

Rates Technical Advantage

It's choppy out there, but will golden crosses signal summer UST rally?

Key takeaways

- USTs stuck in ranges for six weeks. On watch for bullish "golden cross" (GC) signals to favor summer rally. Signal value...
- ...can vary. May 8 was first GC on 5Y w/yield below 200d (small bull) but rising 200d (no value). Need breadth of GC signals.
- Keep bullish & steeper bias on dips. Ranges must hold post CPI: 2y < 4.3%, 5y < 3.75%, 10y < 3.65%, 30y < 3.90%. More inside.

View: Choppy spring to summer rally or bearish breakout?

US treasuries have been trading in wide and volatile trading ranges since 2y yield peaked in early March (March 10 outside reversal week) and sharply fell in response to bank failures. This choppy range is causing the 50d and 200d SMAs to converge. When the 50d SMA of yield crosses below the 200d SMA (golden cross), it tends to be bullish for USTs resulting in lower yields 20-50 trading days later (Exhibit 1).

Stronger GC signals occurred when the 200d SMA of yield was declining or when yield is below the 200d SMA. As of writing, it's a close call. The 5Y UST saw a golden cross ending May 8th with yield below the 200d SMA (small bull 40-50 days later) however it had a rising 200d SMA (no past value). We remain on watch for breadth of signals to occur in the daily charts of 2y, 10y and 30y yield in the coming week. For more on these signals, please see our [Quantifying Technicals](#) report.

Bullish and steeper bias while the ranges hold

Also in this report we update our daily charts of US yields and curve just ahead of US CPI data and debt ceiling suspense. On/after dips, we continue to prefer long UST and steeper curve trades. In the short term, it would be ideal for the top end of yield ranges to hold to sustain this bias, such as 2y < 4.3%, 5y < 3.75%, 10y < 3.65%, 30y < 3.90%.

Exhibit 1: Golden cross hit ratios for US treasuries

When the golden cross occurred in the past, the 2y and 30y UST tended to rally (yields declined) 61-78% of the time 20-50 days later. The 5y and 10y rallied too, but from 35-50 days with slightly lower hit ratios.

	5d	10d	15d	20d	25d	30d	35d	40d	45d	50d	60d	70d	80d
2Y	61%	43%	57%	65%	65%	61%	65%	65%	78%	52%	61%	65%	61%
5Y	44%	49%	44%	46%	44%	49%	55%	59%	63%	61%	54%	59%	54%
10Y	53%	56%	44%	50%	53%	52%	59%	56%	59%	61%	59%	57%	52%
30Y	63%	77%	61%	68%	65%	61%	65%	68%	68%	71%	58%	68%	61%

Source: BofA Global Research, Bloomberg

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FICC Technical Strategy
Global Markets

Paul Ciana, CMT
Technical Strategist
BofAS
+1 646 855 6007
paul.ciana@bofa.com

UST = US treasury

SMA = Simple moving average

GC = Golden cross

RSI = Relative Strength Index

MACD = Moving average
convergence divergence

CPI = Consumer price index

YTD = Year-to-date

200d = 200 day

Title: Subtitle

[Quantifying Technicals: Golden cross signals in US treasuries tends to work](#) 09 May 2023

[Global Rates Weekly: Deposits, Data and Debt](#) 05 May 2023
[Technical Advantage: Chart prep into the Fed](#) 03 May 2023

[FX Technical Advantage: Snapback part deux](#) 26 April 2023

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Timestamp: 10 May 2023 12:15AM EDT

