

# Rates Technical Advantage

## US 10Y update

### Key takeaways

- US 10yr yield exceeded our wave 5 target (4.71%) while the 30y roundtripped 5%, twice, suggesting buyers present.
- Majority of wave 5 up (the last wave) is behind us. Three peaked RSI divergence implies peak yields close, need top patterns.
- Seek yield top pattern to dispel secular wave 5 risk of 10y > 5% and to then signal 10y could revert to 200d SMA near 4%.

### View: Wave 5 of higher yields mostly wrung out

On [August 16th](#) we called for US 10y and 30y yields to continue higher in wave 5 of an uptrend pattern with modest targets of 4.5-4.6% and 4.7-4.8%, respectively. On [October 1st](#) after our targets were reached, we explained these targets were modest and that trends were still wringing out upside, such as 4.71-4.76% 10Y. Last week the 10y yield exceeded that, tapping 4.88% twice while the 30y roundtripped 5%, twice. Now what?

Wave 5 is the last leg of an uptrend pattern (since March 2020). We can see why yield is near the end of the upcycle because wave 5 is slightly larger than typical, a three peaked RSI divergence has formed on the weekly chart and a small double top formed on the daily chart. There are risks to this, including 1) There is no weekly chart top pattern yet, 2) Secular trend targets have suggested an extended wave 5 to 5.00-5.50% is possible, 3) Market reaction to the Middle East conflict may only be temporary, and 4) A typical wave 5 target for 30y yield is 5.21% (not reached). As these risks subside, our view shifts from “sell the rips” to trade tactical long and short in Q4. Buy and hold on deck.

### US 10Y Yield Daily: Small double top says October drop

Last week, US 10y yield touched 4.88% on different days, twice. This week opened with yield gapping down due to middle east macro conflict. This suggests a small double top with downside to 4.52%, maybe 4.40%. The risk to this tactical setup is if a kneejerk reaction to the middle east conflict loses momentum, especially if US CPI surprises.

### US 10Y Yield Weekly: Three peaked RSI divergence

Wave 5 target of 4.71% has been exceeded (height of wave 1 added to the low of wave 4). A three peaked RSI divergence often aligns with the end of a trend. We see this pattern when comparing higher yield peaks to lower RSI peaks in May 2022, October 2022 and October 2023. It suggests yield is near the peak for the cycle provided 14wk RSI does not rise above 77 in Q4. With no yield top present yet, potential for an extended wave 5 to 5.00% / 5.27% / 5.44% remains.

### US 10Y Yield Monthly: Stretched, but secular risks remain:

We have said before that US 10y yield can see 5.00-5.50% in this cycle or the next. This remains a risk while the weekly chart does not show a valid yield top pattern yet.

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**Refer to important disclosures on page 7 to 9.**

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FICC Technical Strategy  
Global Markets

**Paul Ciana, CMT**  
Technical Strategist  
BofAS  
+1 646 855 6007  
[paul.ciana@bofa.com](mailto:paul.ciana@bofa.com)

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

# Chart appendix

## US 10Y Yield Daily: Small double top says October drop

**Target reached, small double top may mean drop to 4.52% / 4.40% in October**

Last week, US 10y yield touched 4.88% on different days, twice. This week it opened with yield gapping down due to the macro conflict in the middle east. This suggests a small double top with downside to 4.52% and possibly the bottom of the rising channel at 4.40%. The risk to this tactical setup is the knee jerk reaction to the Middle East conflict losing momentum especially if US CPI surprises on Thursday.

### Chart 1: US 10y yield – Daily Chart

US 10Y yield support: 4.51%, 4.35%, 4.20%, 4.00% | US 10Y yield resistance: 4.88%, 5.00%, 5.27%, 5.44%



