

An aerial night photograph of a city, likely New York City, showing a dense grid of skyscrapers and streets. A semi-transparent dark blue rectangular box is centered over the image, containing the title text in white. The city lights are visible through the box and around it, with some buildings showing blue and white lights, and others with warmer yellow and orange tones. The streets below are illuminated with streetlights, and some traffic is visible as small lights on the roads.

Commitments of Traders – An Ultimate Guide for a Forex Trader

Roman Sadowski

Commitments of Traders – An Ultimate Guide for a Forex Trader

After talking to many day traders I notice that most of them discount the Commitments of Traders report as a functional **leading indicator**. They are of the opinion that the data reported lags five days hence is invalid.

But this is the big one.

Commitments of Traders is first of [4 essential Steps to profit in Forex](#). It confirms your long term bias in the market.

There is no better tangible way of doing so.

If you are that guy who always says – Commitments of Traders is invalid, late, old or irrelevant, perhaps this article is not for you.

This article is for those traders who can see beyond 15 minute charts, but I hope that you decide to read it anyway because

I truly believe there is enough evidence for you to change your mind and once you get to the bottom of this page, you will be a much better trader.

Here it is – Everything you will ever need to know about C.O.T

1. Why prices really move
2. What is the Commitments of Traders report
3. Who qualifies for CFTC reporting.
4. Definitions around Commitments of Traders
5. How to find the report
6. How to use it in trading
7. How to bring it to the chart
8. How accurate is the Commitments of Traders really

Commitments of Traders – An Ultimate Guide for a Forex Trader

Why prices really move?

Price is a result of buyers' and sellers' interaction. Many traders know about it, but just a few use it.

The practical application of this comprehensive market law can be extremely useful for anyone who has ever dared to predict future prices.

Fundamental and technical conditions create supply and demand. This is the only law of the price.

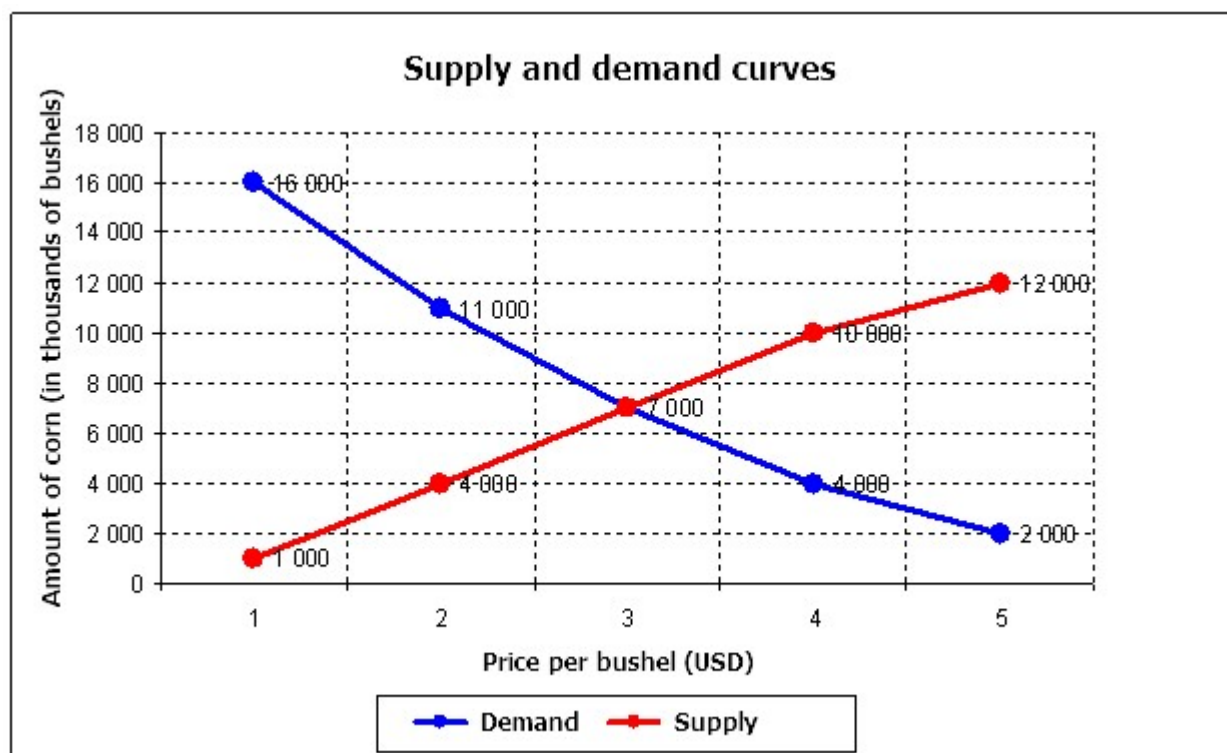
No matter how trivial it may seem, demand and supply determine the price.

It might be partly driven by emotions or rationale but after all – the volume of orders will decide which way the price will go.

Supply and demand is a basic principle in economics illustrated in the chart below.

The higher the price (Y axis) the less the commodity is demanded (X axis).

Commitments of Traders – An Ultimate Guide for a Forex Trader



There are many ways to measure **supply and demand in the market**. But Commitments of Traders is by far the most accurate tool I know.

