

Fixed Income Outlook

Key Themes

- **Chart of the Day:** The UK Bond Curve bull flattened sharply over the past two days, with the aggressive rate hiking pricing at the front-end raising the specter of a policy mistake. UK Bonds had become heavily oversold, with both the 5yr and 10yr Bond Yield reaching the same oversold RSI levels that prompted a recovery in March. Furthermore, the 5yr has rejected its .82/835% high. However, we believe the corrective recovery will be much more limited this time, with resistance at .69/685%, then .595%. We maintain our medium term bias towards higher yields, with the UK 5yr eventually set to reach 1.00%.
- We have stayed tactically neutral over the past two weeks in the **UK 10yr Bond Yield** despite our bias for higher yields over the medium term, waiting for a tactical pullback, with today's fall to the previously highlighted 1.035% resistance level finally turning us tactically bearish again.
- **US 10yr Bond Yields** have entered a short-term corrective phase after the market posted a bullish "shooting star" reversal from minor support at 1.63/635%, with short-term resistances seen at 1.515/51%, then more importantly at 1.455%. We stay tactically bearish whilst above here.
- **US 10yr Breakevens** maintain their breakout above the top of their tight 3-month range and we stay biased towards a slightly deeper short-term swing higher towards 259.5bps, which we still expect to cap the market over the medium term.
- **US 5yr Bond Yields** posted a bullish "shooting star" from just ahead of key support at 1.165%, which we believe will prove a tough barrier for several weeks. We therefore turn tactically neutral. Combined with our 10yr view, this reinforces our bias for the **US 5s10s Bond Curve** to steepen over the next 1-3 months, with a break above 55/55.5bps needed to complete a larger base.
- **German 10yr Bond Yields** are pulling back after coming very close to our tactical objective at the -.075% 2021 high and we expect this short-term correction to extend slightly further.

UK 5yr Bond Yield - Daily



Source: Uputada, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

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Support

1.895/90%*
 1.85%
 1.82%*
 1.775%**
 1.74/75%
 1.70/705%**
 1.68%
 1.63/635%*

Resistance

1.515/51%*
 1.48%
 1.455/44%**
 1.405/40%
 1.38%**
 1.355/345%
 1.325%
 1.30/295%

Resistance/Support tables rank importance of levels by stars *, **, to *** being the most important

10yr US Yield - Daily

Source: CQG, Credit Suisse

10yr US Yield

10yr US Bond Yields have rejected minor support at 1.63/635%, suggesting a short-term corrective phase is underway.

Outlook: 10y US Bond Yields have posted a bullish short-term “shooting star” candlestick rejection from minor support at the 1.635% 78.6% retracement and yield high, with short-term RSI momentum reaching oversold levels. However, we maintain our view that a more sustained, medium term move higher has begun, with the potential for a 3-year basing structure still in place and medium term momentum in the early stages of re-accelerating. We therefore look for further weakness post this corrective phase, with the next support above 1.63/635% seen at the much more important “neckline” to the potential basing structure at 1.70/705%. We expect this level to prove a tough barrier at first, however an eventual weekly close above here would confirm the base to turn the longer-term risks higher, with next initial support at the prior 1.775% 2021 high.

Short-term resistance for this corrective phase is first seen at 1.515/51%, below which would open up a move to next resistance at 1.455/44%. Below here would remove the upside pressure, however this is not our base case.

Short-term Strategy: We stay tactically bearish from 1.395%, with scope for support at 1.70/705%, where we would turn tactically neutral. Resistance stays at 1.455%, below which we would also turn tactically neutral.

Support

1.38%
1.33%
1.295/305%**
1.25/255%
1.20%
1.15/165%**
1.13/14%*
1.08%

Resistance

.995/99%*
.97%
.93%*
.90%
.875%*
.86/85%**
.815/81%
.785%

Resistance/Support tables rank importance of levels by stars *, **, to *** being the most important

5yr US Yield – Daily



Source: CQG, Credit Suisse

5yr US Yield

US 5yr Bond Yields have posted a large bullish “shooting star” reversal from just ahead of next support at 1.165%.

