

Rates Technical Advantage

From yield peaks to tops to drops...

Key takeaways

- Market reaction to a dovish Fed drove US10Y yield down to our head & shoulders target of 4.00% as the curve bull steepened.
- US yields declined to or below downside targets with 10y and 30y yield now at their 200d SMAs at 4.02% & 4.16%. What's next?
- A little stretched at 200d. Trim longs and buy dip in Q1. 2024 big pic says 10y to 3.3%, steeper curves, bonds > commod's.

View: From yield peaks to yield tops to yield drops

Yields peaked in October ([Wringing out the bond bears 25 Oct 2023](#)), topped in November ([From yield peaks to yield tops 15 Nov 2023](#)) and reached or exceeded downside targets in December, such as US 10Y yield to 4%. US 2s10s and 5s30s have maintained the setups for an uptrend and bull steepened after the Fed. Now what? In this report we update the daily charts of US yields and the takeaways from our last report.

Update from Nov 15: US yield chart takeaways

1. US 2y yield's wedge top favored an initial decline to the 200d SMA at 4.65% and its measured move target at 4.50% (reached). For 2s10s to steepen, we thought a larger Fibonacci retracement to 4.40/4.20% was needed. This is underway. (Chart 1)
2. US 5y yield's head and shoulders top favored a decline to 4.20%/4.10% while yield remained below the right shoulder high of 4.75%. This is complete. The 5y yield has broken below its 200d SMA and 4%. Its next technical level is at 3.75%. (Chart 2)
3. US 10y yield's head and shoulders top favored a decline to 4% and 200d SMA. After the Fed, 10y yield plunged to target (Chart 3). History favors a bounce back in yield in Q1 to form a bigger top in the weekly chart. If there is one, we still say buy it because a cyclical bull market means US10y at least to 3.30% in 2024 (Chart 4).
4. In November, US 30y yield was trading sticky in the 4.60s with a head and shoulders top. Downside was thought to be limited or slower supporting our steeper bias. Our 4.40-4.30% target was exceeded. Yield touched the 200d SMA at 4.16% (Chart 5).
5. US 2s10s: Two bottom patterns in 2023 say un-inversion in 2024. A continuation pattern is developing and supports our wave III up count underway. Post Fed, a key reversal day formed in the daily chart which says steeper, too. (Chart 6).
6. US 5s30s has been range bound. It has refused to invert again which we think supports a steeper bias given the triple bottom and uptrend wave count. (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 our 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

