

Rates Technical Advantage

Wringing out the bond bears

Key takeaways

- Big bond bears starting to hibernate right as 10Y yield touched our secular technical target area of 5.00-5.50%.
- More signals imply peak yield is pretty close (RSI divergences, TD Sequential, candles). But still no yield top pattern yet.
- "Higher for longer" can form a top like rising wedge, H&S, or double top in Q4 to signal drop to 200d SMA (+/- 4%) in 2024.

View: Wringing out the bears as secular target reached

US 10Y yield just touched our secular target area of 5.00-5.50% (Chart 3). In our last few reports we described the bond market as "wringing out" the remainder of wave 5 up (in yield). This is the last wave of the cycle beginning March 2020. The 10y has extended past its typical wave 5 target and 30y nearly reached it (5.18% vs 5.21%). Last week into this week feels like the towel is wrung pretty tight as signaled by more oscillator divergences, TD Sequential trend exhaustion signals and more reversal candle patterns. Peak yield is getting close. We still look for a topping pattern in Q4 to confirm it and to spell out 1H24 downside. The risk remains a larger extended wave 5, such as 10y further into the 5.00-5.50% target area in Q4. In this case, we trade that from the long side.

Five things to know about US 10Y and 30Y yield charts

1. **10Y and 30Y trends are at/exceeding typical targets.** Monday's market action saw 10y yield reach 5.02% and 30y 5.18%. This puts 10y into the 5.00-5.50% secular target range and 30y a few basis points from its typical target (5.21%).
2. **Divergent oscillators tend to correlate with yield peaks/tops.** We see a mix of two and three peaked divergences. On [October 10](#) we showed weekly chart RSI divergences. These remain valid. Now daily charts have divergence and its possible the monthly charts will if yields peak in Q4. Daily MACD trends are diverging, too.
3. **Some DeMark™ signals/resistance say peak near:** US 10y and 30y yield daily charts had the TD Sequential "13" signal on Oct 18 with risk levels at 5.04% and 5.22%. The monthly chart of 30y yield reached its first "13" signal since 1980 with risk up to 5.69%. The monthly 10Y was too early (March) but risk level is 5.11%.
4. **On watch for yield tops in Q4.** The first type of top that comes to mind given the parabolic nature of the move is a rising wedge (also called an ending diagonal). This pattern or head and shoulder tops were more prevalent in the 1960s-70s bear market. Double tops are common, but more so in the secular bull market.
5. **Wave 5 extension risks remain while no tops are present.** The last major cycle top for 10Y was in 2006-2007 at 5.25-5.32% and matches a 138.2% wave 5 extension level. A larger risk is a 161.8% extension of 5.61%. Largely out of consensus would be a 38.2% retracement of the 1980-2020 secular bull, or 6.25%.

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FICC Technical Strategy
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For more on technical strategies such as Elliott wave, RSI divergence, MACD and TD Sequential, please see:

[Technicals Explained: In 2023 --> Get to know technical strategy 23 January 2023](#)

[Rates Technical Advantage: US 10Y update 10 October 2023](#)

SMA: simple moving average

H&S: head and shoulders

RSI: relative strength index

MACD: moving average convergence/divergence

Chart Appendix

US 10Y Yield

10Y Daily: Key reversal at 5%, diverging RSI and MACD, 4.6% H&S neckline?

The yield uptrend in the daily chart below remains however it has become parabolic increasing potential for a rising wedge (ending diagonal) top pattern. I do not see this pattern completed yet. One more thrust in yield up to 5.20% would likely form it. Then potential for a move sharply lower begins.

Another way to look for a top here is if the 4.5-4.6% level became the neckline of a head and shoulders top (The left shoulder on Oct 6 and head on Oct 23, a right shoulder peak in first half of November and then down yield could go in December/1Q24). The TD Sequential signal on Oct 18 with risk level at 5.04% favors this.

At this point, both top scenarios are speculative as they complement the key reversal at 5% and diverging oscillators. On October 10th we transitioned our view from "sell the rallies" to "trade tactically long and short in Q4." Given the last thrust above 5%, we like trading long duration ideas more as we start to seek yield tops in Q4.

