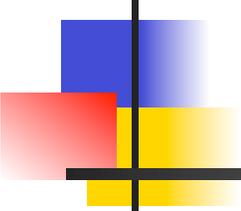
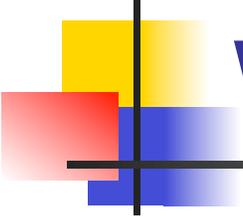


Commitments of Traders (COT)



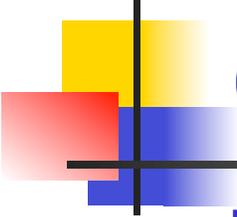
Floyd Upperman & Associates – Traders Expo 2011

- 1 - Review what the COT data is and where it comes from.
- 2 – Examine the raw data versus charting the data.
- 3 – Provide examples of how the COT data can be used in conjunction with price behavior (traditional price indicators) as part of a trading approach (trading system). I'll be using my website for this – www.upperman.com



What is the COT?

The cot data is a breakdown of all open positions in the futures markets. The Commodity Futures Trading Commission (CFTC) issues the COT reports on a weekly basis. These reports provide valuable insight into the participation in the futures and commodities markets. They show us which categories of participants have benefited from recent price action, and they also show us how major participants are positioned in the markets, which can be a very powerful clue to the future direction of price!

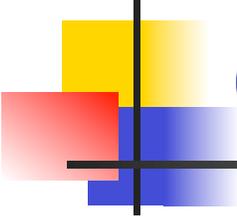


COT reports

- The CFTC (U.S. government agency) provides COT reports to the public on a weekly basis. The reports are accessible via the CFTC website.

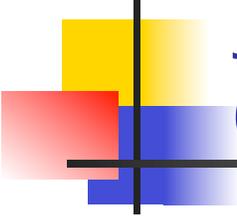
The CFTC has been releasing COT data for many years. However, in recent years the markets have gone through tremendous change. By 2005, the original COT report was becoming less and less relevant due to the influx of new types of traders and the fact that the COT only had two categories for participants (commercial or noncommercial). And so began a debate on whether or not the COT report should be eliminated. When traders heard this, they spoke up! The CFTC received over 4000 responses from traders, requesting that the COT not be eliminated. Rather than eliminate the report, the CFTC embarked on the process to improve the data. They started by providing a supplementary CIT report, but did not stop there. They followed this up with the disaggregated COT and the Traders in Financial Futures (TFF) COT reports. Today we have 4 COT reports.

- All the raw data is provided on the CFTC website: <http://www.cftc.gov>



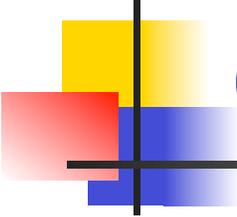
COT Reports (data) in 2011

- Data History: 1983 – Today
Traditional COT report. This is the original COT report with two main categories: (A) Commercials and; (B) non-commercials
- Data History: 2006 - Today
Disaggregated COT report. This report further breaks down the two main categories in the traditional COT report into four new categories as follows: Commercials separated into (A) Swap Dealer positions and (B) True commercial hedgers. Non-Commercials separated into (A) Managed Money and (B) other managed money. It covers commodities only.
- Data History: 2006 – Today
Supplemental Commodity Index Trader (CIT) report. This report shows commodity index trader positions. This report covers only 12 markets
- Data History: 2006 – Today
Traders in Financial Futures (TFF) report – New and very unique. This report pulls data from both commercial and non-commercial categories in the original COT and places them in more defined categories. Covers financials only (*i.e. the markets not included in the disaggregated COT*).



Jan 2011 Complete COT Data Categories (Categories of Traders)

- Commercial category
- Non-Commercial category
- Swap Dealer category
- Managed Money category
- Asset Manager/Institutional category
- Leveraged Money category
- Dealer/Intermediary
- Commodity Index trader category



Commercial category

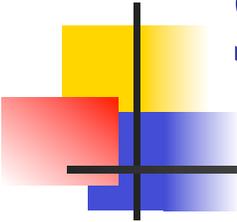
- Producers

- Farming industry
- Mining industry
- Petroleum industry
- Banking industry

- Consumers

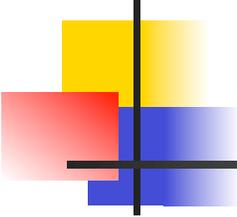
- Food conglomerates
- Transportation sector
- Construction industry
- Electronics industry
- Jewelry makers
- Financial sector

