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CitiFX Wire

Technical Analysis: H1 2024 macro markets

Winter is coming

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What could happen

Bull steepening yields

- 1
 - US 2s10s could steepen to +26bps
 - US 2y yields face a quick slide to 3.55%
-

Soaring stocks, but caution warranted

- 2
 - 2022 highs are in sight for US stocks
 - Watch closely for signs of a downturn
-

The de-throned Dollar

- 3
 - 4.5% slide in DXY on the cards
 - 98.8-99.6 will be the key support level
-

Source: Bloomberg, Citi

What could go wrong

200bps retracement in US 2y yields

30% drawdown in S&P 500

4.5% slide in the Dollar index (DXY)

Source: Bloomberg, Citi



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What will the future *yield*?

Yields: Bull steepening

Strong resistance levels & setups suggesting downside.



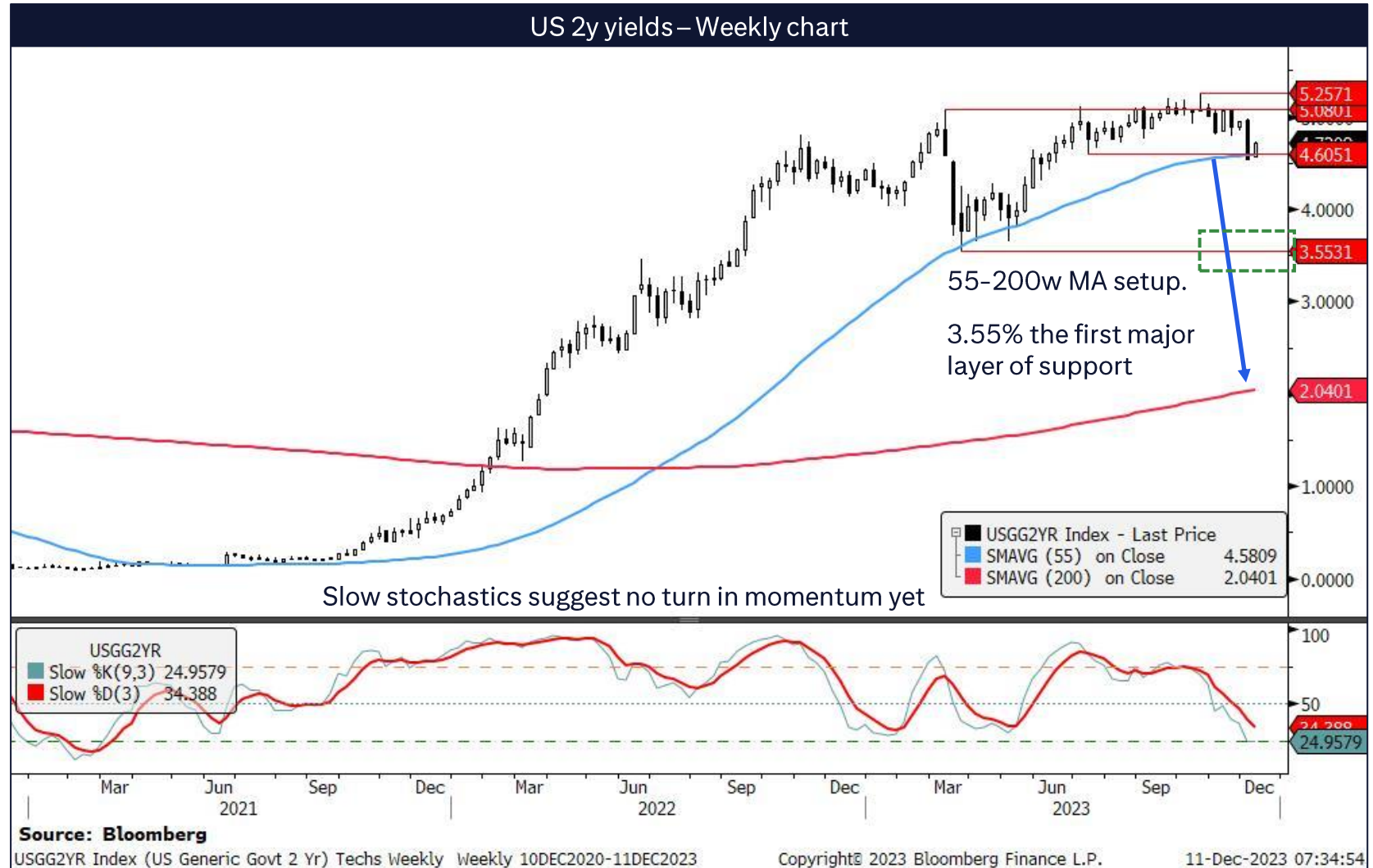
US 2s: The 100bps free-fall

What could happen:

- A 100 bps move lower towards next support at 3.55% (March 2023 lows) is on the cards especially since we have already seen a weekly close below 55w MA.
- This will likely be a rapid move

