

US 10-YEAR TREASURY YIELD (3.59%): EXPECT A TRIANGLE PATTERN FOR SEVERAL MONTHS

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The yield spread of the US 10-Year Treasury yield minus the 1-year yield on the top of the monthly chart is now well below zero. As this yield curve inversion also happened in 2006-2007, it is sparking many discussions about a looming recession. Here we like to focus on the price pattern that the US 10-Year Treasury yield may take in the coming year, based only on the price advance since mid-2021 when the yield was at 1.07%. The all-time low was at 0.398% in 2020, and the yield rose to 1.765% to pull back to 1.07%. From that level, the advance was very sharp to 4.33%, probably in 5 strong impulsive waves. This suggests that we should expect a sideways pattern for the coming months, possibly taking on the pattern of a triangle, but holding above 3.03%, which is the 38% Fibonacci retracement of 4.33% to 1.07%.

On the chart is a triangle pattern built between 4.33% and 3.40%, the current month spike low. I agree that

it could be a tad too early to draw such a pattern, as the recent decline is only the first down leg of a 5-leg pattern and may not be fully completed on the downside. But we have one sign that a higher high above 4.33% is rather unlikely as the next move of the yield. Note the bearish divergence on the monthly STO between the last high at 4.33% and its preceding one near 3.5%, making it very likely that the US 10-Year Treasury yield has already entered a corrective phase with the rise from 1.07% to 4.33%. Further, we believe the rise to 4.33% is the beginning of a secular cycle of rising US rates, thus the most likely pattern now is a pause sideways holding above 3.03% and the Fibo at 38%. Of course this scenario would be invalidated by a decline below 3.03%. We believe having a view on the possible evolution of the US 10-Year Treasury yield for 18 months may become a big help in assessing the US equity markets. We will discuss that at another time.

Chart: US 10-Year Treasury yield in monthly candlesticks with a 20-mo MA surrounded by two Bollinger Bands and the Ichimoku Cloud, which could offer some support only near 1.71% and a 40-mo MA (1.75%).

Upper Panel: the spread between the US 10-Year Treasury yield minus the 1-year yield (black line), well below zero like in 2006-2007, and the US\$ Index (orange dotted line).

Lower Panel: the momentum indicator Slow Stochastic (STO) shows a bear divergence in an overbought area crossing down near 70% and the still rising MACD reaching a high far above the 2018 high.

Source of data:
Stockcharts.com.
Supports line & parameters
are provided
by BEST



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