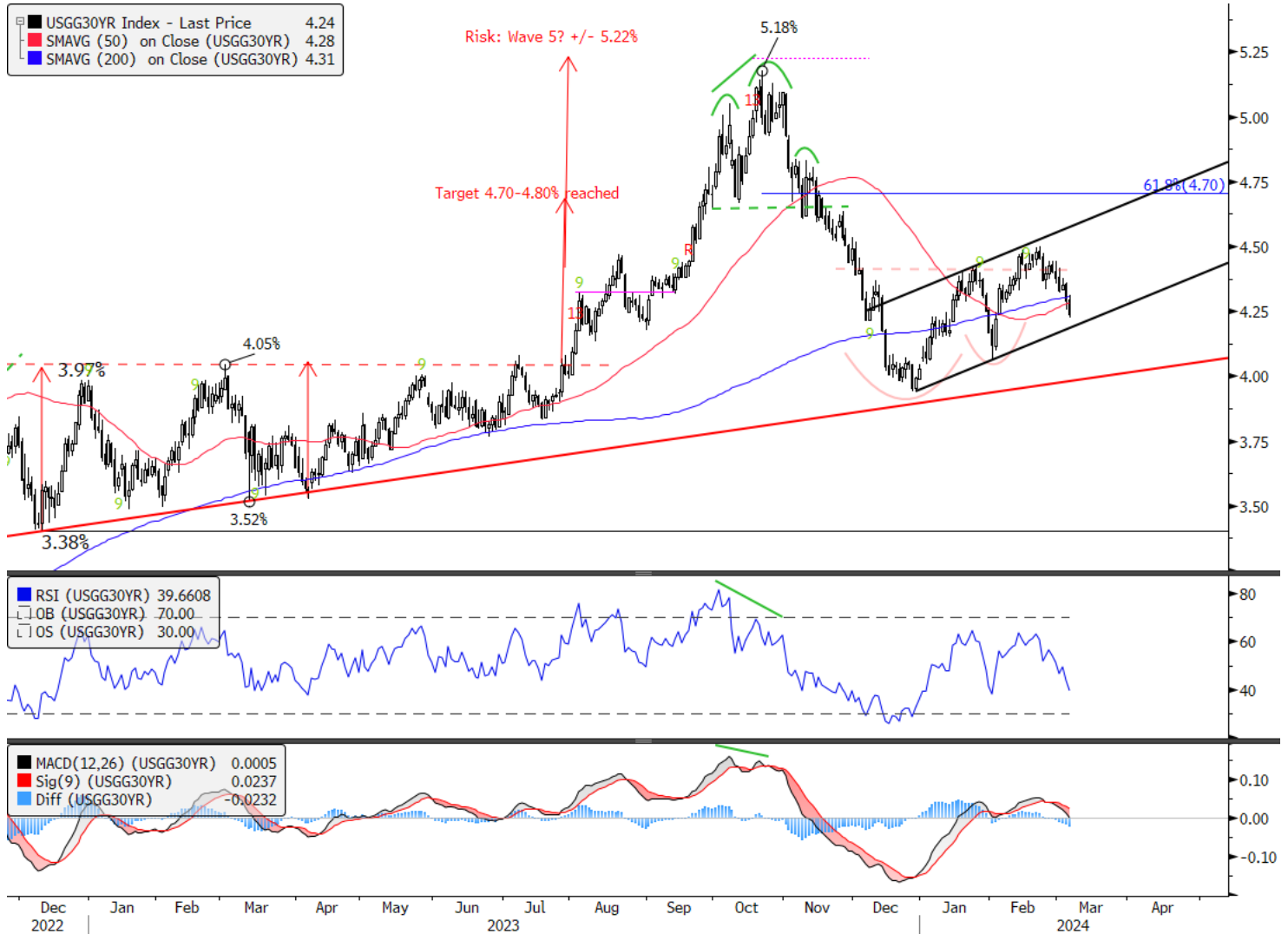


US 30Y yield

We previously thought the chart of US 30y yield looked like a cup and handle base with upside to 4.70-4.80%. The bid for duration and subsequent decline in yield since it reached 4.50% no longer supports this. US 30y yield may be in a rising channel while it is above 4.19% to then move higher to 4.65-4.70%. However, if below this channel line then downside risk to the next trend line and prior lows of 3.95% will have increased.

