

Rates Technical Advantage

The formidable retest

Key takeaways

- US 10y and 30y yields are rising and about to retest their 4Q22 intraday yield highs (4.34% and 4.42%, respectively).
- Weekly chart trend following methods show wave 5 up to new yield highs is underway, such as 4.50-4.60% and 4.70-4.80%.
- Risk: Brief new yield highs and then a sharp reversal lower can signal the YTD "range" remains and maybe a cycle "double top"

View: The formidable retest of 4Q22 yield highs

Our base case year ahead view looked for 10Y yield to retest the 2022 highs in 1H23 with some potential for a modest new high to satisfy divergences and a wave 5. Then in 2H23 to look for signs of a top and the start of a drop. A long-awaited retest is finally here. This week the US 10-year yield traded near the 4.25-4.34% peaks from 4Q22 by reaching 4.27%. The 30-year near its 4.33-4.42% 4Q22 peaks by reaching 4.37%. July and August show ongoing yield uptrends with wave 5 up underway and seeking new yield highs (Chart 2, Chart 13). Given this is viewed as wave 5 up, yield uptrends likely reach new highs and then the trend since March 2020 finds an end point. In this report we recap yield trends/targets and answer questions regarding double top patterns.

10Y and 30Y Yields: Wave 5 up says new highs coming

The weekly charts of US 10Y and 30Y yield completed a wave 4 consolidation pattern with the July breakouts (Oct 22-July 23) and are in wave 5 up. Modest upside targets are 4.5-4.6% (Chart 2) and 4.75% (Chart 13). While this trend following method carries a short UST bias (sell rallies), wave 5 should be the last leg of the yield uptrend since March 2020. The daily chart of 10y yield is still in a rising channel (Chart 1). The monthly chart of 10y yield remains less modest with risk of 5% in this cycle or the next. (Chart 3).

FAQ: Is 10Y yield going to double top?

The term "double top" gets thrown around a lot just because price (or yield) tests the prior high and starts to turn down. A double top is definite when the trough between the two peaks is broken. The 10Y yield is far from this point right now. We review 10y yield charts since 1962 and show eight medium term double top patterns. One thing that is clear is yield tends to retest the prior high or makes a modest new high. Then a violent, sharp reversal lower occurs. If we see a sharp reversal week in H2 in the 4.3-4.5% area along with other systematic buy signals, oscillator and volume divergences and/or weaker than expected economic data (U-rate > 3.7%?) then that could be the bullish UST turn to favor lower yields. Next we'd see the 10Y and 30Y yields fall below their rising weekly trend lines now at 3.88% and 3.95% (See Chart 2 and Chart 13). For what it's worth, calling it a double top today (we're not as of now) technically implies the 10Y and 30Y yield can decline to +/- 2.50% in 2024.

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FICC Technical Strategy
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For more on technical strategies such as Elliott wave, please see [Technicals Explained: In 2023 --> Get to know technical strategy 23 January 2023](#)

[2023 FICC Technical Advantage: Animal spirits biting on the leash 05 December 2022](#)

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Chart appendix

US 10Y Yield Daily Chart

Uptrend channel remains, all eyes on 4Q22 highs of 4.25-4.34%

10Y yield support: 4.1%, 3.94%, 3.88%, 3.72%, 3.60%, 3.35%

10Y yield resistance: 4.34%, 4.5-4.6%, 4.78%, 4.99%

Chart 1: US 10Y yield – Daily Chart (G691)

Yield is finally retesting the 4Q22 highs of 4.25-4.34%. Uptrend channel remains the path of least resistance up to a measured move target of 4.5-4.6%. Follow the channel while it remains. Beware of volatile price action around the 4.34% level or an intraday reversal lower from 4.34% or 4.5%.