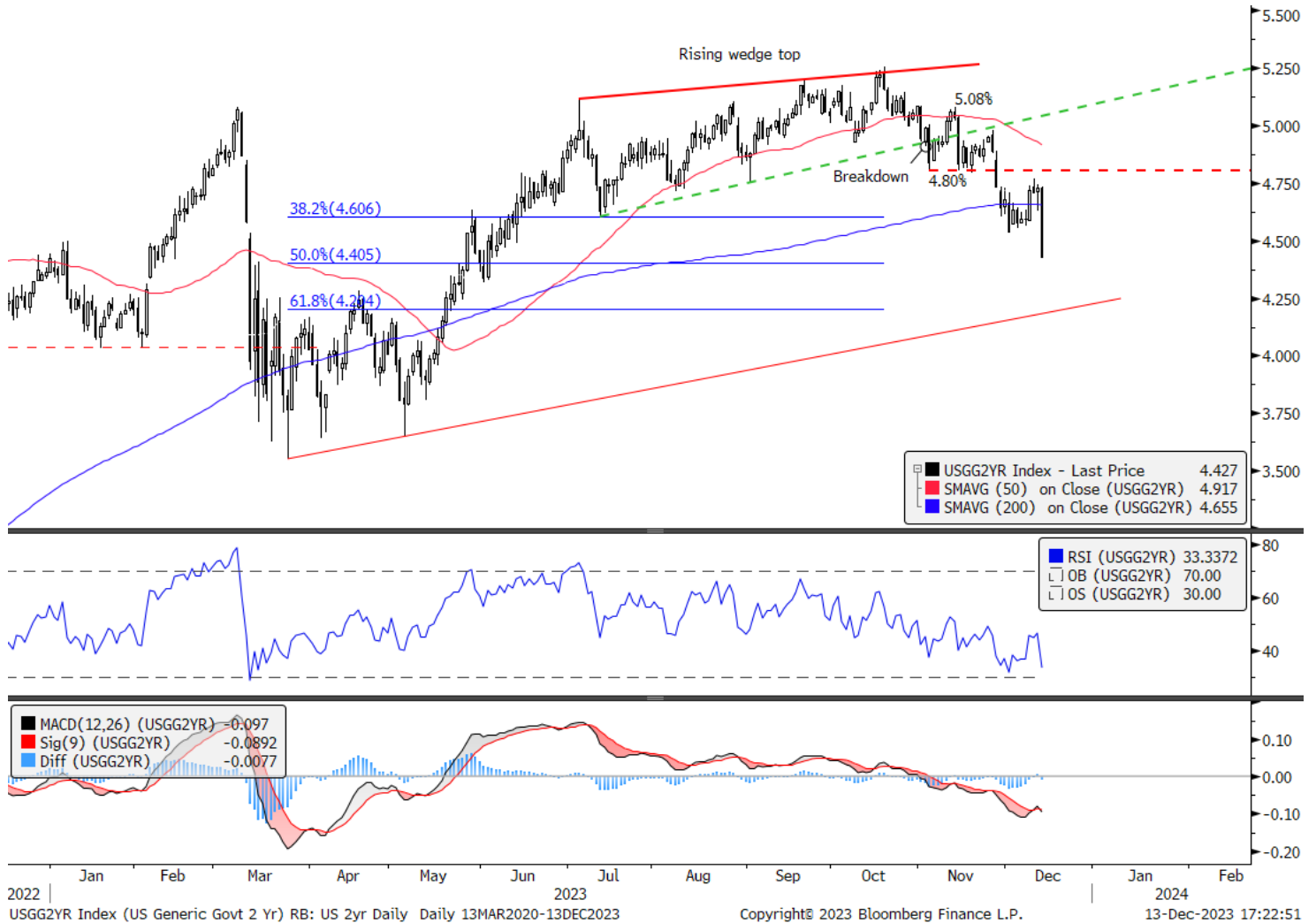
y = year

Chart Appendix

US 2y yield: Impulsive = Path of least resistance is lower

Chart 1: US 2y Yield – Daily Chart

Downside targets of 4.65% and 4.50% were reached. No bottom, just an impulsive decline. Downside risks to 4.40% / 4.20% remain while below 4.65%. Tactical trade to consider (if offered) would be to buy a partial retracement of the Fed day price action at 4.50-4.55% and seek resumption of lower yield trend.