Chart 1: US 10y yield – Daily Chart

US 10Y yield support: 4.71%, 4.52%, 4.34%, 4.00% | US 10Y yield resistance: 5.02%, 5.11% 5.27%, 5.44%



Source: BofA Global Research, Bloomberg, DeMark Analytics

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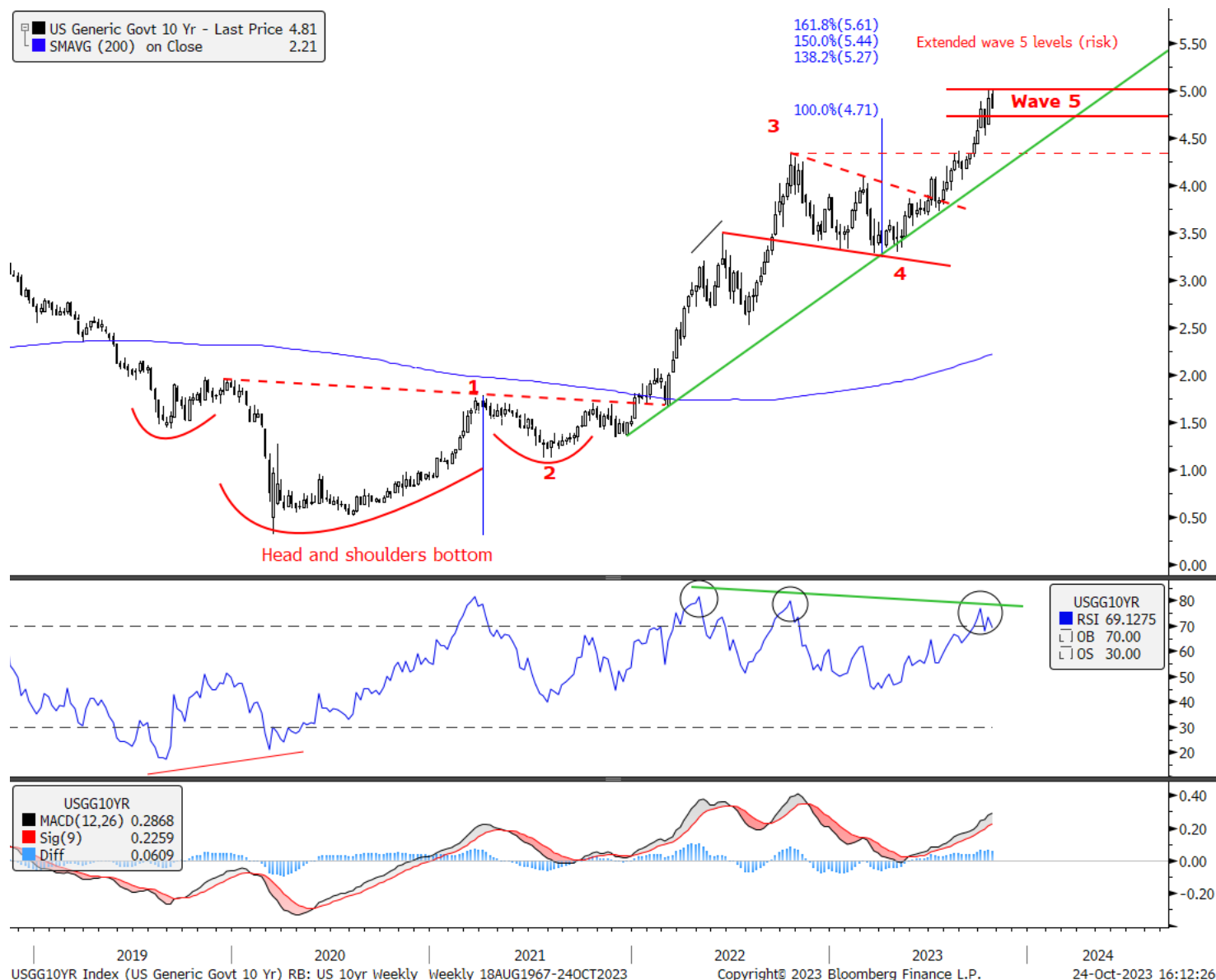


10Y Weekly: Wave 5 target exceeded, three peaked RSI divergence favors peak yield, but parabolic extended wave 5 a risk until top forms

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 nearing 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% (reached) / 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 either the daily or the weekly chart yet.



Source: BofA Global Research, Bloomberg

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10Y Monthly: Long term channel breakout has said to/above 5% possible in this or next cycle, we're starting to see that.

We have said many times that US 10y yield can see 5.00-5.50% in this cycle or the next. The 10Y yield touched 5.02% on Monday. Further into this target area remains a risk while the daily and weekly charts do not show a yield top pattern yet. We prefer longs in this area as we may see the 2006-2007 top at 5.25-5.32% function as the peak in this cycle, too. Potential for RSI divergence is increasing especially if yield tops soon. If we are wrong that yield starts to top in the 5-5.50% area, then an out of consensus upside target is 6.25%, or a 38.2% Fibonacci retracement of the secular bull market.

