

COMMENT

06-3
663

RECEIVED
7/20/06

secretary

From: unicorn@azure.rahul.net on behalf of Alex Matulich [alex@unicorn.us.com]
Sent: Thursday, July 20, 2006 12:42 PM
To: secretary
Subject: COT Report

OFFICE OF THE SECRETARIAT

Received CFTC
Records Section

7/21/06

To: secretary@cftc.gov
From: Alex Matulich, Director, Unicorn Research Corporation
Subject: COT REPORT

I trade futures both for myself and for my company. The CFTC's COT report is indispensable for my trading strategies.

The Federal Register Notice on the CFTC web site indicates that the CFTC may consider discontinuing the COT reports. As a trader who uses them, I request that you drop this possibility from consideration immediately.

The Federal Register notice also asks several questions which I can attempt to answer from my point of view, if it will help.

> 1. What types of traders in the futures and option markets use the
>COT reports in their current form, and how are they using the COT data?

I am a private speculator who trades futures and options, and I use the COT report in its current form.

>More specifically:

> (a) How do traders use the COT information on commercial positions?

Generally I use only the "commercials" data, and compare it with other sentiment indicators to gauge how I should bias my trades.

> (b) How do they use the COT information on non-commercial
>positions?

I have used this as a supplementary market sentiment indicator.

> (c) In particular, with respect to information on non-commercial
>positions, what information or insights do traders gain from the COT
>reports regarding the possible impact of futures trading on the
>underlying cash market?

Knowing something about commercial activity is valuable. If the commercials seem unusually biased toward long or short, there is an underlying reason for it. Most commercials actually deal in the underlying physical commodities, so their futures positions serve as a rough indicator of where they see risk.

> 2. Are other individuals or entities (academic researchers or
>others) using the COT reports and, if so, how?

I have performed academic research using COT reports as well.

> 3. Do the COT reports, in their current form, provide any
>particular segment of traders with an unfair advantage?

NO. Bluntly, this is a STUPID question. They reports are freely available to everybody. Any trader who needs it can access it.

> 4. Should the Commission continue to publish the COT reports?

YES!

> 5. If the Commission continues to publish the COT reports, should

>the reports be revised to include additional categories of data--for
>example, non-traditional commercial positions, such as those held by
>swap dealers?

I think it would be helpful for that particular category to be separated from the traditional commercial positions category.

> 6. As a general matter, would creating a separate category in the
>COT report for "non-traditional commercials" potentially put swap
>dealers or other non-traditional commercials at a competitive
>disadvantage (since other market participants would generally know that
>their positions are usually long, are concentrated in a single futures
>month, and are typically rolled to a deferred month on a specific
>schedule before the spot month)?

I cannot see why a large non-traditional commercial entity, who is required to report activities to the CFTC, deserves its activities to be treated as anything but public information. These entities would not be named in the COT report, so I don't see the harm in creating a separate category.

It may be valuable enough for individual traders to have this separate category, that the CFTC may get flooded with FOIA requests each and every week to provide this. Therefore, now that the CFTC has made me and the rest of the public aware of the capability to create this category, it would be in the CFTC's interest to do so.
Do you really want to deal with constantly answering FOIA requests?

> 7. More specifically, if the data in the COT reports are made
>subject to further, and finer, distinctions, such as adding a category
>for non-traditional commercials:
> (a) Would it increase the likelihood that persons reading the
>reports would be able to deduce the identity of the position holders,
>or other proprietary information, from the reports?

Not if the category included at least a dozen or so non-traditional commercial entities.

> (b) Could such persons use information gleaned from the reports to
>gain a trading advantage over the reported position holders?

Aren't commodity funds required to disclose their positions also? If so, why would more transparency create problems, especially if the CFTC reports aggregate data from a dozen or so different entities?

> (c) In such case, in order to reduce the likelihood of publishing
>categories with few traders, which might provide information giving
>other traders a competitive advantage over the reported traders, should
>the Commission consider raising the threshold number of reportable
>traders needed to publish data for a market from 20 traders to some
>larger number of traders?

A threshold of 20 seems high enough. It is conceivable that this threshold should be lowered if, say, 15 of those 20 create unrealistic variations in the traditional commercials category.

> 8. If the data in the COT reports are made subject to further, and
>finer, distinctions, should the reports be revised for all commodities,
>or only for those physical commodity markets in which non-traditional
>commercials participate?

I would like to see the report revised for all commodities. I do not know in which markets the non-traditional commercials participate. Further, you cannot predict which markets they will expand their activities into in the future.

> 9. If a non-traditional commercial category were added to markets
>in physical commodities, what should be done with financial
>commodities, where "non-traditional commercials" would be essentially
>an empty category (since, in financial commodities, swap dealers would
>fall within the pre-existing "commercial" category)?

The question seems to answer itself: leave the financials as they are.

> 10. The Commission has observed that the non-traditional
> commercials tend to be long only and tend not to shift their futures
> positions dramatically--even in the face of substantial price
> movements. If the data in the COT reports are made subject to further,
> and finer, distinctions, would issuing the additional data on a
> periodic basis, in the form of a quarterly or monthly supplement, be
> sufficient?

Quarterly releases would not be useful to anyone but academic researchers. Additional data should be released with every new COT report.

> 11. Some reportable traders engage in both traditional (physical)
> and non-traditional (financial) commercial activity in the same
> commodity market. If the data in the COT reports are made subject to
> further, and finer, distinctions, such traders would have to break out
> their non-traditional commercial OTC hedging activity into a separate
> account. Would such a requirement represent an undue burden to those
> traders?

I am not one of those traders, so I cannot answer this.

```
--  
 , |___ Alex Matulich -- alex@unicorn.us.com  
// +__> Director of Research and Development  
// \   Unicorn Research Corporation -- http://unicorn.us.com  
// __)
```