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LE COIN TECHNIQUE

Bull signal on US Treasury 10-year yield helps US Dollar Index to bottom

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The chart of the US Treasury 10-year yield displays a bullish engulfing reversal month in September from 2.03% to 2.34% that could be followed, in October, by a crossing up of the monthly Slow Stochastics (STO), which in turn would power the rise toward 2.50%, i.e, the upper line of the monthly cloud. Breaking a monthly cloud, while it was a key resistance for the multiple-years downtrend is a significant event in Technical Analysis. It confirms the area of 1.33% as a major bottom, out of which a new uptrend is developing probably for many years.

In November 2016, the 10-year Treasury yield broke the descending trend line near 2.40%, although it has spent most of 2017 pulling back along its former descending trend line all the way to 2.03% until the monthly bullish reversal in September. Therefore, a rise toward 2.50% could happen pretty quickly and then accelerate above this resistance level toward 3.00% in 2017. At that level, a pause is possible between 3.00% and 2.50% as another long-term descending trend line *(dotted line on the chart)* should cap for a few months.

One intermarket implication of rising long-term US interest rates is the tendency of US financials to keep outperforming the S&P500 in the coming months, as it has during the month of September. Also related is the likely influence on the US Dollar Index, which is represented in dotted orange line in the upper panel. Indeed, recently the US Dollar Index has started to stop its downtrend and is possibly bottoming. Also, on the upper panel, the spread between US Treasury 10-year and German 10-year yield is already rising, which should help the bottoming of the US Dollar Index. As we can see on the chart, sudden rises of that spread are nicely correlated with the strong rise of the US Treasury 10-year yield.

So, we can see that one strong bullish candle on US Treasury 10-year yield can have very strong implications for the US Dollar Index as well. And, if US financials keep outperforming the S&P500 concurrently with the rising US Treasury 10-year yield, the S&P500 and other US equity markets may not be too volatile on the downside even during October.

__Graph:__

US Treasury 10-year yield in monthly candlesticks, with 40-month and 20-month moving averages and two Bollinger Bands around.

Also displayed is the Ichimoku cloud that, once broken, will confirm the long-term rise of the US Treasury Yield Index.

On the above panel, there are:

- in orange dotted line, the US Dollar Index, and...

- in black line, the spread between US and German 10-year interest rates.

On the lower panel, are the momentum indicator Slow Stochastic and, below it, the MACD.

In green, the arrows represent a potential evolution of the US Treasury Yield Index.

Source: Stockcharts.com