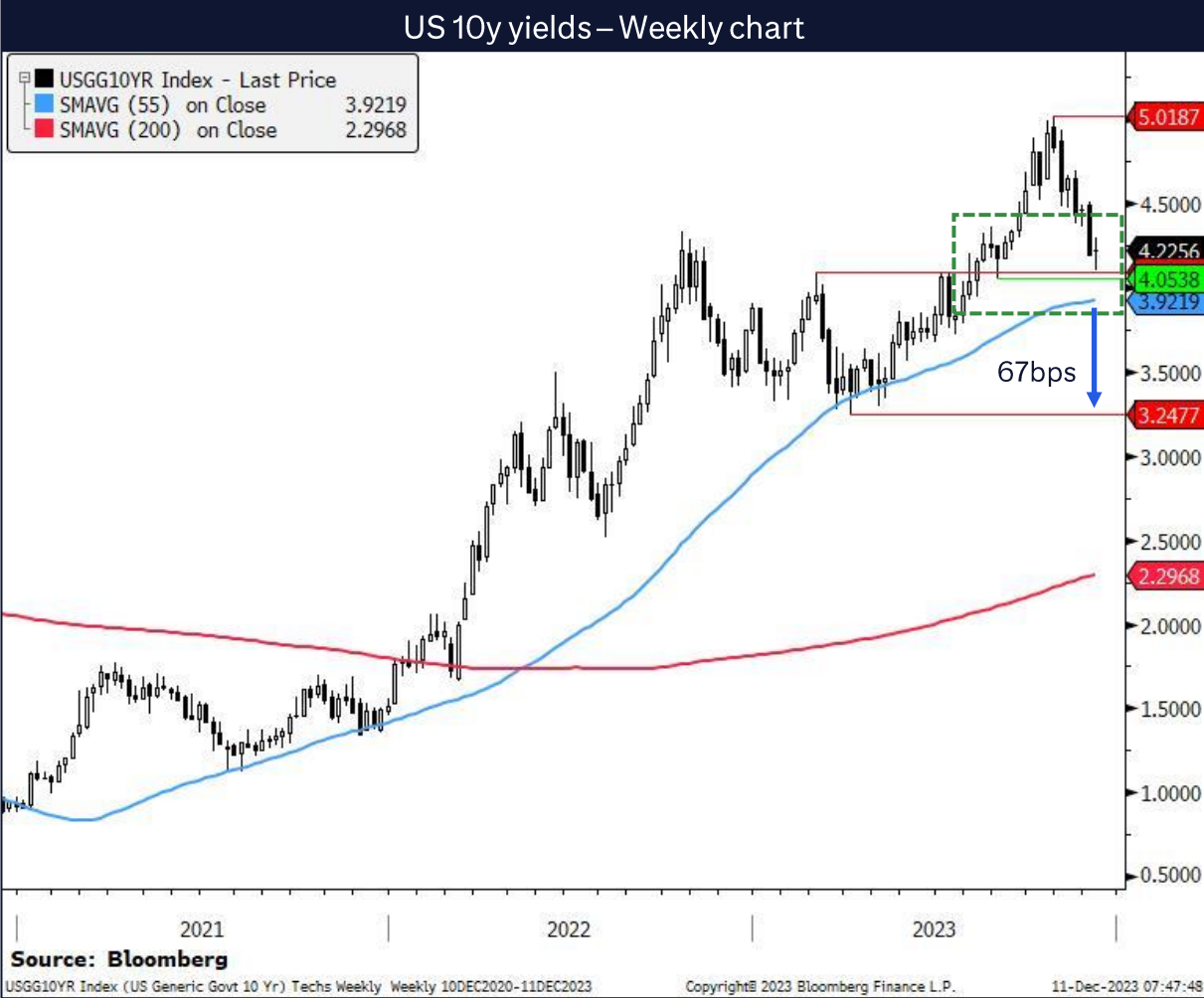
We are at pivotal levels

- 2y yields have already closed below 55-week MA in early December, though we have seen a small pullback of the move
- A break below initiated a 55-200w MA setup which points to extended losses towards ~2%
- Bearish outside week emphasises downside potential
- Move in March 2023 shows how fast markets can move from “optimism” towards “something is breaking”.