Chart Appendix

US 2Y Yield

More bullish breakouts but no follow through. Range trade. Bullish if < 4.3%

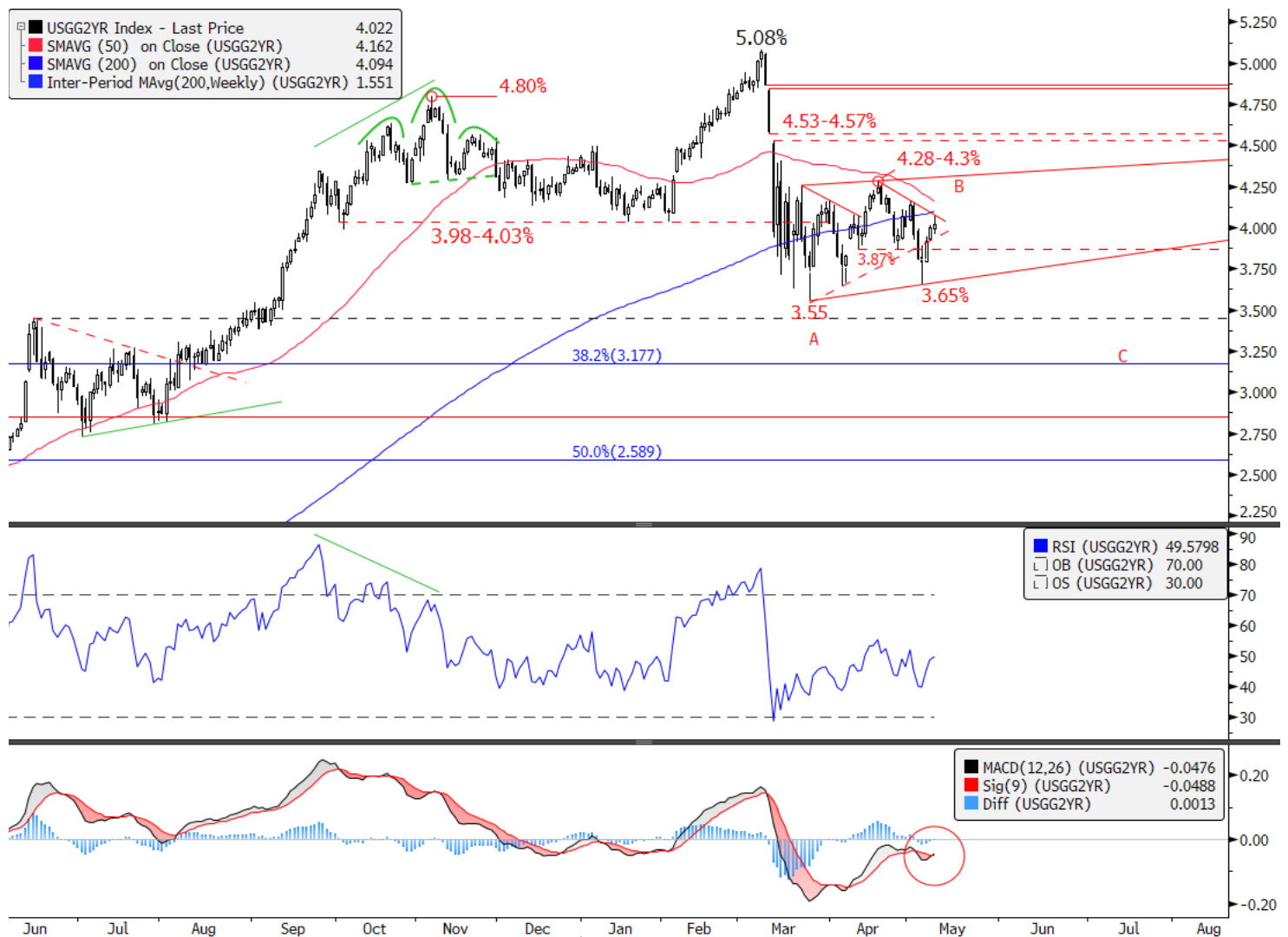
For the last six weeks the US 2y yield has been coiling between converging trend lines as it prepares for its next move. Tactical breaks higher and lower resulted in a longer range. The top end is 4.28-4.3% and the bottom end is about 3.65%. Trend should extend on a breakout. Bias is to lean long toward the upper half of the range for resumption lower in yield. Above 4.3% and the gap at 4.53-4.57% is tested/filled. Below 3.65% and we may see that rally to the 38.2% retracement at 3.18%. A risk to leaning long is the MACD oscillator crossing up to favor a tactical move higher in yield.

