RJO'Brien MARKET INSIGHTS

After Bludgeoning, Rate Markets Show a Pulse

Posted on 11/19/2024 8:52 AM by David Toth

DEC 10-YR NOTE

On the smallest of scales, the 240-min chart below shows overnight's recovery above a very minor corrective high at 109.305 from 13-Nov that confirms a bullish divergence in very short-term momentum. This minor bullish divergence in mo is grossly insufficient to conclude the end of the past two months' carnage from 11-Sep's 115.235 high following the Fed's 18-Sep 50-bp rate CUT. But it IS sufficient to identify last Fri's 108.30 low as one of developing importance and a mini parameter from which non-bearish decisions like short-covers and bullish punts can now be objectively based and managed.

We know that we cannot conclude a larger-degree reversal from proof of only short-term strength. But every larger-degree momentum divergence required to conclude such always starts with exactly such a smaller-degree divergence like this market confirmed overnight. This brings the key technical and trading matter of SCALE into one's directional decision-making are reliable. We do not guarantee that such information is accurate or complete, and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades.

On a broader scale, the daily active-continuation chart of the contract (above) and daily log close-only chart of 10-yr yields (below) show the magnitude of the past two months' collapse in T-note prices and whopping 83-bp jump in yields. To even threaten this downtrend (uptrend), a recovery above 08-Nov's 110.195 next larger-degree corrective high (below 08-Nov's 4.306% larger-degree corrective low) is required to confirm a bullish (bearish) divergence in DAILY momentum. Per such, these levels represent our short term but key parameters around which intermediate-to-longer-term traders can toggle directional biases and exposure.

Lastly, the weekly chart of the contract below shows what clearly is only a 3-wave recovery attempt THUS FAR from Oct'23's 105.105 low. Left unaltered by a recovery above 11-Sep's 115.235 high, we cannot ignore the quite bearish prospect that that entire 11-month recovery attempt is another correction within the 4-YEAR secular bear market ahead of another round of new lows below 105.105 (above 5.00% yield!). Nobody is expecting this, and such would likely have dire consequences across many other global markets, not the least of which would be equities.

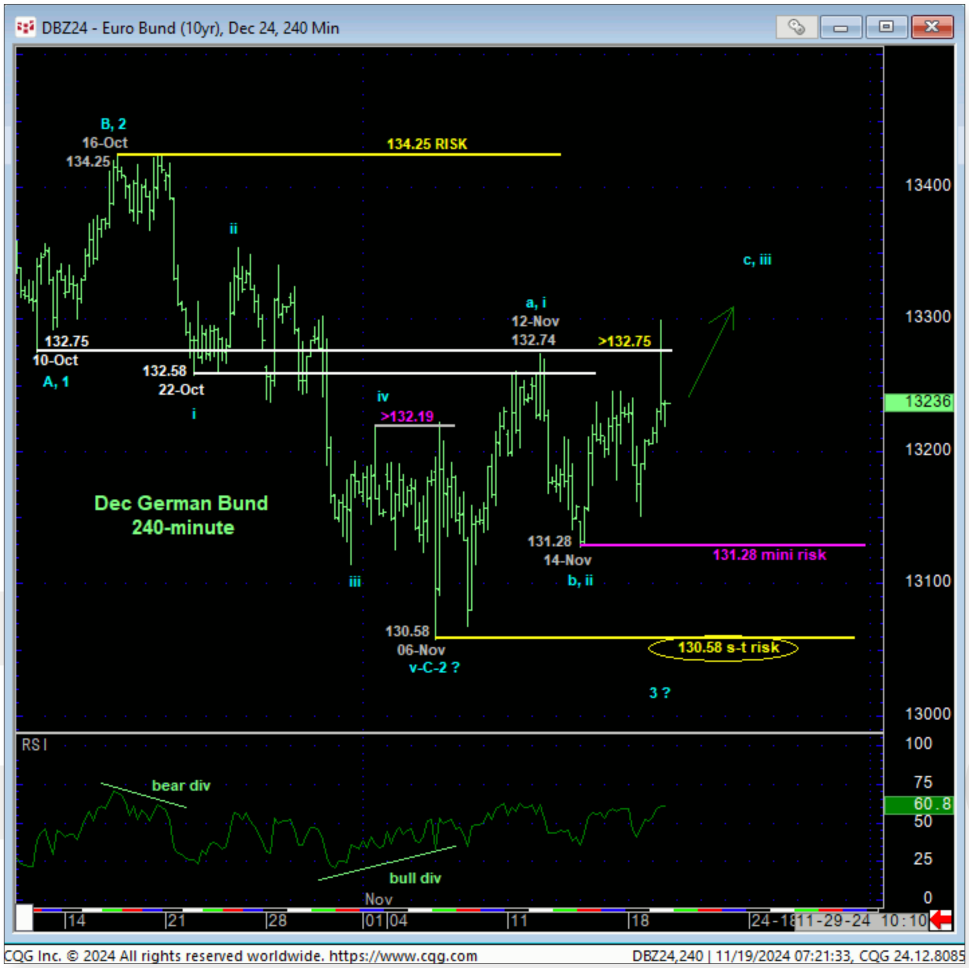
There is another "count" that would suggest the past couple months' swoon is a "smaller-degree" 2nd-Wave correction of Just Apr-Sep's portion of a major, multi-quarter base/reversal process. BUT IF not now for such a correction to end, WHEN? Perhaps herein lies the embryonic importance of overnight's bullish divergence in very short-term momentum that identifies a bullish pulse.