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

Secular target starting to be reached. The average channel breakout measure targets 5% however a full measured move is closer to 5.50%, in this cycle or the next. We prefer long trade ideas while in the 5-5.50% area as we are starting to expect top patterns to form on the daily and weekly charts.



Source: BofA Global Research, Bloomberg, DeMark Analytics

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US 30Y Yield

30Y Daily: Key reversal at 5%, diverging RSI and MACD, 4.75% H&S neckline?

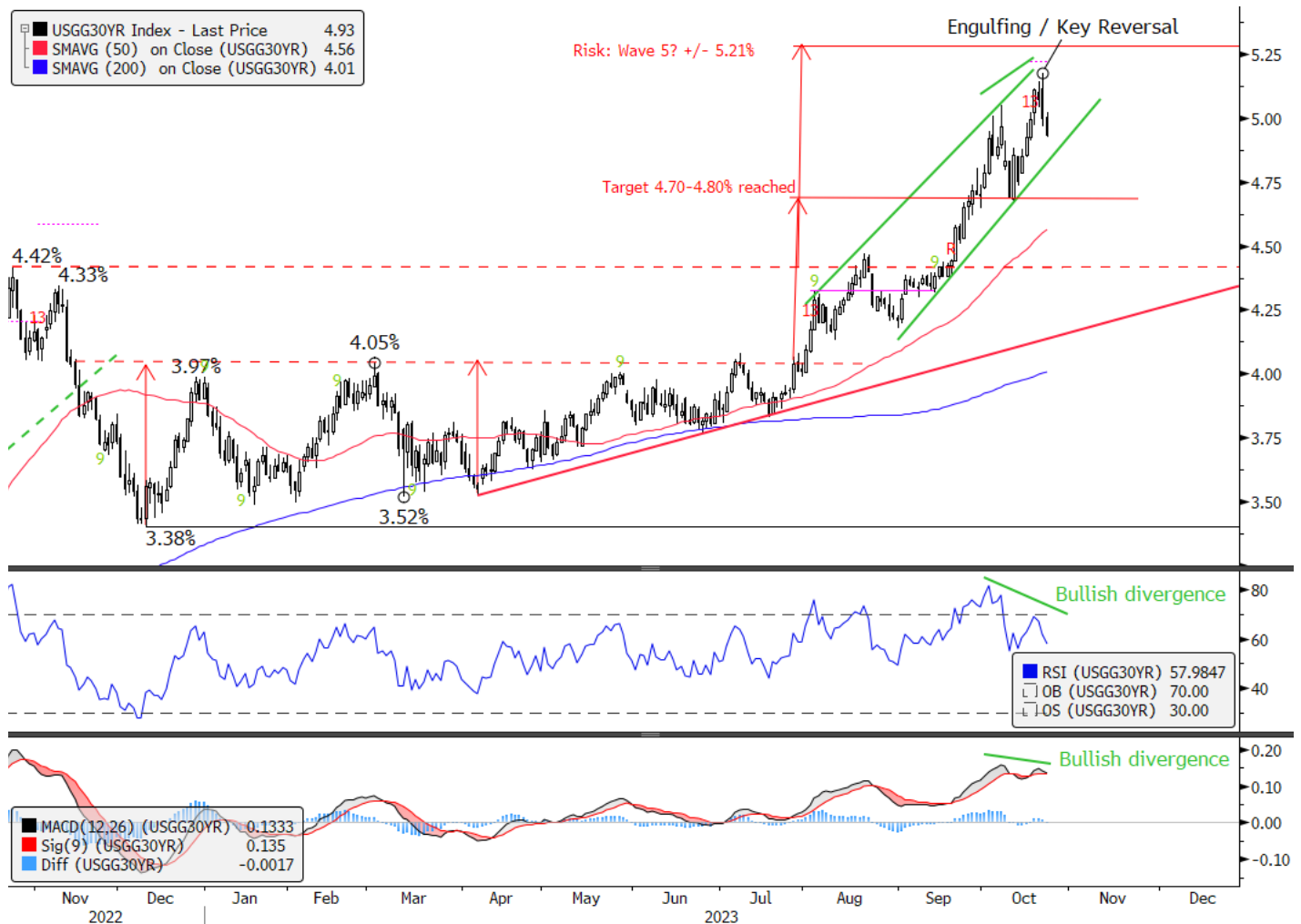
US 30y yield nearly reached the wave 5 typical target of 5.21%. The yield uptrend in the daily chart below remains however it has become parabolic increasing potential for a rising wedge (ending diagonal) top pattern. I do not see this pattern completed yet. One more thrust in yield up to 5.25-5.30% would likely form it. Then potential for a move sharply lower begins.