A slower drop in 10y and 30y yields

Multiple support levels & lower downside potential



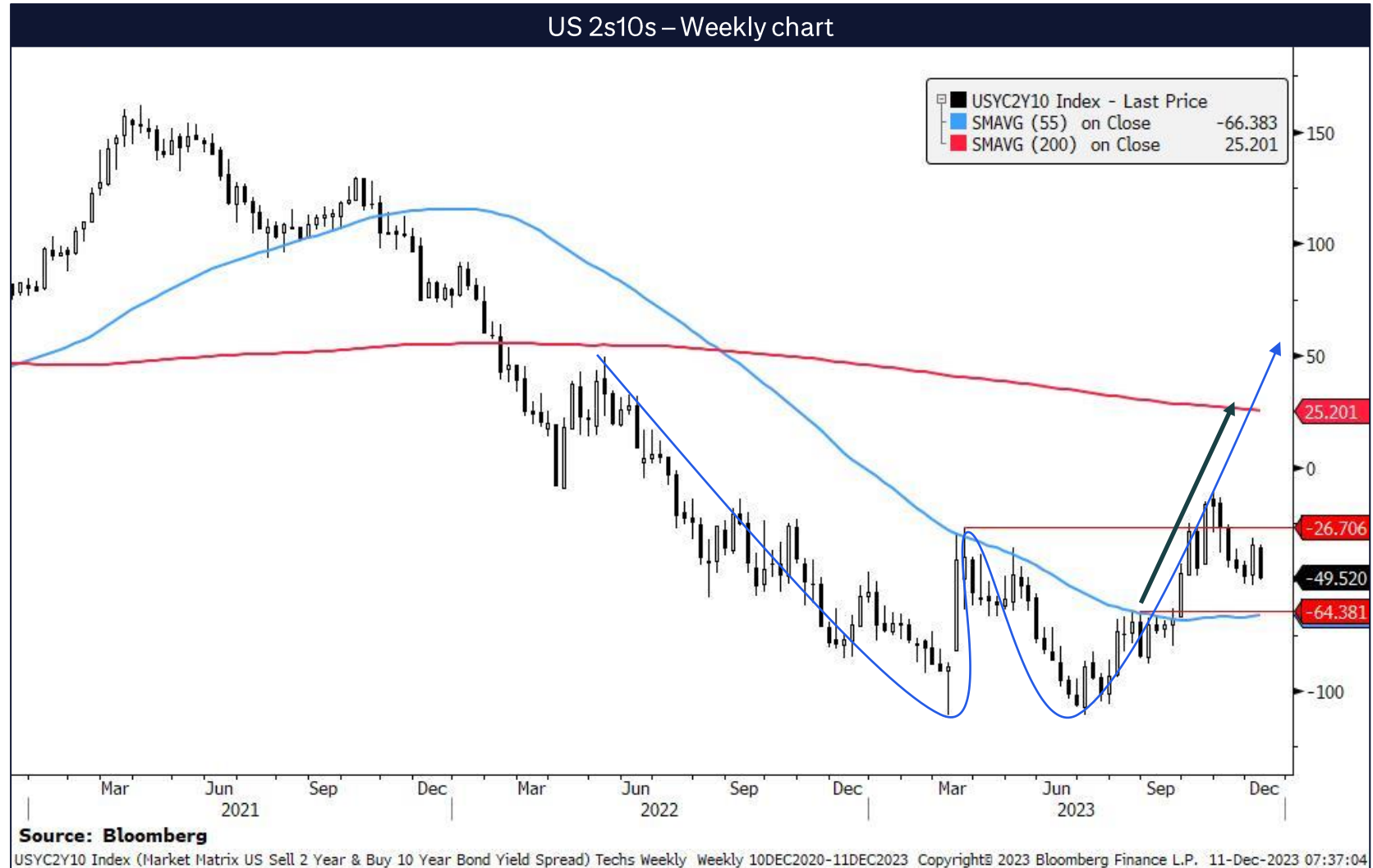
US Yields: 2s10s steepening incoming

What could go wrong

- ~75bps of steepening, towards +26bps
- Steepening will be swift

Building blocks suggest end to inversion

- Multiple technical setups suggest large rallies
 - 55-200d MA setup suggests move towards +26bps
 - Double bottom indicates a further move towards +57bps
- This is a bounce off historical lows
- For reference, we are still more inverted than the lowest levels in 2006/7

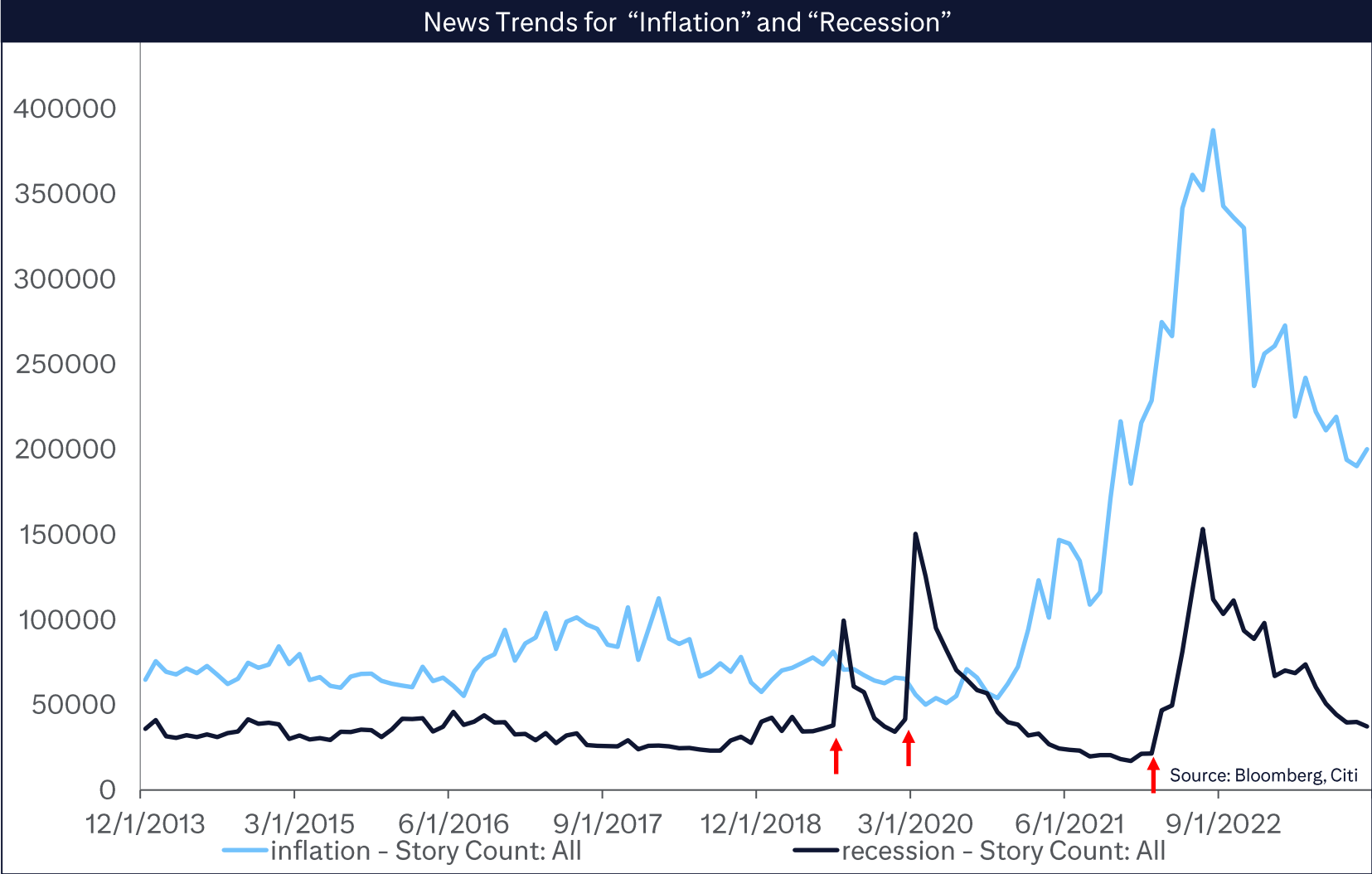


Recession fears will drive bull-steepening

Recession is the more likely reason of the two:

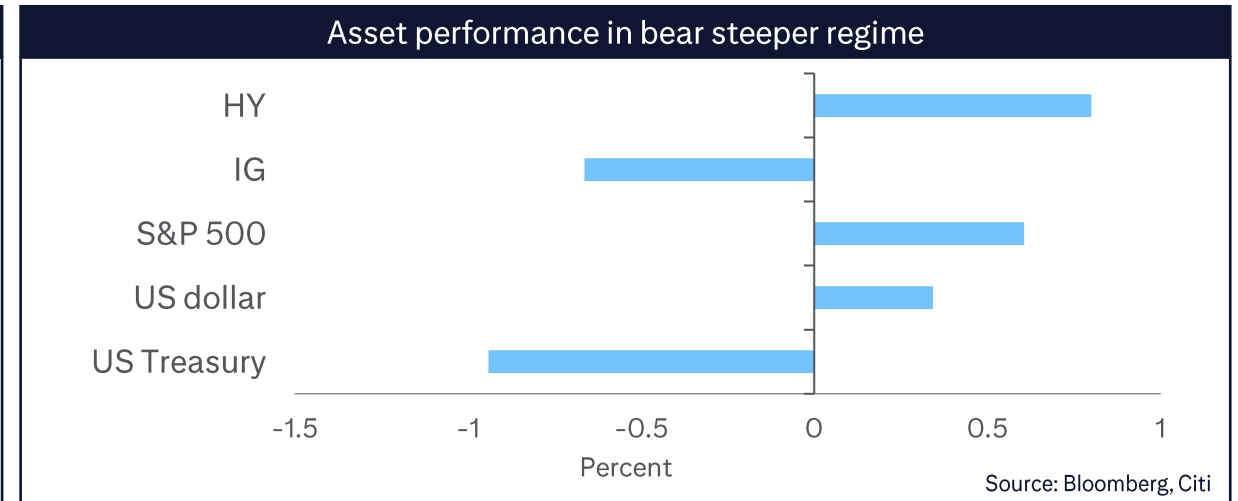
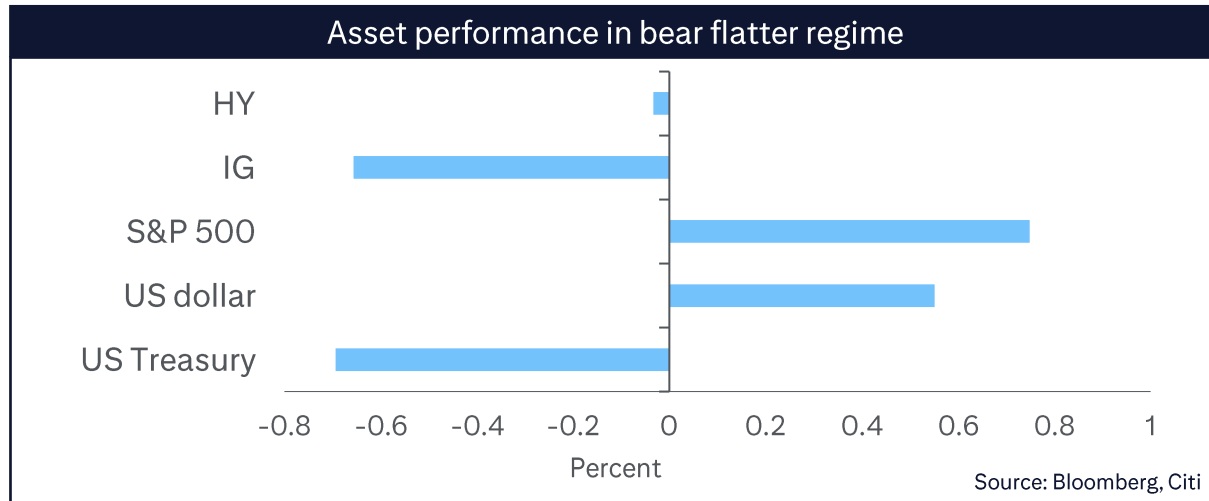
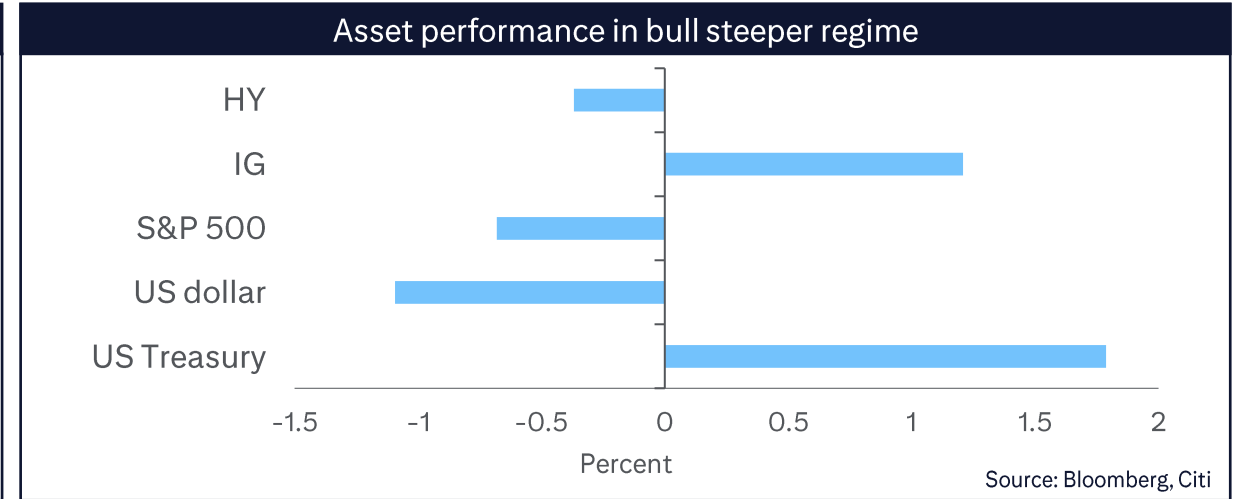
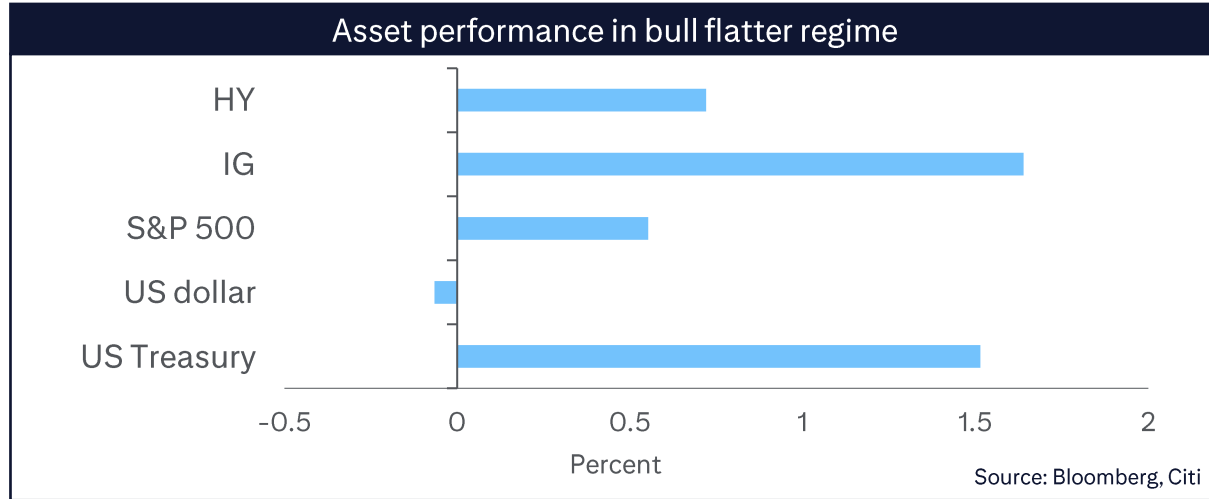
- There are 2 reasons for bull-steepening
 - A rethink of recession risks
 - Inflation slowdown