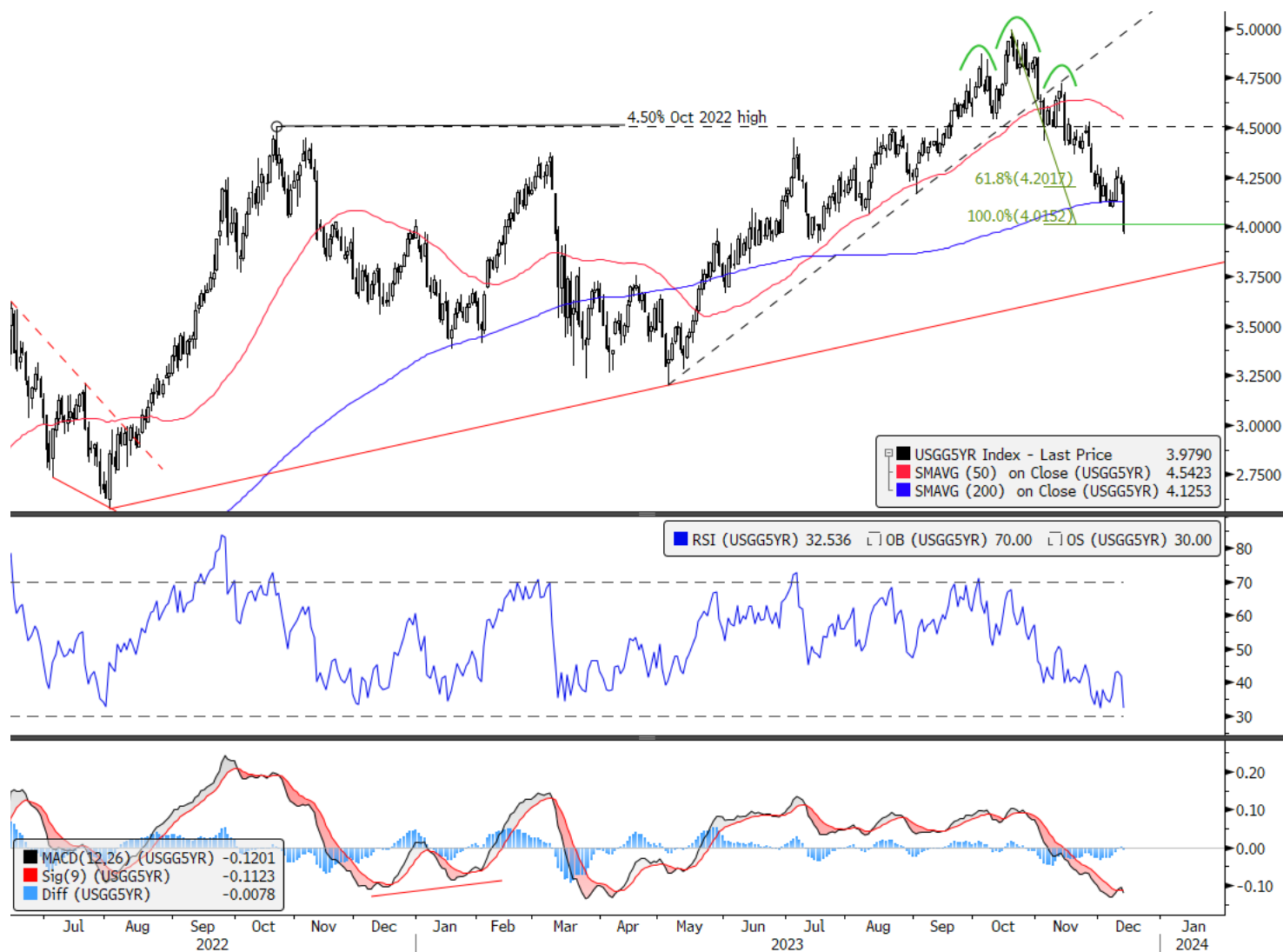
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US 5Y yield: Head and shoulders target reached

Chart 2: US 5y Yield – Daily Chart

US 5y yield's head and shoulders top favored a drop to 4.20%/4.10% while below the right shoulder high at 4.75%. This is complete. While the move feels stretched since it began at 5% and is now below 4%, the trend is not stretched according to RSI and MACD and it may see the rising trend line near 3.75%.



USGG5YR Index (US Generic Govt 5 Yr) RB: US 5yr Daily Daily 14JUN2022-13DEC2023

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Source: BofA Global Research, Bloomberg

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US 10y yield: Head & shoulders target of 4% reached

Chart 3: US 10y Yield – Daily Chart

The head and shoulders target of 4% and the 200d SMA were reached after the Fed. Trend followers and CTAs seem to have control of this trend and it's hard to fight the tape. This is a big level in technicals and a place where some will speculate on a reversal. We prefer trading around a core long, reducing some at/just below 4% and adding longs again if yields bounce back in Q1. Near term risk is a break of 4% that touches the 61.8% retracement at 3.92% and then reverses higher.