Outlook: 5yr US Bond Yields have posted a large bullish “shooting star” reversal from just ahead of next support at 1.165%, which suggests at least a near-term peak is now in place. With RSI also posting a bullish divergence from oversold territory, we see the potential for a period of several weeks of ranging around the 1.165% level as oversold momentum unwinds. From a more medium term perspective though, it is clear that the broader uptrend that began in 2020 has resumed, with medium term trend following indicators remaining bearish and the 200-day average rising steadily. For these reasons, we expect an eventual move higher after this rangebound phase, with scope for an eventual move to 1.295/305% over the medium term, likely some time in Q1 2022.

Near-term resistance moves to the 13-day exponential moving average at .995/99%, then the .935/93% breakout zone, which should provide a reasonably solid floor on a closing basis over the medium term in our view.

Short-term Strategy: We neutralise at market our successful tactically bearish bias that we initiated at resistance at .935% after the market came very close to support at 1.165%. We now see scope for a range to develop.

Support

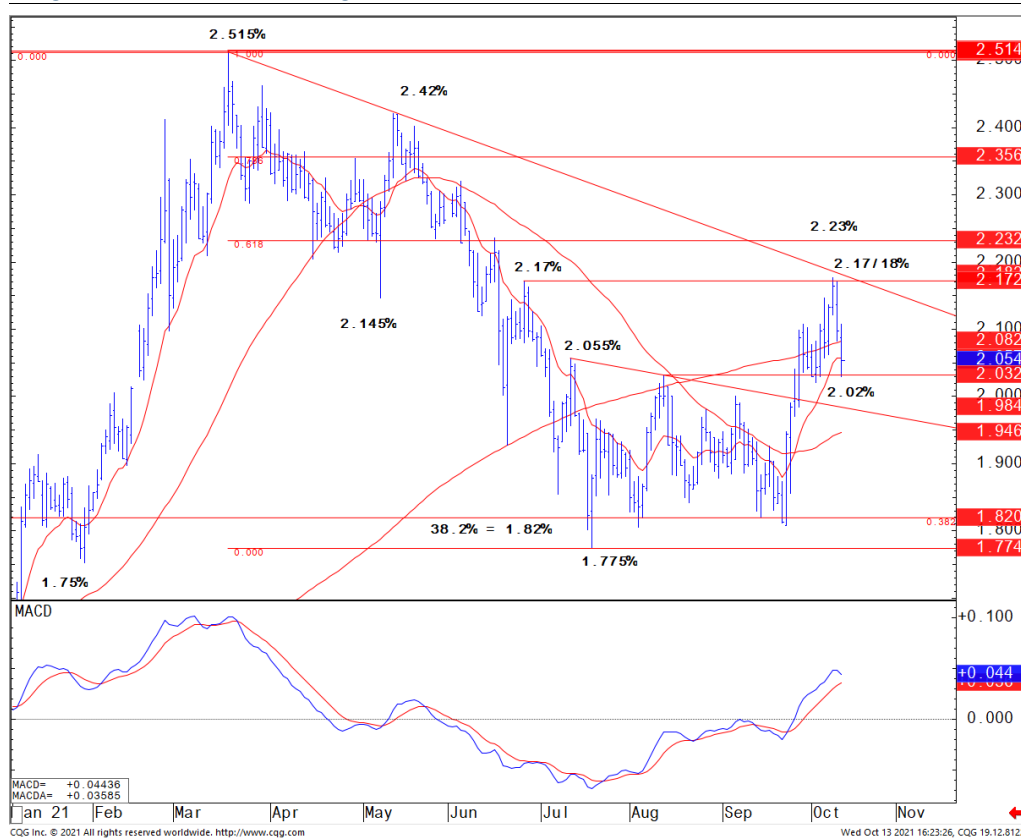
2.42%*
 2.40%
 2.355%
 2.32%*
 2.29%
 2.23/235%*
 2.17/18%**
 2.095/105%