These are just some examples. There are many corporations and businesses that make up these industries. Examples include Monsanto, Kellogg, ExxonMobile, ConocoPhillips, Cargill, Kraft, PepsiCo, Dupont, General Mills and so on. Traders gain valuable insight by monitoring the trading activity of these participants. The COT reports provide the means to track these participants. The market positions these huge entities take get reported weekly in the COT reports. They are constantly in the markets, accumulating, distributing and adjusting their positions. They are so large that they can not hide. We don't necessarily care as much about what they are doing individually, rather its what they are doing collectively that often signals changes in market conditions.



Swap Dealer Category

- During the past 10 to 12 years, the futures & commodities markets have experienced an explosion in open interest and volume (trading volume has grown 5 fold since 1998). Part of this is due to pension fund and endowment activity. Historically, pension fund and endowment participation in commodities has been limited. These entities have primarily focused on equities and bonds. Today they are key players in commodities, with billions of dollars in exposure.
- Over the last 8 to 10 years, pension funds and endowments have begun allocating portions of their massive portfolios to commodities exposure, often using an index such as the goldman sachs commodity index (GSCI). They do this in a non-leveraged passive manner through swap dealers. The swap dealers are middleman in these transactions and investment banks manage the positions that make up the commodity index. Whatever the gains or losses are, they are passed through to the pension fund while the swap dealer may realize a fixed (no risk) return derived from dividends or interest rate instruments held by the pension fund or endowment. The investment bank managing these positions are not directly exposed to the risks either, as again the gains or losses are passed on to the pension fund. Up front, the investment banks benefit from the fees associated with managing the positions, but secretly they may also benefit from the knowledge they gain related to the billions going into the markets. In addition, they can use leverage (margins).
- No doubt, this activity has helped push prices higher in recent years, and in my opinion the on-going activity helps to maintain a price floor under many commodity markets as well. Obviously any changes in this activity can have a serious impact on these markets. Thus, this is why its so important to monitor this activity using the COT reports today.



New Disaggregated COT Report

- **Data provided for grains, livestock, metals, energy and softs.**
- Disaggregated Commercial = “Producer/Merchant/Processor/User category”.

* This is the traditional COT commercial category with the SWAP DEALER positions removed and placed into their own category called “Swap Dealers”.

Separating new Disaggregated COT from traditional COT:

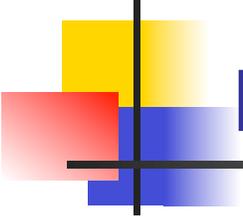
Commercial = Producer/Merchant/Processor/user (pure commercial)

Swap Dealer = New category (extracted from traditional commercial)

Large speculator divided into two new categories as follows:

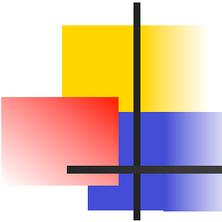
1 – Managed Money 2 – Other Reportables

NonReportable = Smaller positions under CFTC reporting limits.



New Traders in Financial Futures (TFF)

- **Data provided for Currencies, Stock indices, and bonds.**
- **Categories:**
 - 1) Dealer/Intermediary (market makers on sell side)
 - 2) Asset Manager/Institutional (buy side)
 - 3) Leveraged Funds (buy side)
 - 4) Other Reportables (buy side)



Exploiting COT throughout differing trading conditions and investment environments.

- COT by itself is not enough. Its critical to include price indicators, analysis of trend and recognize overall trading environment.
- Traditional commodities trading environment is one of BOOM & BUST. There are rare periods when fundamental conditions allow prices to move into new ranges, where they do not bust back to pre-boom levels. This happened in the late sixties and early seventies for example when the U.S. went off the gold standard, and inflation took hold. Gold sky-rocketed in price as did other commodities. Most never returned to old price ranges (i.e. gold would never again dip below \$100/oz , nor would soybeans ever dip under \$3/bu again. After this period, traditional boom and bust would persist until the turn of the century, and once again fundamental conditions changed, resulting in another period of boom without bust. We are in this unusual period right now.
- Soybean history price chart – <http://www.upperman.com>