US 2Y Support (yield resistance): 4.09%, 4.17%, 4.28%, 4.40%, 4.53-4.57%

US 2Y Resistance (yield support): 3.87%, 3.65%, 3.55%, 3.43%, 3.25% 3.18%

Chart 1: US 2Y yield – Daily Chart (G680)

Range consolidation pattern. Prefer longs as yield approached top of range in the 4.2-4.3% area. A breakout in yield higher tests gap at 4.53-4.57%.



USGG2YR Index (US Generic Govt 2 Yr) RB: US 2yr Daily Daily 13MAR2020-09MAY2023

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US 5Y Yield

Golden cross leans bullish 5y UST, prefer longs while below 3.70%

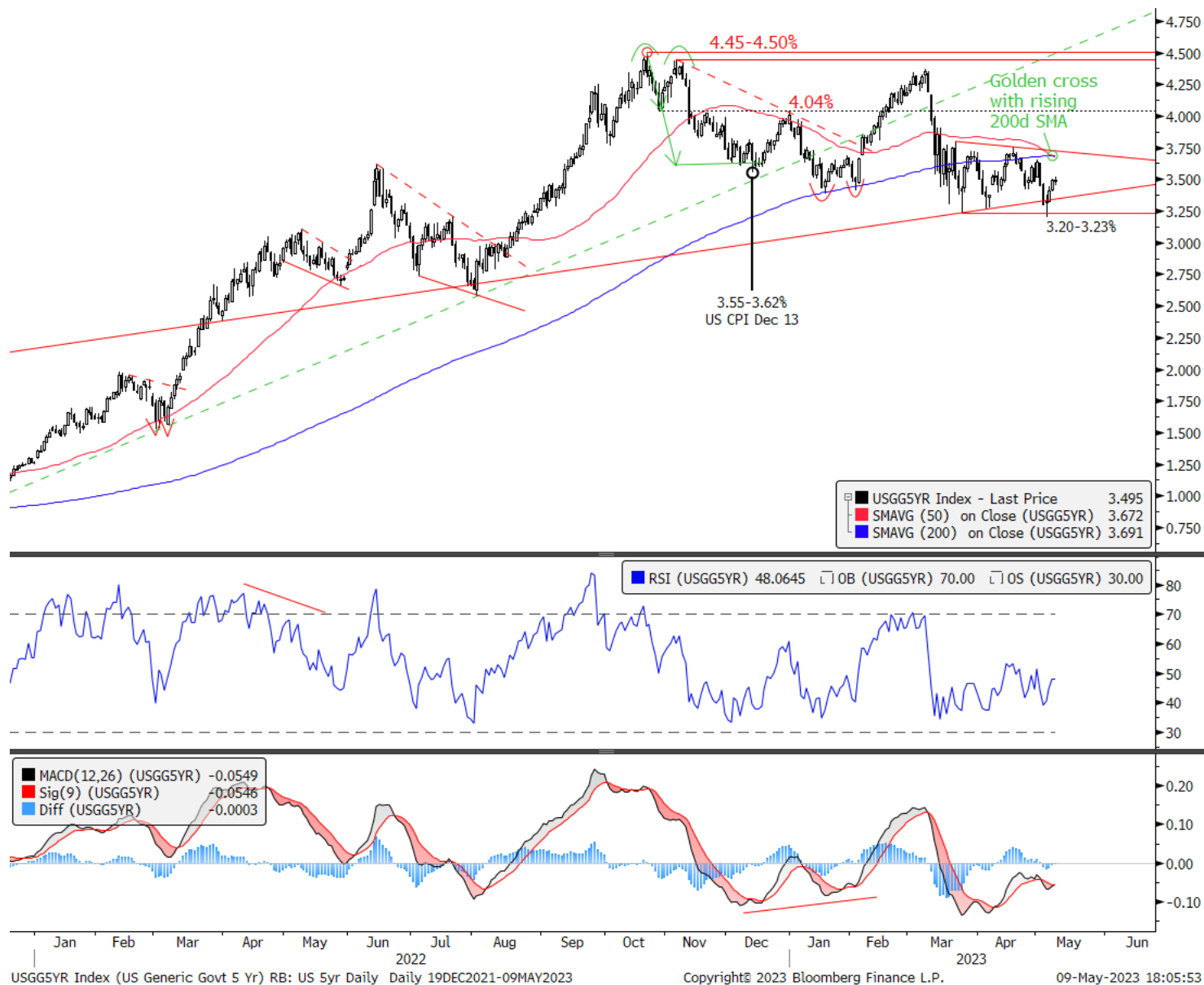
Trading range persists as lines converge. Top of range about 3.70% and bottom of range about 3.2-3.25%. Golden cross below 200d SMA favors buying 5Y UST on the dip in late May / early June for rally (lower yield). In an ideal situation, other yields see golden crosses, too, so breadth of signals strengthens a bull case. Unfortunately, the 200d SMA was rising when the cross on the 5Y occurred which weakens the signal. More on this in our [Quantifying Technicals](#) report. If 5Y yield is above 3.75% it weakens the view.