Chart 5: US 30y Yield – Daily Chart

Yield support: 4.19%, 4.06%, 4.00%, 3.94%, 3.75%. Yield resistance: 4.31%, 4.44%, 4.50%, 4.61%, 4.70%



USGG30YR Index (US Generic Govt 30 Yr) RB: US 30yr Daily Daily 01OCT2022-06MAR2024

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Source: BofA Global Research, Bloomberg

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US 2s10s

Key support at -46bps and -56bps, resistance at -33bps

Chart 6: US 2s10s – Daily chart

Curve flattening approaching key levels at -46bps and/or .56bps. Ideally the curve does not flatten below -56bps to maintain a wave III steeper conviction this year.



Source: BofA Global Research, Bloomberg

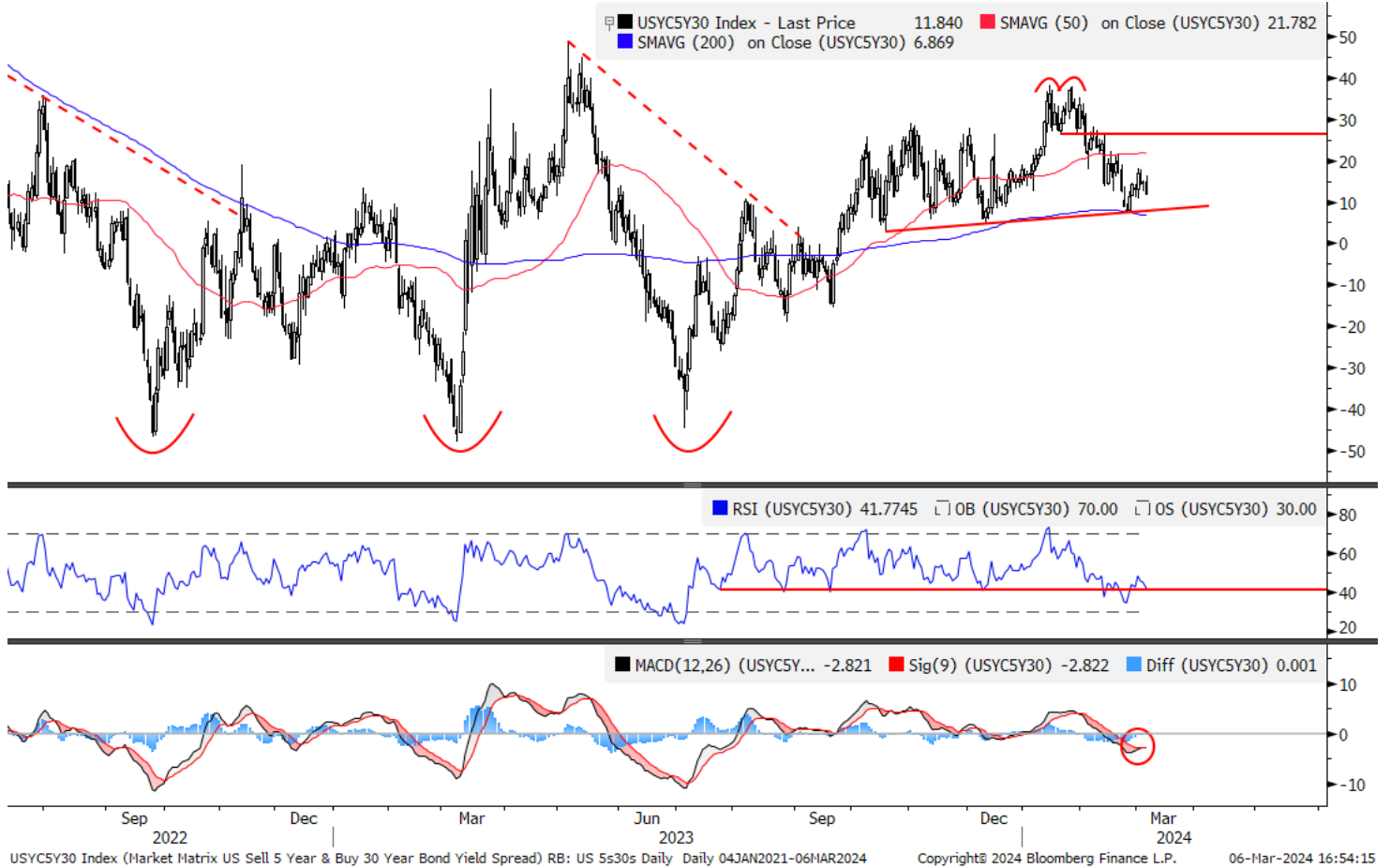
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US 5s30s