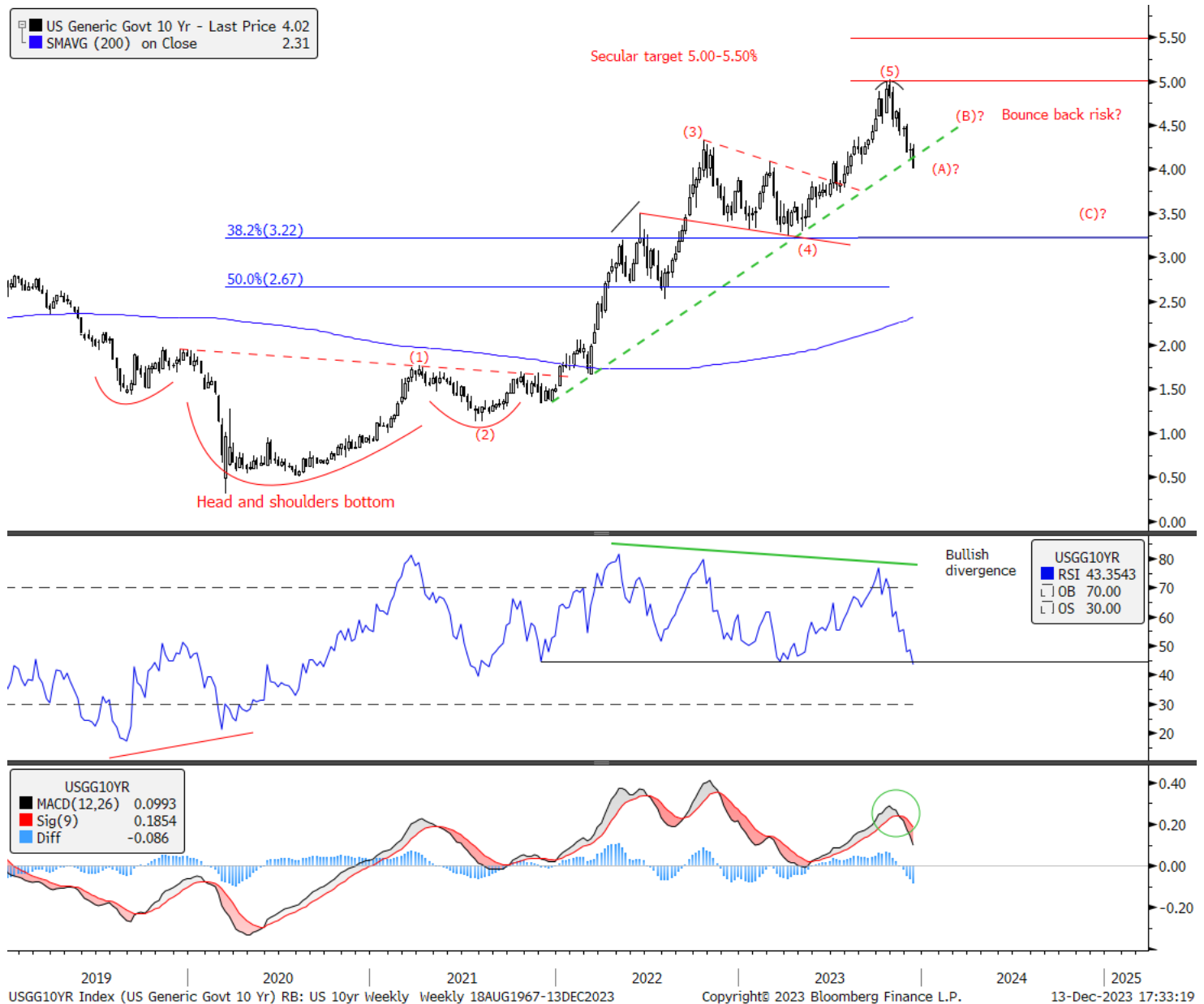
Source: BofA Global Research, Bloomberg, DeMark Analytics

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10y Weekly: Key trend line breaking, cyclical bull says 3.3% in 2024

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

Typical wave 5 upside was reached, divergent RSI was in favor of yield nearing peak and then the daily chart had developed a top. Down yield went to the green line at about 4.13% and now yield is below it after the Fed. Does the week close below 4.13% to break it? We'll see. We reiterate our year ahead view that there tends to be some kind of bounce back in yield when forming a larger top. This is possible in 1H24. We buy this bounce and look for a drop to 3.30%. Two weekly closes below this green line will reduce our expectations in a bounce back happening as well as the size of one.