Source: BofA Global Research, Bloomberg

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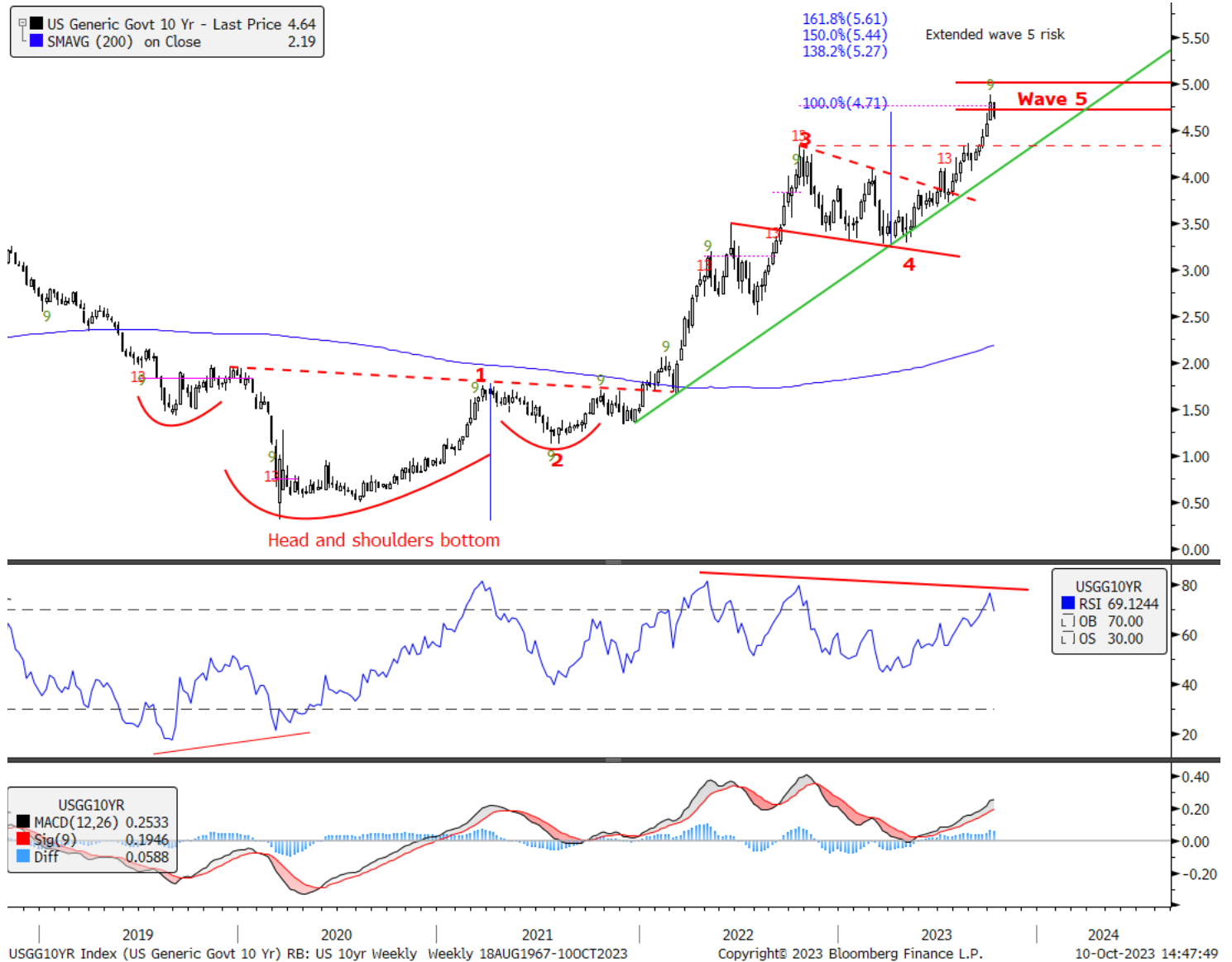
## US 10Y Yield Weekly: Three peaked RSI divergence

### Wave 5 target exceeded, divergence favors peak, but extended wave 5 a risk

The typical wave 5 target of 4.71% has been exceeded (height of wave 1 added to the low of wave 4). A three peaked RSI divergence often aligns with the end of a trend. We see this pattern when comparing higher yield peaks to lower RSI peaks in May 2022, October 2022 and October 2023. It suggests yield is near the peak for the cycle provided 14wk RSI does not rise above 77 in Q4. With no yield top present yet, a risk is an extended wave 5 to 5.00% / 5.27% / 5.44%.

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

Typical wave 5 upside has been reached, divergent RSI in favor of yield nearing peak. Extended wave 5 up a risk while no top pattern is present in this chart yet.



Source: BofA Global Research, Bloomberg

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## US 10Y Yield Monthly: Stretched, but secular risks remain

**Long term channel breakout has said to/above 5% possible in this or next cycle**

We have said many times that US 10y yield can see 5.00-5.50% in this cycle or the next.

This remains a risk while the weekly chart does not show a yield top pattern yet.

### 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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# 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
EM Alpha	Buy EURZAR	10/2/2023	20.15	-	20.75	21.15	-	19.6	Wave 4 triangle underway and wave 5 up could soon begin.	A loss of capital if the stop is reached

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	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
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



**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
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%
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	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
Technical Advantage									
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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