Chart highlights how fast recession sentiment can pick up



Our reference point: Curve regime review

With yields dominating much of market moves, we look to the “curve regime” to guide our thoughts



citi Footnotes: US Treasury returns calculated from Bloomberg US Treasury Index, Investment grade bond returns (IG) calculated from Bloomberg US Corporate Investment Grade Index, High yield bond returns (HY) calculated using Bloomberg US Corporate High Yields Bond Index, US dollar returns are calculated using the Dollar Index Spot (DXY), We specify a curve regime as two consecutive months of the same trend. H/T to my colleague Stephen Spratt for this analysis.



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Equities

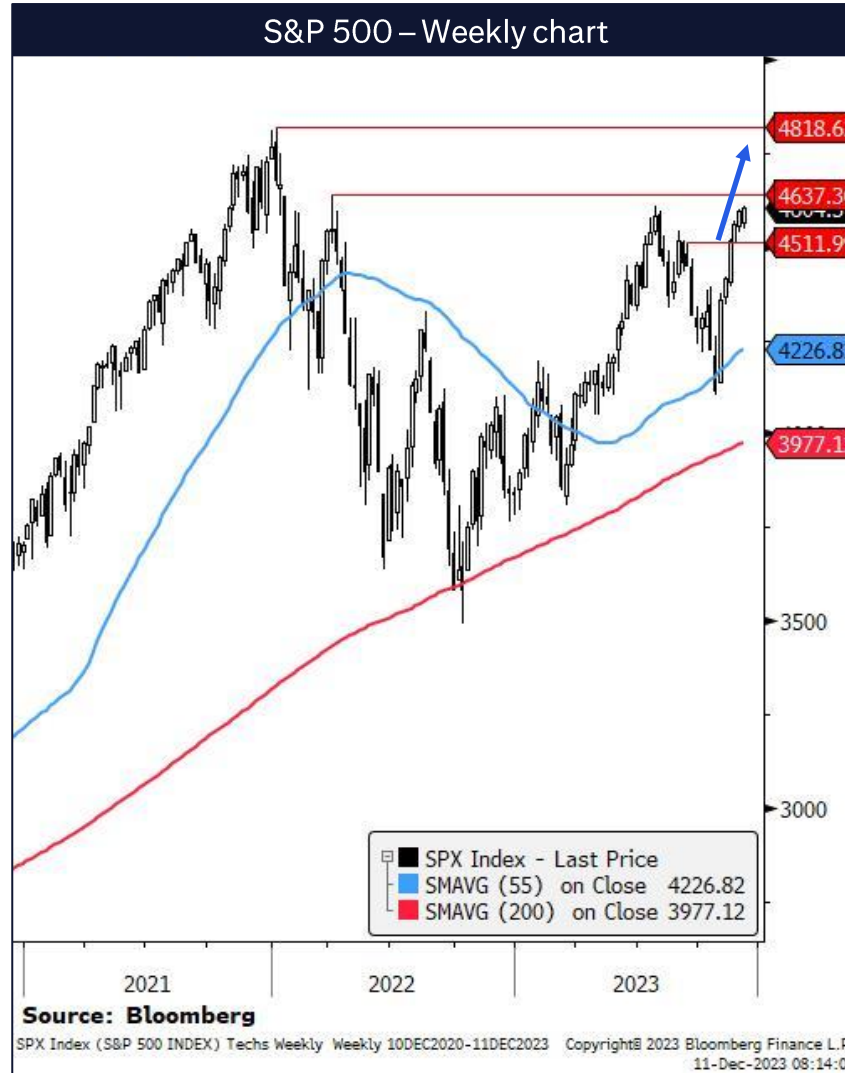
S&P 500: Clear skies, for now

What could happen:

- Near term rally of >4.5% into 2022 highs at 4818
- 4607 (2023 highs) is the first level to watch
- Monthly morning star & bullish outside week show upside potential

But caution is warranted

- Back to our curve regime, however. Bull steepening regimes are negative stocks.
- “Goldilocks” treads a narrow path
- This means higher into Q1, but we are closely monitoring any signs of turns.



Nasdaq Composite: 12% rally, maybe?