Source: BofA Global Research, Bloomberg

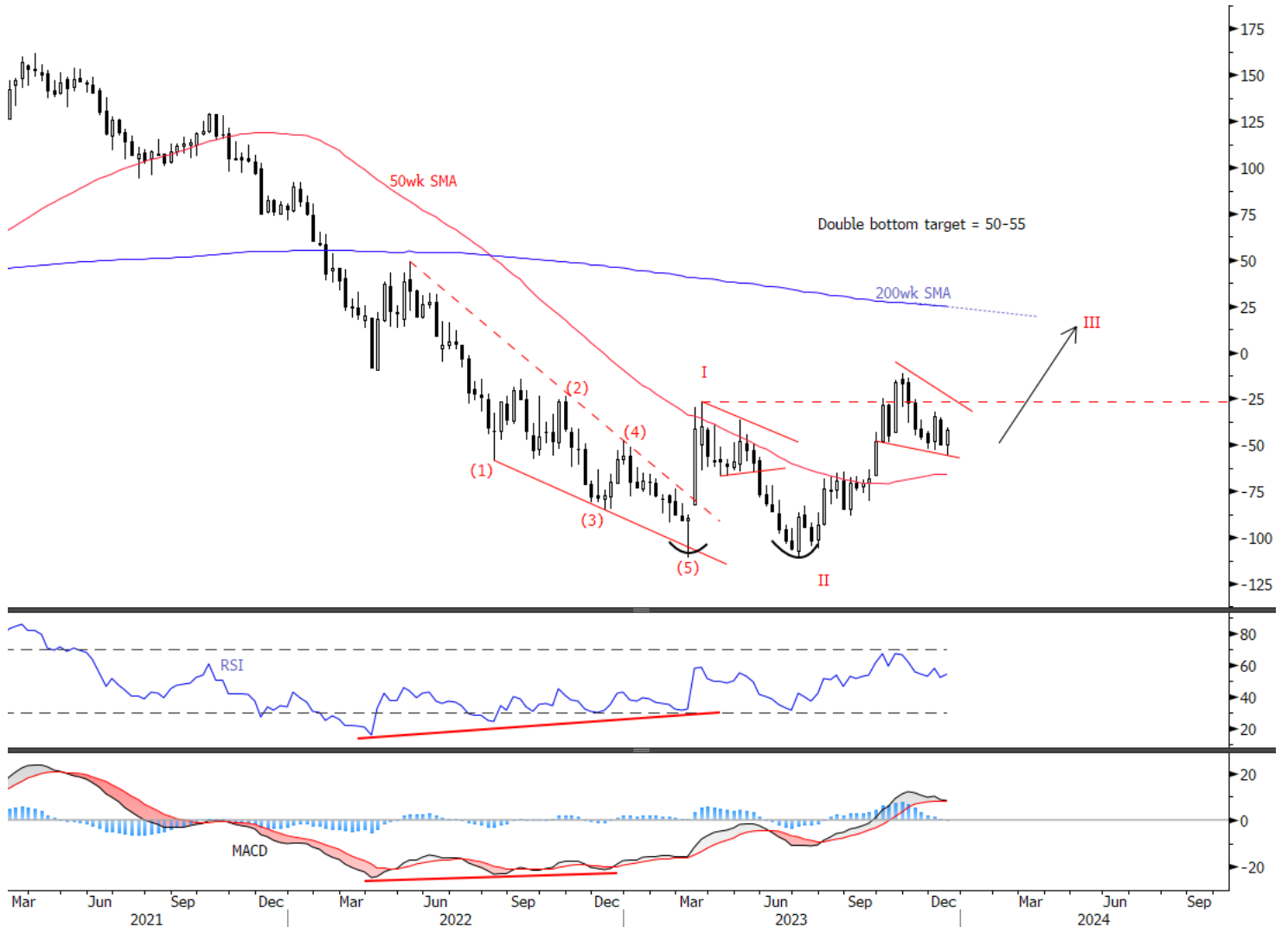
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US 2s10s: Holding a steeper trend while > -50bp

Chart 6: US 2s10s – Daily Chart

We have thought that a wedge bottom formed in March 2023 and then a double bottom began in July 2023 that was confirmed in September 2023. A trend continuation pattern (wedge) is forming now which often precedes a move higher. 1H24 to see un-inversion. We prefer a steeper bias while 2s10s weekly closes are above -50.