Key support at trend line, 200d SMA at +7bps. Oct 2023 low 2bps.

Chart 7: US 5s30s – Daily chart

Key support at trend line and 200d SMA at +7bps. Oct 2023 low was 2bps.



Source: BofA Global Research, Bloomberg

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FX Chart Appendix

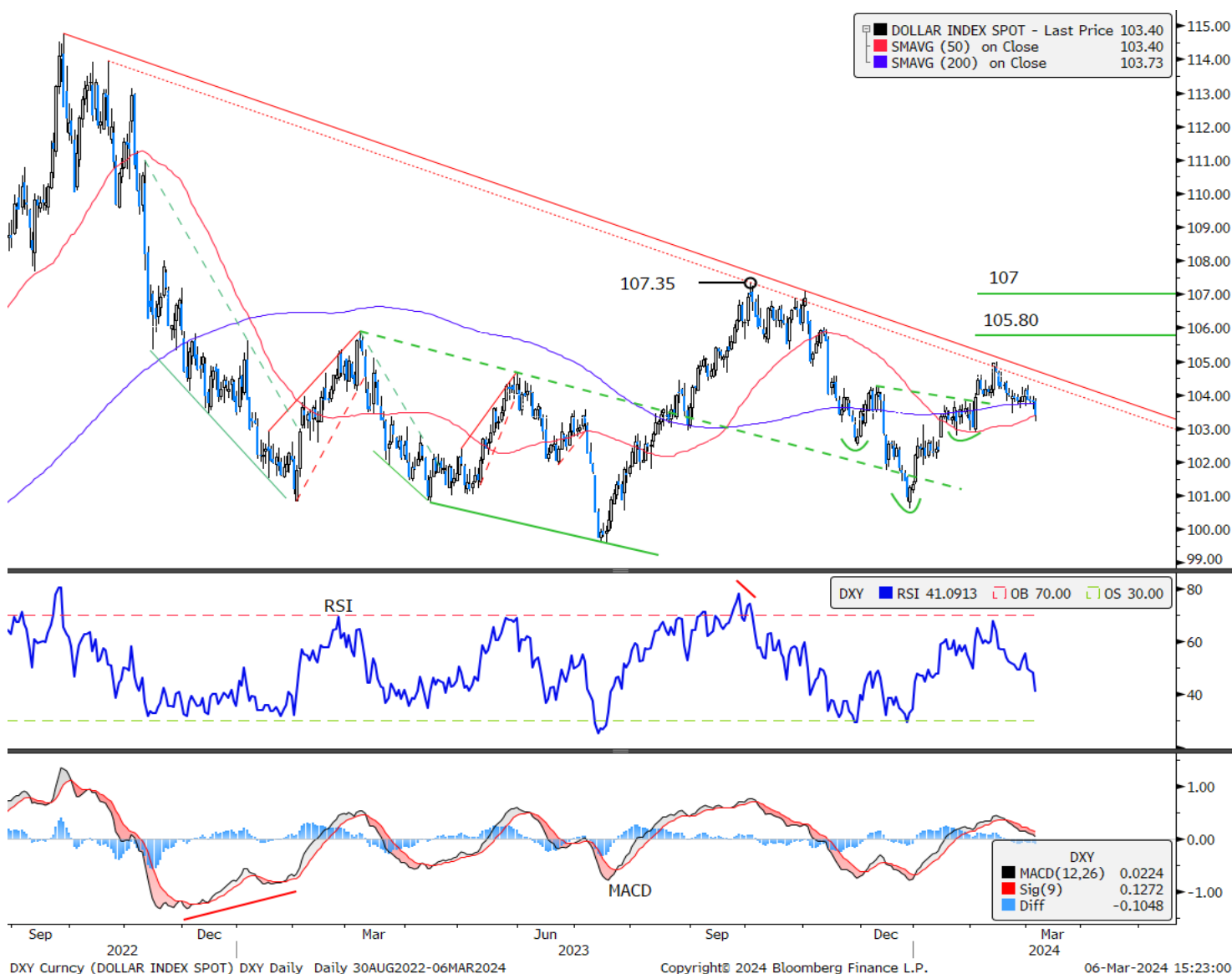
- US dollar index charts have been showing head and shoulder bottom patterns in favor of more Q1 upside, which is also counter to the medium-term downtrend. The decline in price is reaching levels that, if broken, may invalidate the patterns.
- Pattern failure risk increases if closing 1-2 consecutive days below their respective 50d SMAs (DXY 103.39 and BBDXY 1235). Closing below their right shoulder lows (DXY 102.77 and BBDXY 1230) invalidates the pattern.