Support (Yield resistance): 3.81%, 4.04%, 4.25%, 4.34%, 4.5%

Resistance (Yield support): 3.4%, 3.25%, 3.13%, 3%, 2.8%

Chart 2: US 5Y yield – Daily Chart (G682)

Trading range between 3.25-3.80%. Prefer buying dip near golden cross/top of range and consider stop at past pivot highs during bank crisis such as 3.8% or 3.9%



Source: BofA Global Research, Bloomberg

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US 10Y Yield

On watch for golden cross with falling 200d SMA to favor summer rally

Another choppy range with yield reversing higher from 3.25-3.30% and reversing lower near 3.6-3.63%. The 50d SMA is sloping down and looking to cross below the 200d SMA. Should they cross, the art of the signal suggests yield falls if the 200d SMA is sloping down or if yield is below the 200d SMA when the cross occurs. As per our findings on this signal in our [Quantifying Technicals](#) report, it tends to matter how the cross happens. If the 10y yield surges above 3.65%, then it may trend to the top of the channel near 3.92%.

US 10Y support (yield resistance): 3.56%, 3.63%, 3.76%, 3.91%, 4%, 4.09%

US 10Y resistance (yield support): 3.37%, 3.29%, 3.25%, 3%, 2.80%

Chart 3: US 10Y yield – Daily Chart (G691)

Choppy trading range on lower portion of channel. Bullish while below 3.65%, tactically bearish on close above for 3.9%. Golden cross coming (looks almost inevitable) which tends to support a summer rally (lower yield) especially if yield is below the 200d SMA and if the 200d SMA slope turns down.



Source: BofA Global Research, Bloomberg

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Alternate scenario for 10Y: What if yield breaks higher out of the declining channel?

The 10Y yield is in a declining channel since it reached 4.34% in Oct 2022 and it is still supported by a rising trend line that began at the start of 2022. Should this multi-year uptrend continue in line with the new secular bear market, then 10y yield would need to breakout higher from this declining channel. The top of this weekly channel is at 3.98% beginning May and declines to 3.92% beginning June. If it were to break higher, the next potential upside target is 4.50-4.60%

Chart 4: US 10Y yield – Weekly Chart (G692)

If the 10Y US yield were to rise above the declining channel line it would signal a continuation of the prior uptrend with a target of 4.50-4.60%



Source: BofA Global Research, Bloomberg

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US 30Y Yield

Rising wedge pattern tends to be a trend continuation pattern (lower yield)