Another way to look for a top here is if the 4.75% level became the neckline of a head and shoulders top (The left shoulder on Oct 6 and head on Oct 23, a right shoulder peak in first half of November and then down yield may go in December / 1Q24). The TD Sequential signal on Oct 18 with risk level at 5.22% favors this.

At this point, both top scenarios are speculative as they complement the key reversals around 5% and diverging oscillators. On October 10th we transitioned our view from "sell the rallies" to "trade tactically long and short in Q4." Given the last thrust above 5%, we like trading long duration ideas more as we start to seek yield tops in Q4.

Chart 4: US 30Y Yield – Daily chart

US 30Y yield support: 4.86%, 4.70%, 4.47%, 4.25% | US 30Y yield resistance: 5.21%, 5.44% 5.59%



USGG30YR Index (US Generic Govt 30 Yr) RB: US 30yr Daily Daily 01OCT2022-24OCT2023

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Source: BofA Global Research, Bloomberg, DeMark Analytics

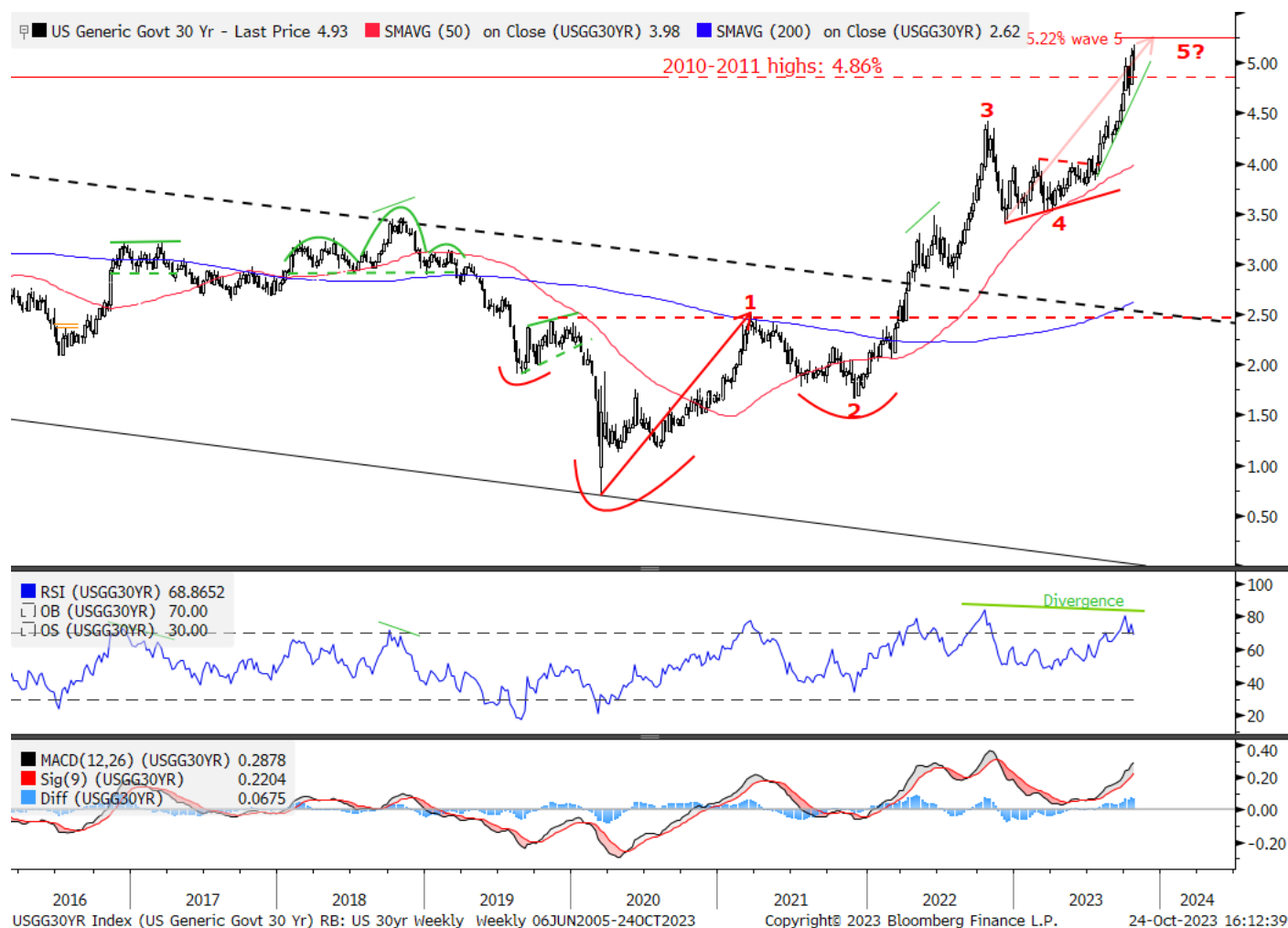
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30Y Weekly: Wave 5 target nearly reached (5.21%), two peaked divergence