USGG10YR Index (US Generic Govt 10 Yr) RB: US 10yr Daily Daily 14MAR2018-16AUG2023

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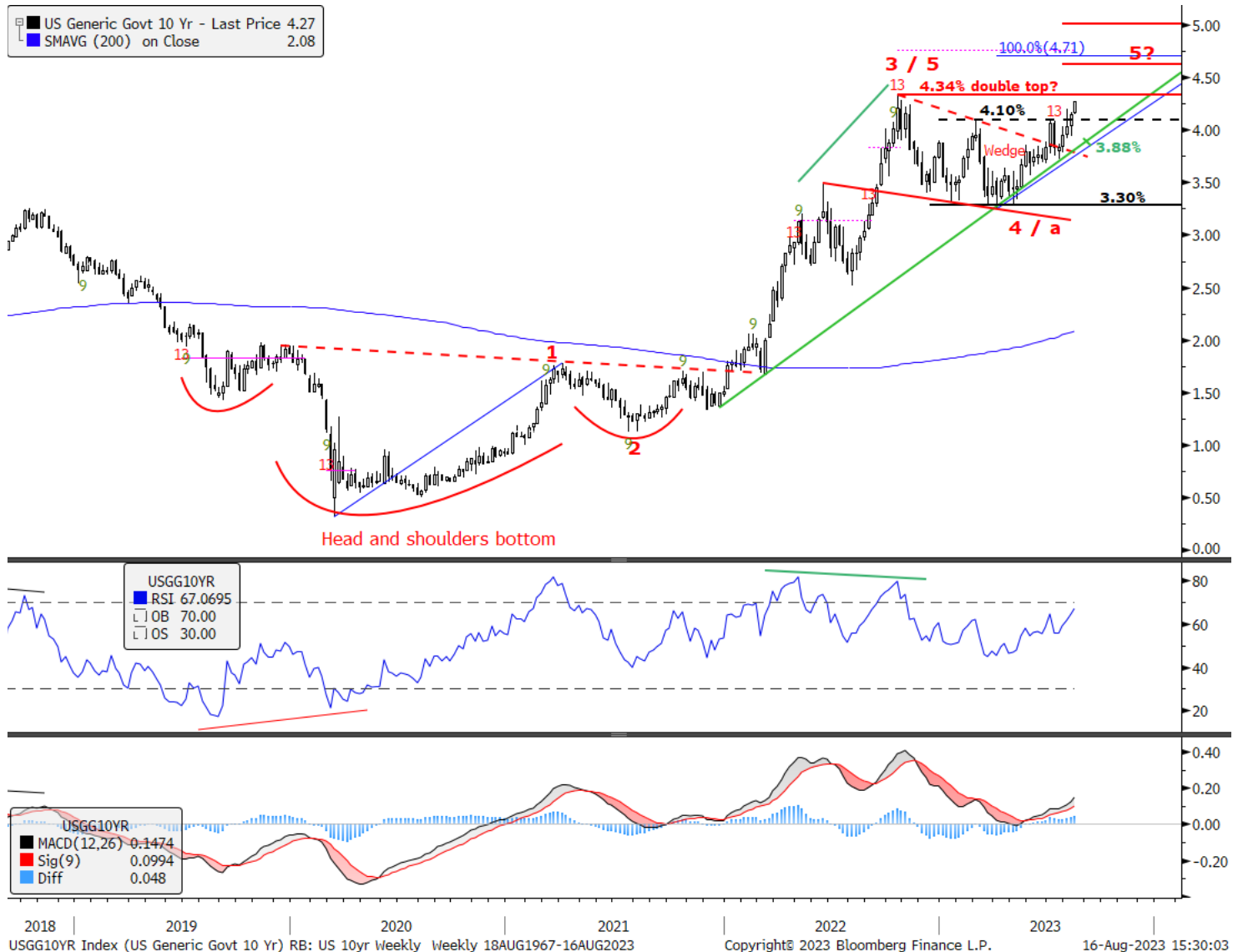
US 10Y yield weekly chart

Wave 5 says higher yield until UST longs stop/capitulate

Wave 4 patterns tend to be shallow/sideways corrections of the prior trend such as a triangle or wedge. The weekly chart below of 10Y yield shows this with the two converging red trend lines, one solid and one dashed (Chart 2). Wave 5 up is typically the final leg of an uptrend. A reasonable although modest wave 5 target is the height of wave 4 added to the breakout point (so 4.5-4.6%). Since wave 5 and 1 have some tendency to be of equal size, then 4.71% is possible, too. Once the peak of wave 5 is identified, three waves down can begin. For a brief introduction to Elliott wave analysis, please see [Technicals Explained: In 2023 --> Get to know technical strategy 23 January 2023](#).