These issues considered, and while further strength above 08-Nov's 110.195 next larger-degree corrective high remains minimally required to reinforce a prospective broader bullish count, we believe Fri's 108.30 defines a more reliable low and support from which non-bearish decisions like short-covers and cautious bullish punts can be objectively based and managed.

DEC GERMAN BUND

Also showing a pulse is the German fund market with overnight's break above key former support-turned-resistance around the 132.59-to-132.75-area. We noted 132.75 as that next larger-degree corrective high and bear risk parameter in 06-Nov's Technical Webcast following that day's bullish divergence in very short-term momentum above 01-Nov's 132.19 minor corrective high. Today's "next level" of strength leaves smaller-degree corrective lows in its wake at 131.28 and especially 130.58 that it now must sustain gains above to maintain the impulsive integrity of a broader bullish count and avoid rendering the recovery from 06-Nov's 130.58 low another 3-wave and thus corrective affair that would then re-expose at least the downtrend from 01-Oct's 136.20 high and possibly the 4-year secular bear market.

Per such, 131.28 and 130.58 serve as our new mini and short-term parameters from which the risk of non-bearish decisions like short-covers and cautious bullish punts can now be objectively based and managed.



On a broader scale, the daily active-continuation chart below shows today's bullish divergence in momentum as a result of the market breaking 12-Nov's 132.74 initial counter-trend high. By doing so, we know for a fact that the rally from last week's 131.28 low can be one of only two things:

1. The dramatic 3rd-Wave of a broader bullish count OR

2. The completing c-Wave of another correction within an eroding market.

Per such, the bull has every opportunity to PERFORM now. And we will gauge that performance precisely above 131.28 and especially 130.58. And to reinforce a broader bullish count, commensurately larger-degree strength above at least 16-Oct's 134.25 next larger-degree corrective high remains required. This level remains intact as a key longer-term bear risk parameter pertinent to longer-term institutional players.

Requiring the bull to "perform" per any broader bullish count somewhere along the line is crucial because, on a longer-term weekly basis below, this market remains arguably bogged down in a lateral contracting triangle structure over the past TWO YEARS that is not hard at all to considered merely corrective/consolidative ahead of an eventual resumption of the secular bear market. Nobody is expecting this, and such would likely have dire consequences across many other global markets, not the least of which would be equities.

These issues considered, longer-term institutional players are advised to pare bearish exposure to more conservative levels and neutralize remaining exposure on a recovery above 134.25. Shorter-term traders with tighter risk profiles are advised to move to at least a neutral/sideline position, if not a cautiously bullish stance with weakness below 131.28 threatening this call enough to warrant neutralizing exposure.

JUN25 SOFR

Similarly, overnight's poke above last Thur's 96.045 initial counter-trend high confirms a bullish divergence in very, very short-term momentum in the Jun25 SOFR contract. Here too, this minor mo failure is grossly insufficient to conclude anything more than another corrective hiccup within the past two months' broader relapse. But it IS sufficient to identify last week's 95.885 low as one of developing importance and a micro parameter from which the risk of non-bearish decisions like short-covers can be objectively based and managed.

Commensurately larger-degree strength above at least 07-Nov's 96.115 next large-degree corrective high remains minimally required to generate any enthusiasm for a broader base/recovery count. Nonetheless, overnight's pop shows some semblance of a pulse.

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What's prospectively intriguing about this admittedly very minor mo failure is that it stems from a 95.885 low that is only three ticks away from the (95.87) 0.618 progression of Sep-Oct's 97.02 - 96.15 decline taken from 16-Oct's 96.41 corrective high. We're considering it indeterminable if the entire decline from 97.02 is a 3- or 5-wave affair. Given the prospect that the broader relapse from 97.02 is a 2nd-Wave correction of May-Sep's entire 5-wav rally from 95.275 to 97.02, the bullish implications of a complete or completing 2nd-Wave correction "somewhere around here" are compelling. However, overnight's pop above Thur's 96.045 high is FAR from sufficient proof to conclude such.

But as a result of overnight's pop, we have two levels around which to objectively toggle directional biases and exposure: 95.885 and 96.115. And traders are advised to do exactly that in the period ahead.


SR3M25 - 3 Month SOFR, Jun 25, Weekly
Jun25 SOFR - weekly
IV
May'23
97.48
A ?
12-Jan
96.85
>96.85
A, I, C-IV ?
16-Sep
97.02
97.02 RISK
C, III ?
B ?
96.02
Oct'22
III
95.455
Oct'23
V ?
95.275
01-May
V, "B" ?
A, B, II ?
C-B, II ?
V ?
Dave Toth - R.J. O'Brien
portal.rjobrien.com/MarketInsights
SOFR Bullish Consensus
(marketvane.net)
Low since
Jul 2006!
21%
22%
Lows since
Jul 2006 !!!
19%
RSI
bear div
BULL DIV
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