DXY: A head and shoulders bottom at risk of failing

The US dollar index (DXY) previously formed a head and shoulders base that estimated upside to 105.80 and possibly 107. The USD sold off during Jerome Powell's testimony today and is closing on the 50d SMA at 103.39. Below this starts to reduce conviction in the base. Below the right shoulder low of 102.77 certainly invalidates it.

Chart 8: US dollar index (DXY) - Daily Chart

DXY support: 103.39, 102.77, 101.90, 101, 100.62. DXY resistance: 103.73, 104.29, 104.60, 104.96, 105.80, 107



BBDXY: A head and shoulders base at risk of failing

It is not just the DXY chart with a head and shoulders bottom. The broader USD index or the Bloomberg USD index (BBDXY) formed a base, too. It remains supported by key moving averages in the 1241-1235 area and while this holds the index may rally as the base suggests. Trend line resistance beginning at the late 2022 peak remains at 1252. The 50-day moving average is rising toward the 200-day moving average. Should they cross because price holds support and begins to rally, then upside targets are more likely to be reached. However, if the USD continues to sell off below the 50d SMA at 1235 and/or the right shoulder low of 1230 then the bottom pattern will become invalidated.

Chart 9: Bloomberg US dollar index (BBDXY) - Daily Chart

Support: 1235, 1230, 1221, 1208. Resistance: 1241, 1246, 1252,



BBDXY Index (Bloomberg Dollar Spot Index) BBDXY Daily Daily 21AUG2022-06MAR2024

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Source: BofA Global Research, Bloomberg

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Gold Chart Appendix

- Our base case [year ahead view \(Dec 2023\)](#) is that the “First green is gold.” Given our cross-asset countertrend Q1 view, this rally seemed a bit early to us however in line with the medium-term theme of lower yields, lower USD and higher gold.
- Gold is now the most overbought since March 8, 2022 where it peaked and declined from 2050 to 1650. While we are not calling for that, we expect momentum to slow and/or price to dip in March given stretched conditions.
- Big picture upside to 2246, 2369 while above 1975 (and possibly 2500/2636.)

Gold Daily

New intraday and daily closing all-time highs. We’re mindful of RSI momentum being the most overbought since March 2022 peak.