Resistance

2.03/02%*
 2.00%
 1.985%**
 1.97%
 1.945%
 1.915/905%
 1.86%
 1.82/805%**

Resistance/Support tables rank importance of levels by stars *, **, to *** being the most important

30yr US Yield – Daily



Source: CQG, Credit Suisse

30yr US Yield

US 30yr Bond Yields have rejected the 2021 downtrend at 2.17/18%, however we have used this pullback to turn tactically bearish.

Outlook: 30yr US Bond Yields have rejected important support at the 2.17/18% downtrend from the 2021 highs, pulling back to the recent low at 2.03/02%. With an important base still in place and daily MACD momentum still accelerating higher (and far from oversold, unlike other parts of the curve), we stay biased towards a deeper move higher, although further short-term ranging seems likely beforehand. Nevertheless, further retracement support on an eventual break above 2.17/18% is seen at 2.23%, with the size of the recently completed base ultimately suggesting an eventual move up to 2.42%.

Short-term resistance stays at 2.03/02%, which should now hold to keep the market on a direct upward trajectory. Next resistance below here is seen at the 1.985% “neckline”, below which would leave the market back in a range, which is not our base case.

It’s worth noting that we have implicitly shifted to a curve steepening bias for 5s30s by neutralizing our 5yr view and turning tactically bearish on the 30yr.

Short-term Strategy: We turn tactically bearish after resistance at 2.055% was reached, with scope for support at 2.42%, where we would turn tactically neutral. Resistance below 2.055% is seen at 1.985%.

Support

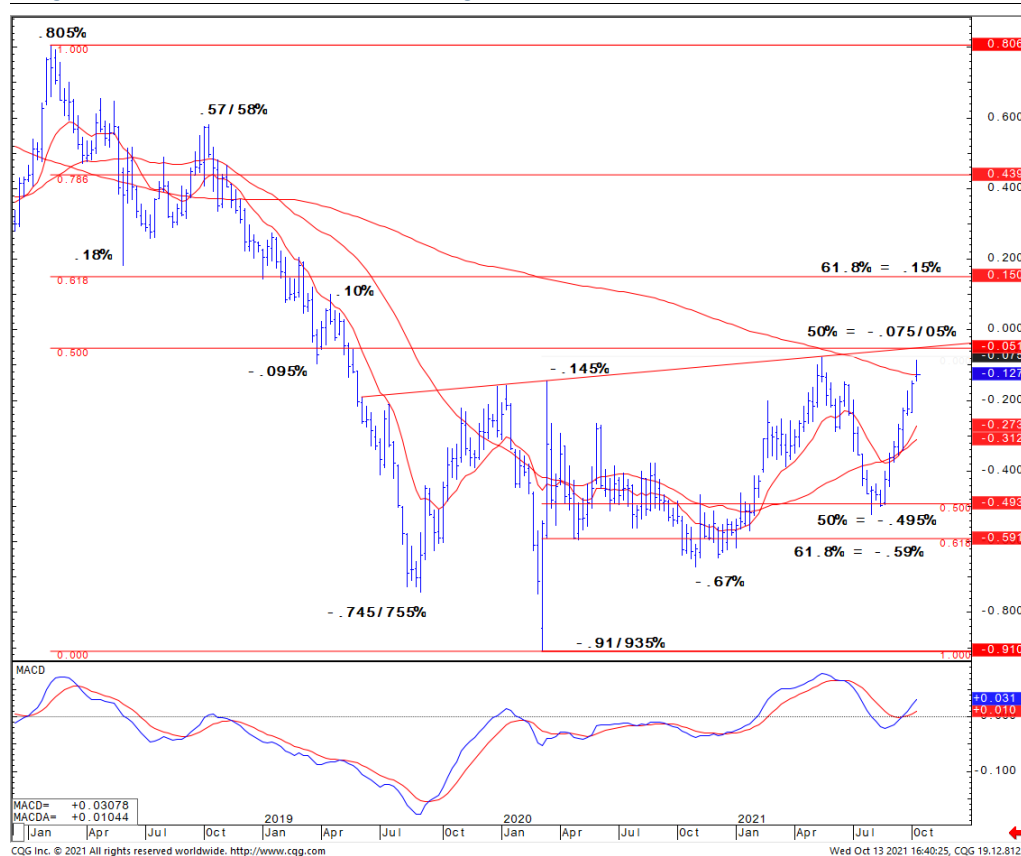
.08%
 .045/055%*
 .02/03%
 0%*
 -.025%
 -.055/05%**
 -.085/075%***
 -.10%