Chart 2: US 10Y Yield – Weekly Chart (G692)

Yield is rising. Wave 5 higher modestly measures to 4.5-4.6%. Usually a new high is seen for a wave 5. A typical wave 5 target is 4.71%. A risk is a truncated wave 5 where no new high is made and the range remains.



Source: BofA Global Research, Bloomberg

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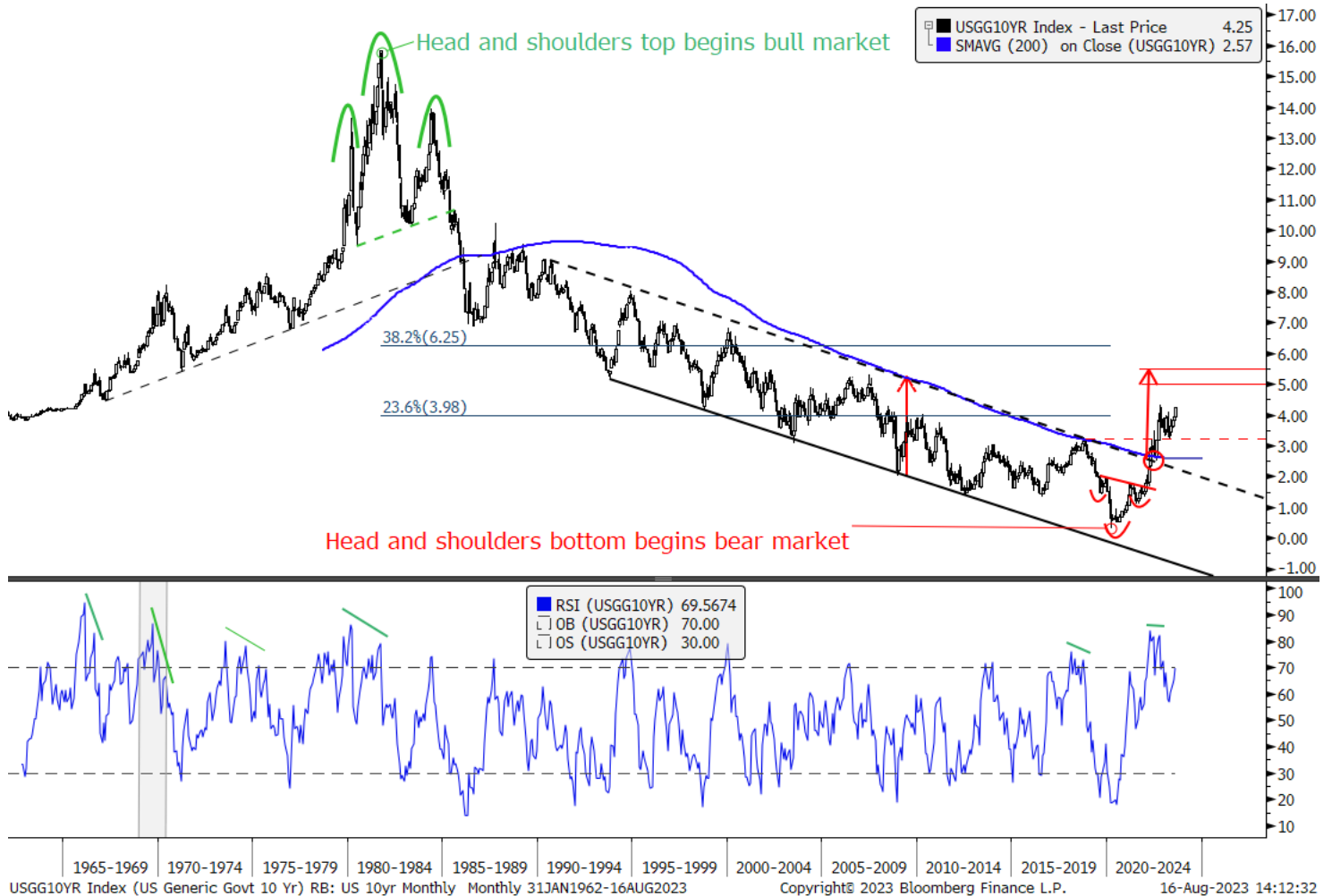


US 10Y yield monthly chart

Long term channel breakout still says to/above 5% possible in this or next cycle

Chart 3: US 10Y Yield – Monthly chart (G1203)

The average channel breakout measure targets 5% however a full measured move is closer to 5.50%, in this cycle or the next.