Chart 10: Spot gold – Daily chart

New all-time closing and intraday highs. This rally is now the most overbought since March 2022 where it last peaked



XAUUSD Currency (XAU-USD X-RATE) Gold daily Daily 02AUG2022-06MAR2024

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Source: BofA Global Research, Bloomberg

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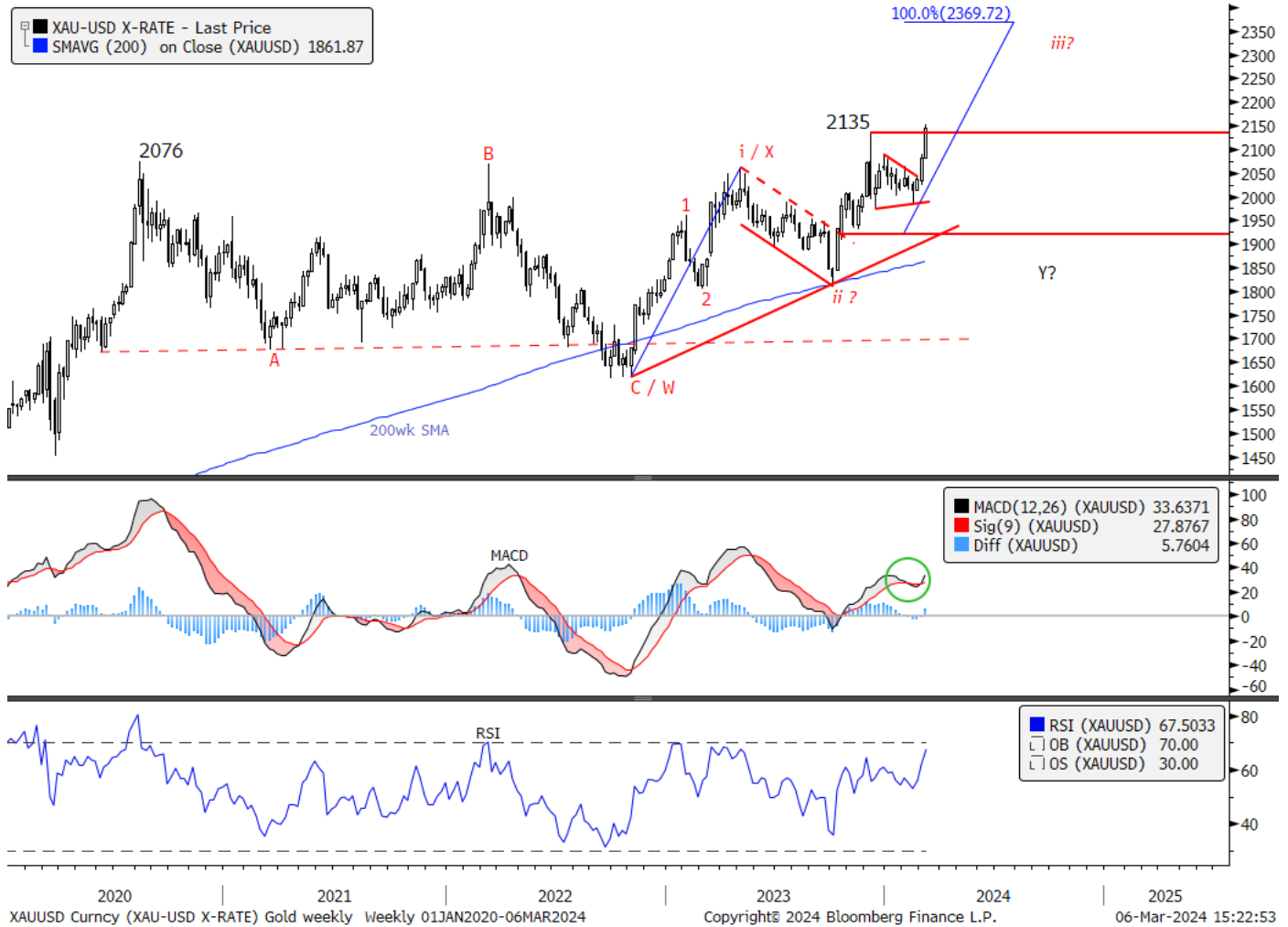


Gold Weekly

Bull flag in 2H23 still favors new all-time highs

Chart 11: Spot gold – Weekly chart

Bull flag from mid/late 2023 suggested upside to 2369 in 2024.