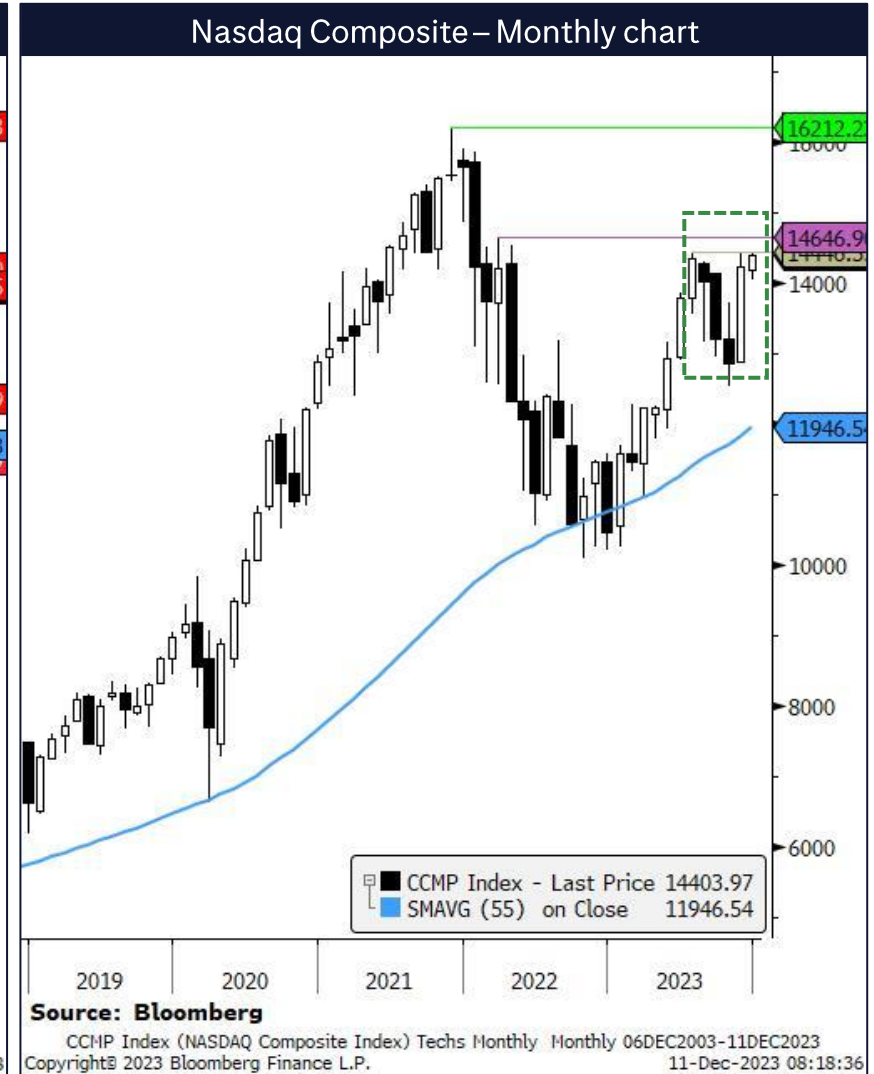
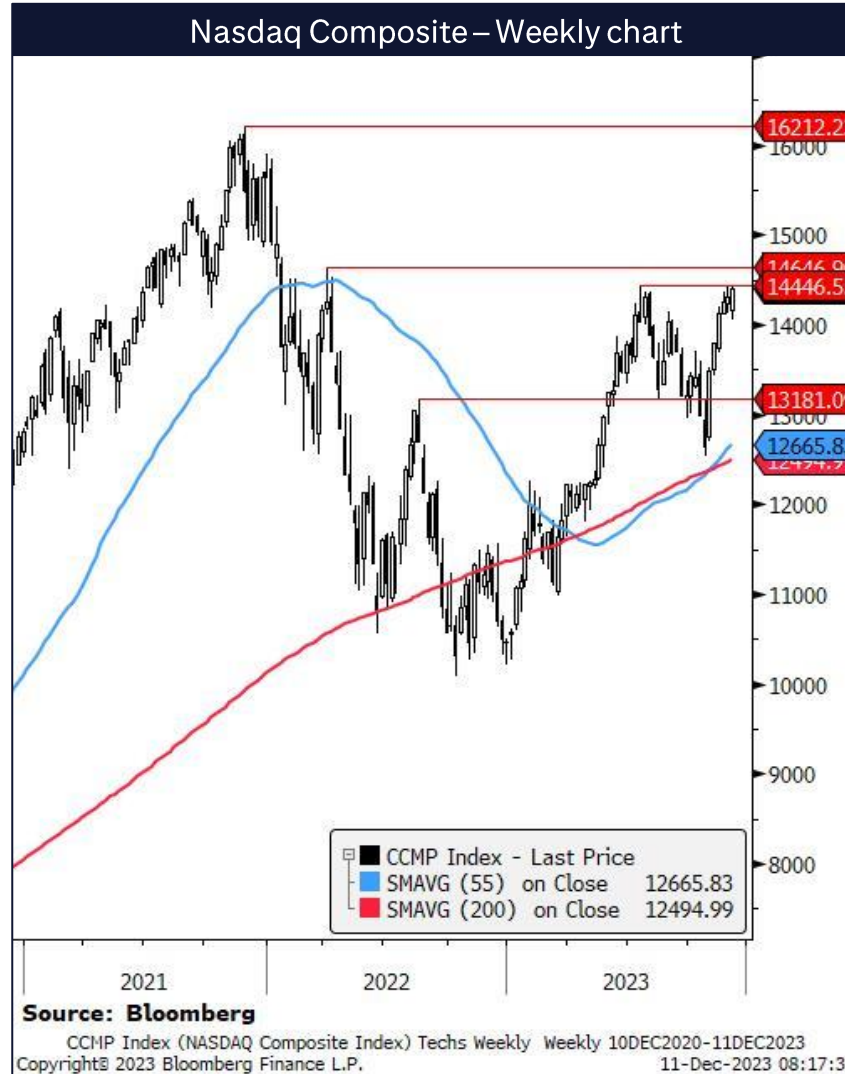
What could happen:

A break above 14446-14646 highs seems more like a “when” rather than an “if”, with monthly morning star formation & bullish outside week

- However, it is unlikely that we will reach heavy resistance at 2021 highs of 16212 (>12% rally)