Source: BofA Global Research, Bloomberg

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The anatomy of a double top

- We don't know if US 10y yield will double top. But markets are talking about it because yield is retesting 2022 highs.
- The eight charts that follow make it seem common for yield to retest the prior high or make a modest new high and then quickly reverse lower to begin the early stages of a double top pattern.
- Therefore we pay attention to how 10y yield trades around 4.34% (4Q22 high) in the 2H23 and if new highs are sharply reversed. For now, yields are rising and no double top.

The anatomy of a double top

A double top pattern can form only after an uptrend has occurred. A second test and turn down from a similar and relevant level first means resistance for that uptrend is present. Typically the second test occurs on less volume than the first. Then a sharp downturn or engulfing period on higher volume. Diverging oscillator patterns develop and some systematic signals appear to favor the turn down. The initial decline from the second test tends to be sharp and fast, too.

Eight double tops in US 10-year yield reviewed

The eight charts below are examples of past double tops in US 10-year yield. They suggest the yield level for the second peak tends to be equal to or slightly higher than the first. If the 10Y yield is going to double top in this cycle, then a retest of 4.34% or overshoot to 4.5% and sharp/quick reversal lower could fit with historical patterns. This market action isn't known until it occurs, and we'll write on it if it does.

Chart 4: US 10Y yield double top in 2017 post 2016 tantrum

Double top at 2.63/2.64% estimated downside to 2.00%



Source: BofA Global Research, Bloomberg

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Chart 5: US 10Y yield double top in 2013-2014

Marginal new high in 1Q14, then 40bps drop. By end of 1H14 a double top was confirmed with a break below the trough between the two peaks



Source: BofA Global Research, Bloomberg

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Chart 6: US 10y yield double top in 2009-2010

Double top at 4%. Familiar trend line breaks to today. Is now January 2010?



Source: BofA Global Research, Bloomberg

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Chart 7: US 10y yield double top in 2006-2007

Double top with second peak in 2007 a bit higher than in 2006 with a sharp reversal lower.

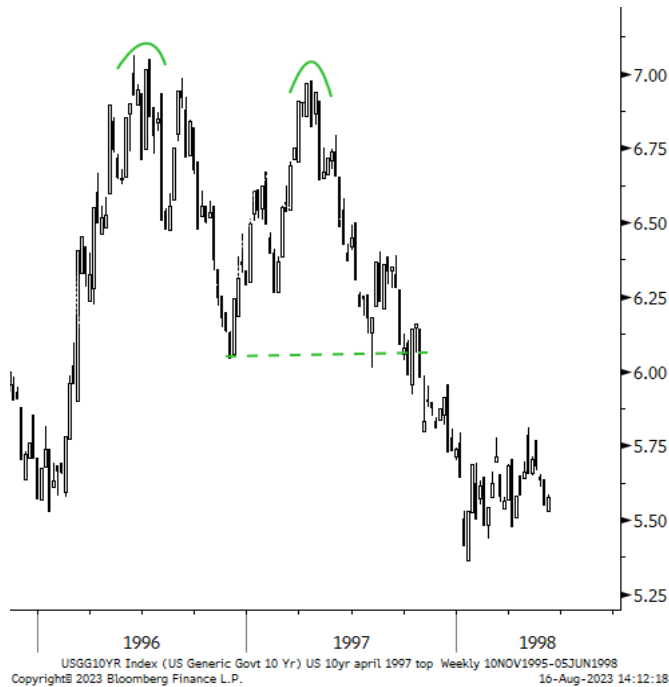


Source: BofA Global Research, Bloomberg

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Chart 8: US 10Y yield double top in 1996-1997

Double top at the 7% level.



Source: BofA Global Research, Bloomberg

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Chart 9: US 10Y yield double top in 1990

Double top (some may say triple top) at the 9% level.