Source: BofA Global Research, Bloomberg

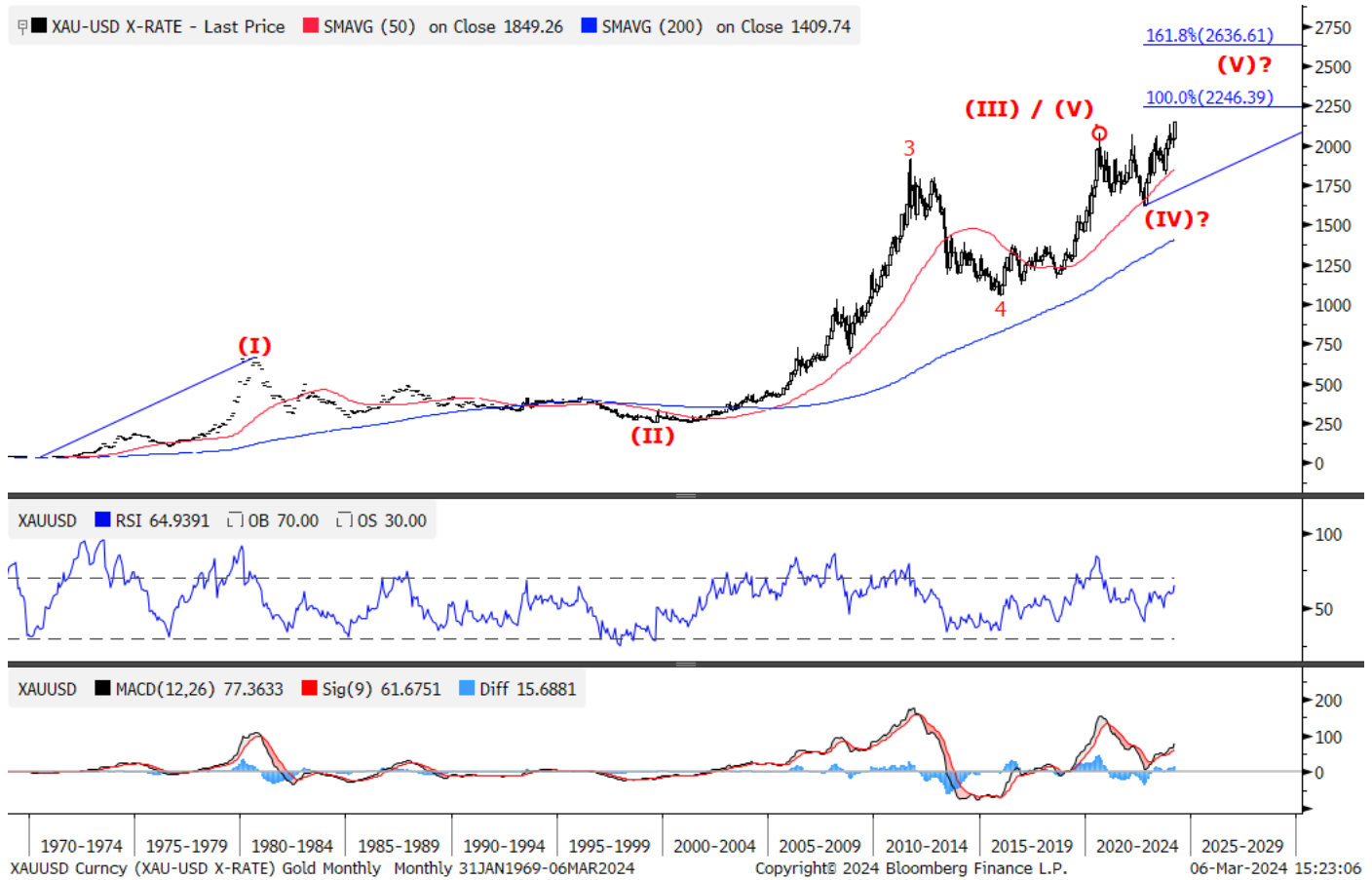
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Gold Monthly