The US 30y yield has nearly reached its wave 5 typical target of 5.22%. RSI momentum is diverging into this high suggesting the trend is slowing down. We remain on watch for a top in the daily chart to confirm an end to this uptrend. No top means risk of an extended wave 5 to 5.40-5.60%.

Chart 5: US 30-year yield – Weekly chart

Typical wave 5 target nearly reached (5.18% vs 5.21%). Two peaked RSI divergence says yield uptrend is slowing, nearing peak. Watch daily chart for top to signal end of wave 5.



Source: BofA Global Research, Bloomberg

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30Y Monthly: TD Sequential says buy while below 5.69%

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. This was reached and exceeded as wave 5 up has been underway to the 2003-2007 highs in the 5.4-5.6% area. However this month we're seeing the first TD Sequential buy signal (lower yield) since 1980 with a risk level up to 5.69%. To us this means starting to buy duration on selloffs between now and 5.69% for a trend change in 2024.

Chart 6: US 30Y yield – Monthly chart (G 1204)

TD Sequential shows a long term buy signal this month with risk level at 5.69%.



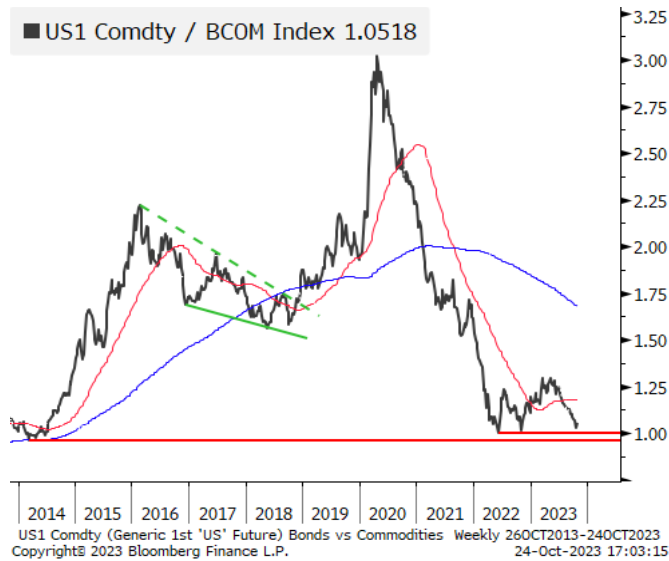
Source: BofA Global Research, Bloomberg, DeMark Analytics

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Bonds looking relatively cheap, again

Chart 7: Bonds vs commodities ratio

US1/BCOM ratio is near parity, again, which is where it bottomed in 2022 and 2014.



Source: BofA Global Research, Bloomberg

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Chart 8: Bonds vs Industrial metals

A triangle pattern may be forming which means the next leg to start soon is higher, in favor of bonds.



Source: BofA Global Research, Bloomberg

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Chart 9: Bonds vs S&P Financials

On a price-to-price basis, bonds are the cheapest in generations vs the financial sector



Source: BofA Global Research, Bloomberg

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Chart 10: Bonds vs BBDXY

This ratio has exceeded its wave 5 target which means the relative trend of bond market underperforming the BBDXY is near an end.



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	-	19.60	Wave 4 triangle underway and wave 5 up could soon begin.	A loss of capital if the stop is reached
FX Alpha	Buy EURSEK 3m zero-cost collar	10/13/2023	3m 11.8380 call for 0.5676% EUR, vol ref 7.394%; sell 3m 11.3143 put for the same price, vol ref 6.701%, spot ref 11.5456	1/15/2024	-	-	-	-	We think SEK's recent rally mainly driven by market conjecture than fear of the Riksbank, and in defiance of fundamentals. MACD turning up and spot near range support.	Improved risk sentiment, a faster Riksbank pace of FX sales, and a more hawkish Riksbank
FX Alpha	Buy CADMXN	10/23/2023	13.3338	-	14.00	-	-	13.00	A hedge for deteriorating macro backdrop and surging geopolitical risk	Risks to the trade are an improvement in risk sentiment that may rekindle interest in carry trades and support MXN, a hawkish surprise from Banxico or a dovish surprise from the BoC.

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
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
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%)



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	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 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 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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