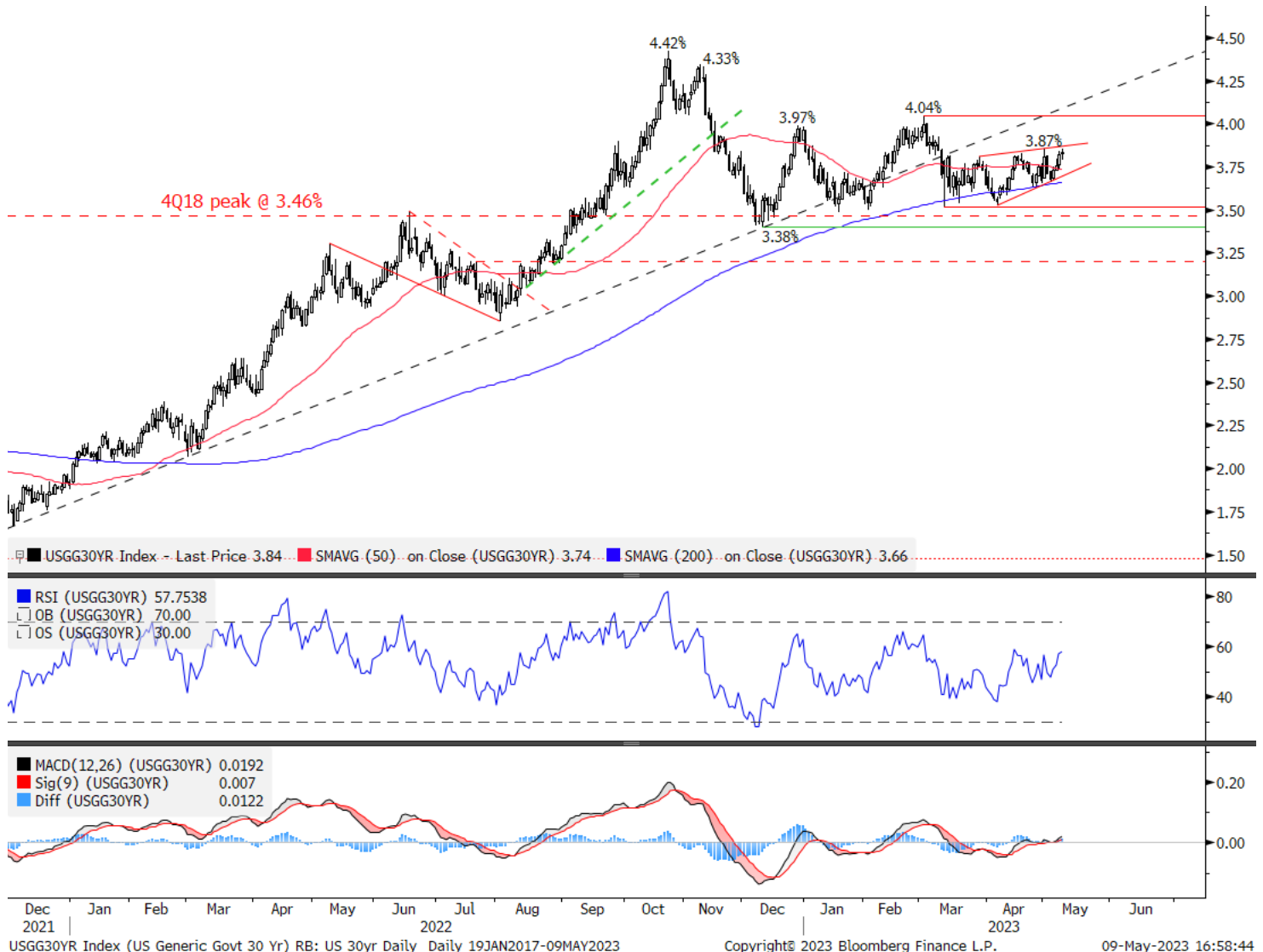
The 30Y US yield is stuck in a narrowing range with rising lines. This tends to form a rising wedge pattern that represents a consolidation of the prior trend, which was lower yield. If this is the case then the 30Y yield should stay below 3.9% after CPI. This would cause the 50d SMA to move closer to crossing below the 200d SMA in favor of a golden cross (remains to be seen). If the 30Y moves back above 4-4.04% then it may have broken out to retest the 4Q22 highs in the 4.3-4.4% area.