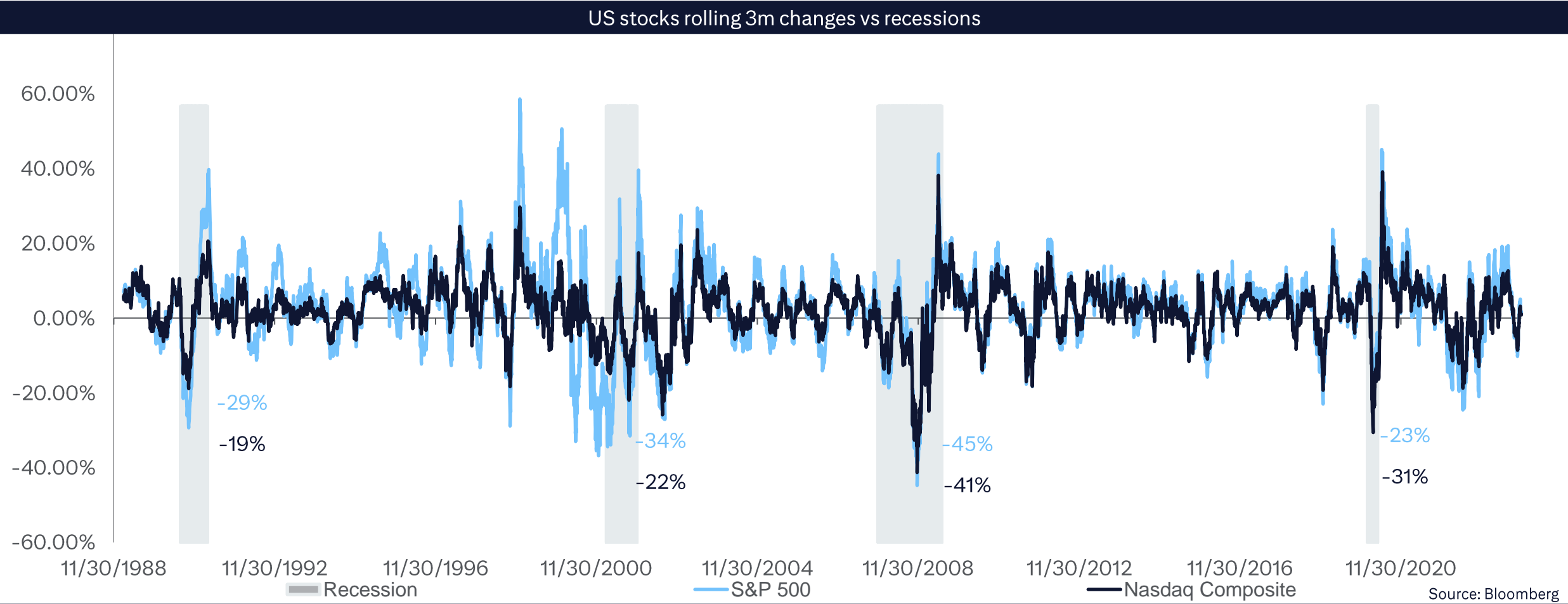
As with S&P, curve regime suggests downside sooner than later

- Bull steepening regimes are negative stocks.
- “Goldilocks” trends a narrow path
- This means higher into Q1, but we are closely monitoring any signs of turns.