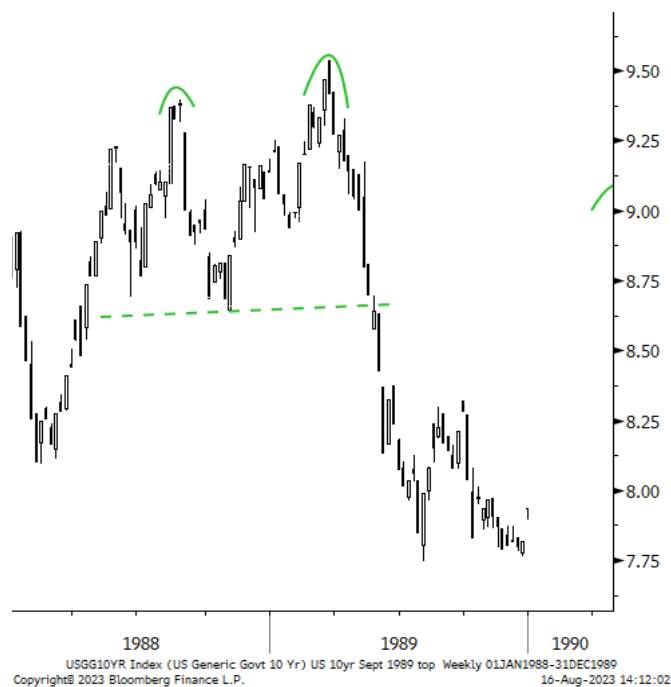


Source: BofA Global Research, Bloomberg

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Chart 10: US 10y yield double top in 1988-1989

Double top saw a brief new high in 1989 vs 1988 and sharply reversed.



Source: BofA Global Research, Bloomberg

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Chart 11: US 10y yield double top in 1970

Double top at 8% as markets rejected this level twice, and quickly.



Source: BofA Global Research, Bloomberg

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US 30Y Yield

US 30Y Yield Daily Chart

Retesting 4Q22 yield highs at 4.33-4.42%

30Y yield support: 4.13%, 4.00%, 3.83%

30Y yield resistance: 4.42-4.45%, 4.62%, 4.80%

Chart 12: US 30Y Yield – Daily chart

US 30-year bond yield has begun to retest the 4Q22 highs in the 4.33-4.42% area. Trend bias is still up with a test of 4.42% due next.



Source: BofA Global Research, Bloomberg

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US 30Y Yield Weekly Chart

Triangle target is 4.55% (new high). Last top was at 4.8% in 2010-2011.

Chart 13: US 30-year yield – Weekly chart

Wave 4 triangle pattern measures modestly higher to 4.55%, a new high for this cycle. We show the last major top in 30Y yields was in 2010-2011 at about 4.80%. Should wave 5 = the size of wave 1, then there is some potential for 30y yield to exceed 5%. A risk is a truncated wave 5 where no new high is seen and the range remains.



Source: BofA Global Research, Bloomberg

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US 30Y Yield Monthly Chart

Long term channel breakout still targets 4.80% in this cycle or the next

When a trend channel is broken, it is common technical process to take the height of the channel and add it to the breakout point to estimate a target. In April 2022 when US 30y yield broke above its channel, a long-term target of 4.80% became possible and still is, in this cycle or the next.

Chart 14: US 30Y yield – Monthly chart (G 1204

Trend channel breakout from early 2022 still targets 4.80%, in this cycle of the next.



Source: BofA Global Research, Bloomberg

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Chart Alpha

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
FX Alpha	Sell 2m 0.89 USD/CHF put	6/23/2023	1.0126% USD (spot ref: 0.8967, vol ref: 6.44)	24-Aug-23	-	-	-	-	Our relative monetary policy outlook suggests USDCHF spot is overly stretched.	Softer USD on 'goldilocks'

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	Close date	Level closed
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	Short USDCAD via 6m	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%)
Technical Views	1.33/1.30 put spread	1/19/2023	17.23	-	17.46	17.75	17.86	2/1/2023	17.40
EM Alpha	Long USDZAR								
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	Buy USDCPL breakout	6/24/2022	917	920	945	985	872.75	07/15/2022	985.00
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



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	Close date	Level closed
Chart Alpha	Sell USDC/CHF	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%
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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