US2Y10 Index (Market Matrix US Sell 2 Year & Buy 10 Year Bond Yield Spread) RB: US 2s10s Weekly Weekly 28FEB2021-13DEC2023

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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 on the weekly chart. We continue to prefer a steeper bias while weekly closes are above 0 for move up to 55 and possible 85 bps in 2024.



Source: BofA Global Research, Bloomberg

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Bonds still looking relatively cheap (again)

Chart 8: Bonds versus commodities ratio

US1/BCOM ratio was near parity, again, which is where it bottomed in 2022 and 2014. A base is forming and uptrend to occur in 2024.



Source: BofA Global Research, Bloomberg

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Chart 9: Bonds versus Industrial metals

A triangle bottom pattern has formed and started breaking out to the upside in favor of long bonds / short industrials metals.



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 due to turn up.



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 then 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](#)). The Fed today continued this repeat "goldilocks" scenario. Can anything stop this momentum? Maybe we have to wait until 1Q24 for goldilocks to end like it did in 1Q23 and 1Q22.

Chart 12: US 10y head and shoulders top, DXY double top, and V-bottom in SPX in 4Q23 reminiscent of 4Q22 = Goldilocks

4Q23 currently repeating 4Q22 ... can anything stop it? will 1Q24 repeat 1Q23 or 1Q22?



Source: BofA Global Research, Bloomberg

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Chart Alpha

Exhibit 1: Open technical trades and cross strategy alpha trades including technicals

Open trades

Report	Trade	Entry / revise date	Entry Level	Option expiry	Spot target 1	Spot target 2	Spot target 3	Spot stop	Rationale / time horizon	Risks
2024 FICC Technical Advantage	Buy USDKRW +1m NDF	1-Dec- 23	1293	-	1315	1327	1340	1270	USD/EM charts supported, potential for year end 2023 bounce back, USDKRW charts are all supported with bullish oscillator divergence and potential for a small double bottom.	Slower US econ data resulting in an immediate continuation of the USD selloff.
2024 FICC Technical Advantage	Short MXN/CLP	1-Dec- 23	49.85	-	48.25	47.5	46.1	52.2	Head and shoulders top, USDMXN and EURMXN still supported, bearish weekly MACD trend signal.	A loss of capital if the stop were reached.
Global Macro Year Ahead	US 5s30s steepener	19-Nov- 23	15	-	35	55	80	-5	5s30s and 2s10s curve already bottomed and is in wave 3 steeper. Triple bottom in 5s30s in 2023 suggests steeper in 2024.	A macro risk off causing bull flattening.
Global Macro Year Ahead	Short GBPAUD via 3m 1.90- 1.86 GBP/AUD put spread	19-Nov- 23	s/r 1.9192	19-Feb-24	1.86	1.84	-	Loss of premium	Expiry 19 Feb 2024. s/r 1.9192, vol refs 7.207 and 7.007. Initial premium 0.6806% GBP. Fiscal, current account and NIP divergences compensate for the small negative carry; China recovery would help, head and shoulders top	Further deterioration of China risk to weigh on the AUD rebound
Global Macro Year Ahead	Sell EUR/NOK via 6m risk reversal	19-Nov- 23	s/r 11.8623	19-May-23	11.35	11.22	11.1	12.2	Buy 6-month 11.35 put and sell 12.20 call (s/r 11.8623, vol refs 8.929 and 9.108. Expiry 15 May 2024. Initial premium is receive 0.7307% EUR. Trade supported by constructive oil outlook, expectation for improved risk sentiment in 2024 on Fed cuts, and mean reversion for the oversold NOK vs EUR, systematic technical sell signals	Lower NOK on weaker than expected risk sentiment

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
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



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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 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

Source: BofA Global Research, Bloomberg

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