

COMMENT

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**secretary**

**From:** Winston Doyle [winstondoyle@optusnet.com.au]  
**Sent:** Saturday, July 15, 2006 3:36 AM  
**To:** secretary  
**Subject:** Cot reports

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OFC. OF THE SECRETARIAT

Eileen Donovan, Acting Secretary  
 Commodity Trading Futures Commission  
 Three Lafayette Center  
 1155 21<sup>st</sup> Street, NW  
 Washington, DC 20581

Received CFTC  
Records Section

07/17/06

Email: [secretary@cftc.gov](mailto:secretary@cftc.gov)

Subject: COT reports

In response to your request for comments, I am deeply concerned that the CFTC would consider discontinuing such a popular and insightful report. While the report may need modification, the number and size of exemptions granted by the Commission would seem to demand more transparency, not less. In general, any modification must avoid discontinuing, suspending, or delaying, the Commitments reporting. And the Commission should take precautions to implement report changes in such a way as to maintain continuity with historical data. Absent historical reference, the report becomes nearly unintelligible. My specific responses to your numbered inquiries are as follows:

1. As an individual trader, I use the COT report to alert me to sudden position changes that would indicate a reversal in sentiment by a particular trader group. I also look at total positions against their historical ranges to identify sentiment extremes among the various trader groups.
  - a. The size of the commercial long and short totals, as well as the ratio of these, is useful in discovering extremes or significant changes in sentiment within the "trade." Historically, large one-sided positions among commercial traders has indicated a potential price trend change in the direction of the commercial position. Likewise, resurrections in major trends often follow a large change in commercial buying or selling patterns.
  - b. Non-commercial large traders have historically shown a preference for momentum trading strategies and, thus, provided the buying power in bull trends and the selling power in bear trends. I look for a trend to accelerate in the direction of predominant one-sided large speculator trading. I anticipate declining large speculator participation and am alert for potential trend reversals when their positions approach historical long or short extremes.
  - c. In uptrends, the extent that large non-commercial traders are willing to bid forward futures prices to a premium over normal carrying charges gives me an indication of the potential strength and longevity of bullish conditions. In downtrends, momentum selling usually results large speculators holding shorts and net short positions near their historical extremes at price bottoms in both futures and cash prices.
2. The Haig working paper on the CFTC website lists 41 related scholarly works, many

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apparently using COT data, and this is probably not a comprehensive list.

3. Market transparency is the antithesis of manipulative advantage, and the COT report makes US futures the most transparent of any exchange in the world. Do traders change their tactics based on data in the COT report? If they do, those reactions are promptly reported in next week's issue. This self-correcting feature is unusual in a potentially market-moving report.
4. The Commission must continue publishing the CoT report.
5. Since the large traders are not identified, only the Commission can judge the need for additional trader categories. It is difficult to understand the distinction the Commission draws between non-commercials and non-traditional commercials. Under the Commission's rules a hedge fund buying futures contracts is listed as a speculator and is subject position limits. However, if the same hedge fund acts through an intermediary swap dealer, it can apparently operate without limits and the futures position is categorized as a Commercial under the guise that the swap dealer is now a "bona fide hedger." If the Commission does not view these as equivalent speculative (non-commercial) positions, then I would prefer to see it listed under a separate category and reserve the commercial category for traditional hedgers.
6. The COT report is not the only source of information regarding the potential size and timing of investment fund rolls. Even if it were, the market would soon arbitrage out any unfair advantage. Transparency is the antithesis of manipulative advantage.
7.
  - a. The COT report is not the sole source of trader information. In fact many of these entities report their positions on SEC reports. For the CFTC to quit disclosing aggregate homogeneous positions would actually tilt the playing field in favor of large players who have the resources to aggregate this information from other sources.
  - b. Insiders don't need to "guess" the identity or position totals. They can get actual names from SEC and other (less public) sources and deduce futures position sizes from equity reports and broker contacts. By publishing factual aggregate totals, the Commission only levels the playing field to the disadvantage of potential manipulators who access inside or non-public sources.
  - c. The Commission has already increased the threshold number of reportable traders needed to publish Commitments data from 4 to 20. The Commission has to balance this perceived need for privacy of individual trading concerns against the benefits of transparency. It seems to me that a market's susceptibility to manipulation is inversely related to the number of large trader participants. Publishing the aggregate totals in the COT report is the antidote, not the poison.
8. & 9. For simplicity, categories should be consistent for all markets. If the total for a particular category in a particular market is zero, it doesn't take much effort to place it there. This provides flexibility to the Commission in future trader classification. As the Commission points out, the derivatives landscape is constantly changing and new products and non-traditional participants may be just around the corner for any market. And it is conceivable that a future Commission might use a different categorization protocol and categorize positions based on the source of the funds rather than the current practice, which apparently ignores the original source and purpose of the position.
10. Users of the COT report have benefited with each and every increase in reporting frequency. Less frequent partial reports create doubt, cloud transparency, and can't help anyone besides inside players.
11. Reportable traders are already required to report speculative positions separate from "bona fide hedges." This is not a hardship, particularly in the case of these large traders, whose reporting is automated.



Signed

Winston Doyle  
71 Hilly St  
Mortlake 2137  
Sydney NSW  
Australia

 61 (02) 9743 3103  
 +61 0408 947799

 [winston@winstondoyle.com](mailto:winston@winstondoyle.com)  
 [www.andrewcash.com](http://www.andrewcash.com)