Resistance

-.145/155%
 -.18/185%*
 -.205%
 -.225/24%**
 -.265%*
 -.295%
 -.315%
 -.33/34%

Resistance/Support tables rank importance of levels by stars *, **, to *** being the most important

10yr German Yield – Weekly



Source: CQG, Credit Suisse

10yr German Yield

10yr German Bond Yields have now reached key medium-term support at -.085/075%, which is likely to prove a tough barrier for now.

Outlook: 10yr German Bond Yields are now in the midst of a crucial medium term support zone starting at the 200-week average at -.125% and stretching up to -.055/05%, with the market falling from the 2021 high at -.085/075%. We expect this broad zone to prove a tough barrier for now, however all of the technical factors that support the case for higher yields remain in place. Daily and weekly MACD are still moving higher, German 10yr Breakevens maintain their break out of a 6-year range and the EUR Swap Rate maintains its break above long-term support at .215/23%, which also completed a major base, suggesting Bund Yields will eventually break higher. With all this in mind, next supports on an eventual close above -.055/05% are seen at the psychological barrier at 0%, then .045/055% and eventually .155%.

Near-term intraday resistance moves higher to -.18/185%, then more importantly at -.225/24%, which includes the intraday uptrend from the August lows and a key yield low. Below here would suggest an important failure at the range top, however this is not our base case.

Short-term Strategy: We turn tactically neutral at market on our successful tactical bearish bias from resistance at -.30% after support at -.075% came very close to being reached. We now see resistance at -.18%, where we would turn tactically bearish again, with next resistance at -.24%.

Support

1.355%
1.325%*
1.275/285%
1.25%*
1.22/225%*
1.19/195%
1.15%
1.12%

Resistance

1.10%
1.075%
1.0305%*
.985/98%
.96%*
.94%
.925/92%**
.905/90%*

Resistance/Support tables rank importance of levels by stars *, **, to *** being the most important

10yr UK Yield - Weekly



Source: Uptada, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

10yr UK Yield

UK 10yr Bond Yields have fallen sharply over the past two days, which we have used to turn tactically bearish.

Outlook: UK 10yr Bond Yields have fallen sharply over the past two sessions, with daily RSI reaching heavily oversold levels that previously prompted the start of a very lengthy corrective/consolidation phase back in March. With a long-term base in place, we believe the corrective potential is much more limited now and have therefore used the pullback to turn tactically bearish again, with first intraday support at 1.12%, then the 2021 high at 1.22/225%. We still believe that there is scope for 1.375/39% over the medium term, with both medium term and even short-term momentum remaining outright bearish despite the recent pullback, with moving averages also still pointing higher.

Intraday resistance stays at 1.035%, which floored the market on Wednesday. Below here would suggest a short-term correction, with the intraday uptrend seen at .985/98%, below which would open up a move back to more important medium term resistance at .925/92%, which is the breakout point and an intraday uptrend. We expect this level to sustainably floor the market if reached.

Short-term Strategy: We turned tactically bearish after resistance at 1.035% was reached, with support seen at 1.375/39%, where we would turn tactically neutral. Resistance below 1.035% is seen at .92%, below which we would also turn tactically neutral.