US 30Y Support (Yield resistance): 3.87%, 4.00-4.04%, 4.25%, 4.33%, 4.42%

Resistance (Yield support): 3.66%, 3.52%, 3.38%, 3.23%, 3%

Chart 5: US 30Y yield – Daily Chart (G693)

On watch for a rising wedge pattern that precedes another decline in yield. Ideally yield closes below 3.9% after CPI to finish forming it, rolls lower and the 50d SMA crosses below the 200d SMA. If not, the moving averages may not cross and MACD will turn positive for a yield uptrend.



Source: BofA Global Research, Bloomberg

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US 2s10s

Consolidating, prefer steepeners as corrective flattening occurs

A five-wave wedge bottom was confirmed by the market's reaction to the banking crisis in March 2023. Use 2Q23 flattening to enter steeper ideas for 2H23. US 2s10s will need to make another trend line breakout steeper to accelerate. For now it is in a corrective period and we consider steepeners at the low end of the range, such as -60bps. Below -68bps and we start to reduce conviction.

US 2s10s support: -60, -72, -82, -88, -100, -110

US 2s10s resistance: -38, -26, -14, -6, 0

Chart 6: US 2s10s – Daily Chart (G696)

Consider reloading steepeners on dip to -60s. On watch for breakout above -38 to launch steeper.



USYC2Y10 Index (Market Matrix US Sell 2 Year & Buy 10 Year Bond Yield Spread) RB: US 2s10s Daily Daily 22MAR2017-09MAY2023

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Source: BofA Global Research, Bloomberg

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US 5s30s

Pennant consolidation pattern typically resolves higher. Some room left.

A big double bottom projected a steeper 5s30s. So did a pennant pattern which tends to form mid-trend. Therefore, potential remains this summer for a move higher to 56bps and even into the 80s this year. Ideally the curve remains above 16bps. Overbought RSI means wait for tactical correction to enter more steepeners.

Support: 24, 16, 11, 4, -3

Resistance: 42, 49, 56, 72, 88

Chart 7: US 5s30s – Daily Chart (G697)

Big double bottom and pennant consolidation pattern favor steeper 5s30s this summer.



Source: BofA Global Research, Bloomberg

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Alpha Trades

We consider using a bearish UST reaction to US CPI data today to enter long 2Y USTs near the upper end of its range such as in the 4.15-4.25% area (Chart 1). We'll determine this after assessing market reaction to the data.

Exhibit 18: 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 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
Chart Alpha	Sell USDCHE	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



Exhibit 18: 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 GBP/JPY cal spread via long 1m and short 9m	4/6/2021	Initial gain of 1.9982% GBP (spot ref: 155.636)	-	-	-	-	7/2/2021	Initial gain of 1.7644% GBP (Spot ref: 153.30)
FX Alpha	Short EUR/USD via 6m 1.17 put	4/27/2021	0.5082% off spot 1.2083 (6.241% atm)	-	-	-	-	-	0.6001%
FX Alpha	Sell NZD/USD	4/28/2021	0.7200	0.7000	-	-	0.7350	5/13/2021	0.7138
FX Alpha	Short CHF/JPY	4/13/2021	118.514	117.83	116.5	114	120	5/6/2021	120.21
FX Alpha	Buy GBP/USD 1m 1x2 CS 1.3730/1.40	3/30/2021	0.64% (Spot: 1.3715)	1.4	-	-	-	4/19/2021	1.04%
FX Alpha	Sell USD/JPY	3/25/2021	109.13	110.70	106.71	106.00	-	4/15/2021	108.56
Chart Alpha	Buy USD/ZAR	3/4/2021	15.02	15.44	16.00	16.55	14.5	4/9/2021	14.50
EM Alpha	Sell ZAR/RUB	1/21/2021	4.93	4.48	-	-	5.21	3/4/2021	4.9 + Carry

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