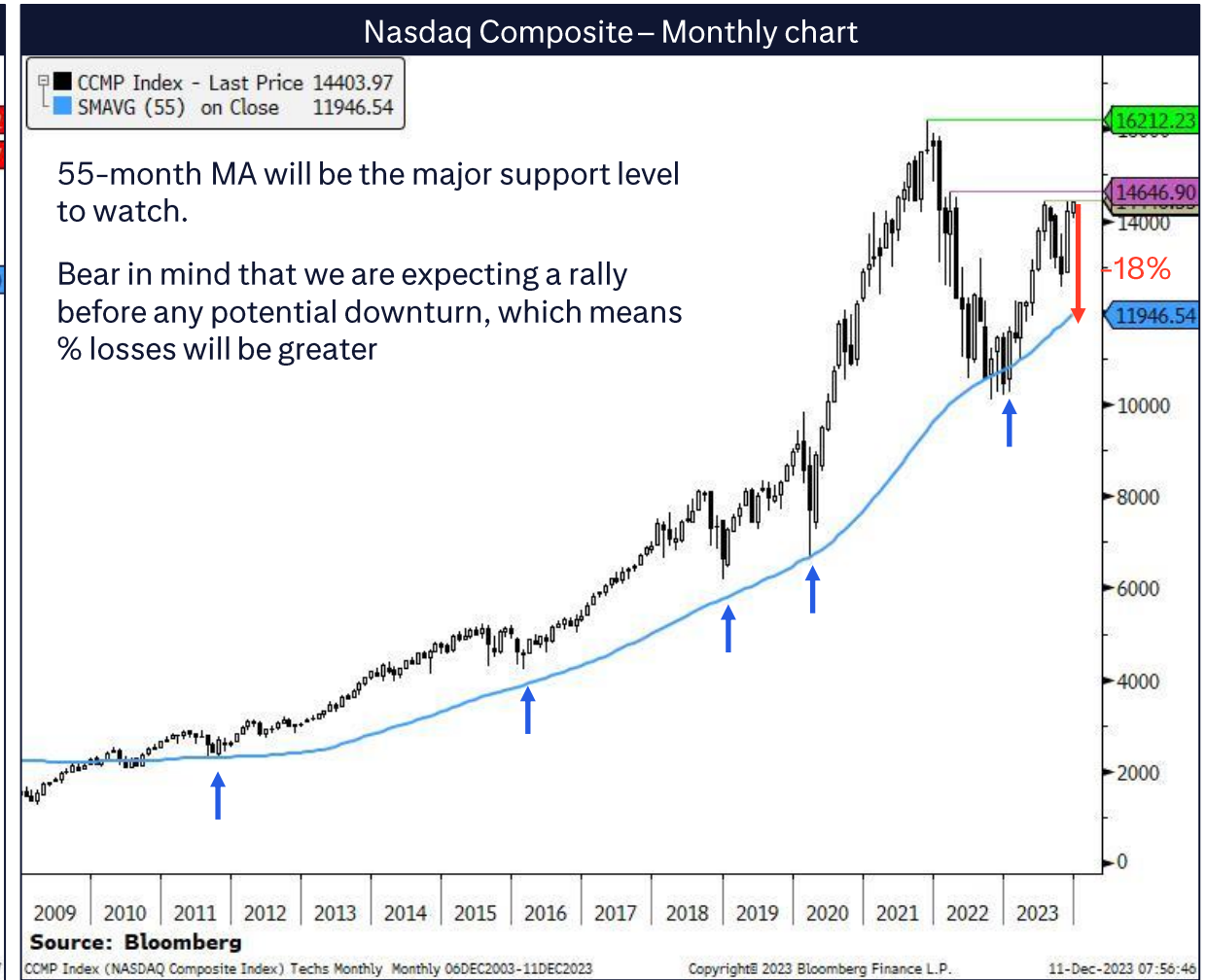
US Stocks: IF recession fears hit

On average, the 3m peak drawdown during a recession (past 30y): S&P 500: -33%, Nasdaq Composite: -28%



What does recession fears mean in techs?

Reversion to 55-month MA – the key support in the last decade





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The de-throned dollar

DXY: Down's the way

What could happen:

We think DXY could move rapidly towards 98.8-99.6 (55w MA, 200d MA, July 2023 lows) in the medium term

- We think this area will hold into Q1 2024
- However, we expect some short-term upside into year-end

No technical reason to be bullish dollar in the medium term

- No major supports till 100 level
- Monthly evening star in November 2023
- This resembles monthly evening star in November 2022
- Short term morning star in the weekly chart suggests some near-term upside potential persists, but this is not as convincing given the longer term, stronger indicators



USDJPY: 4% drop on the cards

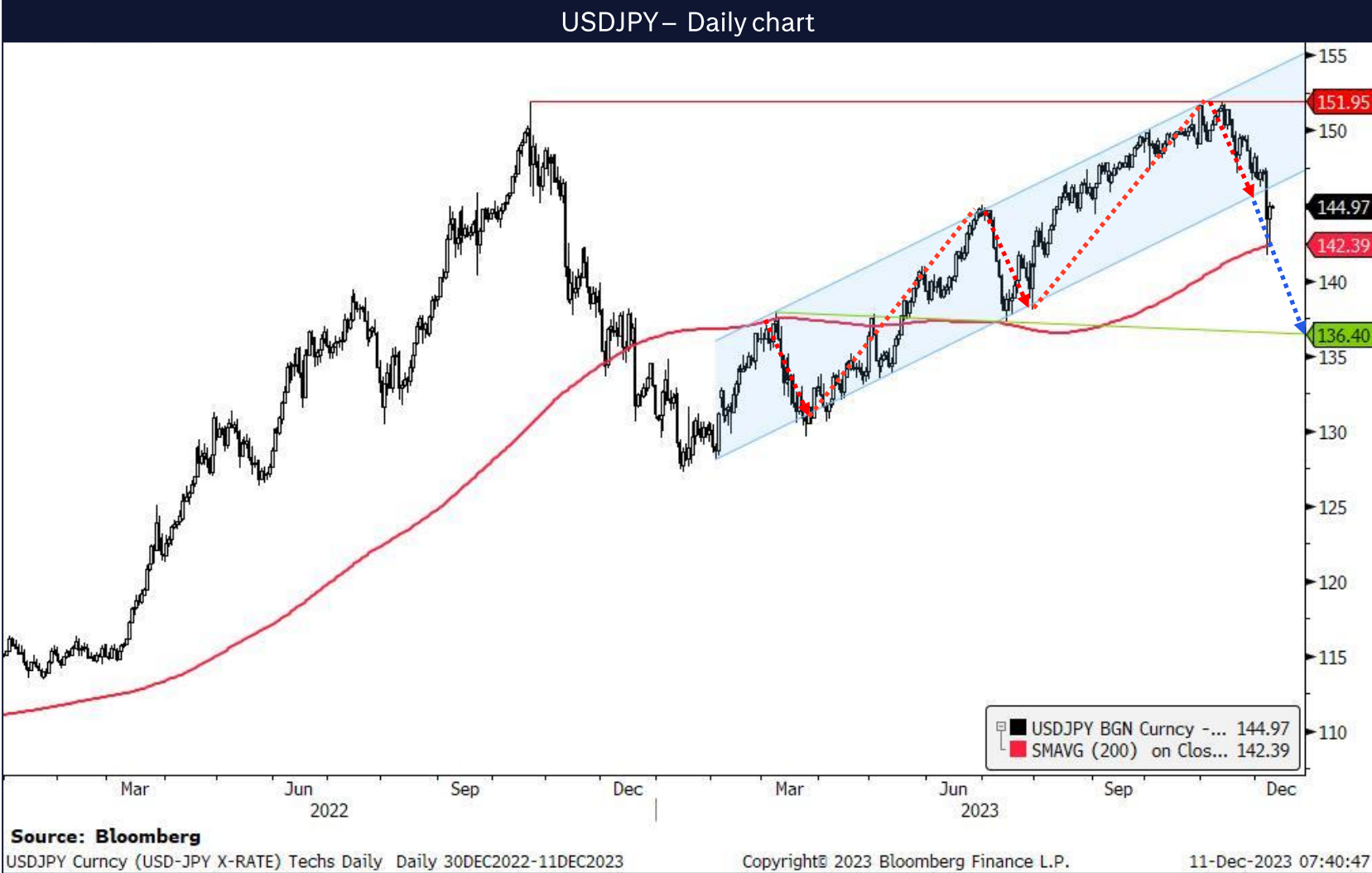
What could happen:

We broke below the lower support of the ascending channel (145.50) on a weekly basis. On top of that, we also have a Wolfe wave in progress

- Formation would suggest losses of >4%

Building blocks suggest break lower

- Wolfe wave and break below ascending channel
- Bounce lower off the 2022 highs
- Initial support at the 200-day MA (142.39)



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