Wave (V) up to higher highs underway in 2024

Chart 12: Spot Gold – Monthly chart

Wave (V) up underway to higher highs.



Source: BofA Global Research, Bloomberg

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Chart Alpha

No change in trades.

Exhibit 1: Open trades

Open technical trades and cross strategy alpha trades including technicals

Report	Trade	Entry / revise date	Entry Level	Option expiry	Spot target 1	Spot target 2	Spot target 3	Spot stop	Rationale / time horizon	Risks
Rates Alpha	Buy 10y bunds vs USTs	2/13/2024	182bps	-	200bps	225bps	-	155bps	Data divergence, technical patterns, positioning, sentiment, supply	Macro risk off triggers UST outperformance
Technical Advantage	Buy BRL/CLP (raise stop to 192)	2/28/2024	190.75	-	200 (reached)	215	-	190 (raised to 192)	Head and shoulders bottom pattern is bullish	Chilean elections being prices and after CLP strengthens.
FX Alpha	buy 3m EUR/JPY put spread	1/26/2024	0.6663% EUR (strikes 158.00, 155.00, spot ref 160.31, vol refs 8.709, 8.965)	25-Apr	158	155	-	-	Wave C of correction lower about to begin	Markets pricing a more dovish BoJ stance or a more hawkish ECB stance.

Note: Bid/offer spreads accounted for in initiation and closing levels. Does not reflect tax withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date - 10/16/2015. Initiation and closing prices are priced/used for trade rules and publication. For additional discussion on baseline views, valuation and risks to open trades, please see reports. DC = Daily close.

Source: BofA Global Research, Bloomberg

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Exhibit 2: 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	Revise / close date	Level closed
Technical Advantage	Buy BRL/CLP (raise stop to 192)	2/2/2024	190.75	200 (reached)	215	-	190	2/28/2024	196.65
Technical Advantage	Buy USDSEK	2/2/2024	10.49	-	10.65	10.9	-	2/27/2024	10.30
Global Macro Year Ahead	US 5s30s steepener	1/23/2024	15	35	55	80	15	2/2/2024	24.00
Global Macro Year Ahead	US 5s30s steepener, raise stop to 15	11/19/2023	15	35 (reached)	55	80	0	1/23/2024	32.00
2024 FICC Technical Advantage	Buy USDKRW +1m NDF	12/1/2023	1293	1315	1327	1340	1270	1/3/2024	1308
2024 FICC Technical Advantage	Short MXN/CLP	12/1/2023	49.85	48.25	47.5	46.1	52.2	12/22/2023	52.20
Global Macro Year Ahead	Short GBPAUD via 3m 1.90-1.86	11/19/2023	s/r 1.9192	19-Feb-24	1.86	1.84	-	1/3/2024	1.2315% GBP (s/r 1.8762, vol ref 7.354 / 6.921)
Global Macro Year Ahead	GBP/AUD put spread Sell EUR/NOK via 6m risk reversal	11/19/2023	s/r 11.8623 vol refs: 8.929 and 9.108).	19-May-23	11.35	11.22	11.1	1/3/2024	Received 0.7307% EUR
EM Alpha	Short USDZAR	11/15/2023	18.15	17.6	17.25	-	18.55	11/21/2023	18.55
EM Alpha	Buy EURZAR	10/2/2023	20.15	20.75	-	-	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)

Exhibit 2: 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	Revise / close date	Level closed
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 USDCLP 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

Source: BofA Global Research, Bloomberg

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