The method of the market analysis using the Commitments of Traders Report can be considered as fundamental analysis.

Fundamental analysis itself hasn't found a wide application for traders. It's no secret that most traders use technical analysis for the real trading.

Why is that?

This is due to the fact that fundamental analysis is often connected with the economic news release, and it's impossible to predict the market reaction to the news because traders have limited knowledge of finance and macroeconomics. Many traders default to **technical analysis** as a core of their trading.

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DON'T BE ONE OF THOSE GUYS!

One cannot sustain profits in the long run without understanding the real forces behind the price movement.

What is the Commitments of Traders report

The Commitments of Traders Report is issued by CFTC.

The Commitments of Traders (COT) report provides a breakdown of each Tuesday's open interest for markets in which 20 or more traders hold positions equal to or above the reporting levels established by the CFTC. This is an essential tool for gauging long term sentiment in futures markets.

Antecedents of the Commitments of Traders (COT) reports can be traced all the way back to 1924. In that year, the U.S. Department of Agriculture's Grain Futures Administration (predecessor to the USDA Commodity Exchange Authority, in turn the predecessor to the CFTC), published its first comprehensive annual report of hedging and speculation in regulated futures markets.

Beginning as of June 30, 1962, COT data was published each month. At the time, this report for 13 agricultural commodities was proclaimed as "another step forward in the policy of providing the public with current and basic data on futures market operations." Those original reports then were compiled on an end-of-month basis and published on the 11th or 12th calendar day of the following month.

Commitments of Traders – An Ultimate Guide for a Forex Trader

It reports all open positions in futures markets of three main groups of traders:

1. **Commercial Traders – Hedgers. Fat cats with deep pockets**
2. **Non-Commercial Traders – Money Managers or Speculators**
3. **Non-Reportable – Retail market. You and me Mate!**

The report breaks down each Tuesday's Open Interest and gives us a powerful view on what exactly the big guys have been doing in the marketplace and what their plans might be.

It is issued every Friday and includes data from Tuesday to Tuesday.

The three days prior to the release date are not included.

Simply put, COT reports give us a view into the trading books of the most influential traders in the market.

Once we know what these guys are doing, it is easier to eliminate the noise, opinions and hype. Remember, the volume of money placed on one side of the market will tip the price towards that direction. This is supply and demand in play. This is as simple as it gets.

Reports are available in both a short and long format. The short report shows an open interest separately for reportable and nonreportable positions.

For reportable positions, additional data is provided for commercial and non-commercial holdings, spreading, changes from the previous report, percents of an open interest by category, and numbers of traders. Most of it is irrelevant to us.

Commitments of Traders – An Ultimate Guide for a Forex Trader

We want to focus on Commercial, Non-Commercial orders and open interest.

The CFTC makes available more than three years of history of disaggregated data included in the weekly Commitments of Traders (COT) reports.

You can access the Historical Viewable table and in the excel format by going into left hand side panel on the website as per screenshot below.

This could be handy if you want to see more correlations between the price and C.O.T data.

The screenshot displays the CFTC website's 'Commitments of Traders' page. The header includes the CFTC logo, navigation links (RSS Feeds, Email Subscriptions, etc.), and a search bar. The main navigation menu lists various sections like 'ABOUT THE CFTC', 'PRESS ROOM', 'MARKET REPORTS', etc. The 'MARKET REPORTS' section is expanded, showing a list of reports including 'Commitments of Traders', 'Weekly Swaps Report', 'Cotton On-Call', 'Bank Participation Reports', 'Financial Data for FCMs', 'Net Position Changes Data', and 'Staff Reports'. The 'Commitments of Traders' report is selected, leading to a page with the title 'COMMITMENTS OF TRADERS'. This page contains a detailed explanation of the COT reports, their availability, and a link to the 'Historical Viewable' table. A sidebar on the right lists 'RELATED LINKS' such as 'Large Trader Reporting Program' and 'Speculative Limits', and 'SEE ALSO' links like 'CFTC's Commitment to Open Government' and 'Report Fraud & Abuse'. At the bottom, there is a 'SPECIAL ANNOUNCEMENT' section and a 'REPORTS DATED MAY 10, 2016 - CURRENT DISAGGREGATED REPORTS:' section.

U.S. COMMODITY FUTURES TRADING COMMISSION
ENSURING THE INTEGRITY OF THE FUTURES & SWAPS MARKETS

MARKET REPORTS

- Commitments of Traders
- Weekly Swaps Report
- Cotton On-Call
- Bank Participation Reports
- Financial Data for FCMs
- Net Position Changes Data
- Staff Reports

COMMITMENTS OF TRADERS

Commitments of Traders

The Commitments of Traders (COT) reports provide a breakdown of each Tuesday's open interest for markets in which 20 or more traders hold positions equal to or above the reporting levels established by the CFTC.

Please see the official [Release Schedule](#) for a calendar of release dates.

Reports are available in both a short and long format. The short report shows open interest separately by reportable and nonreportable positions. For reportable positions, additional data is provided for commercial and non-commercial holdings, spreading, changes from the previous report, percents of open interest by category, and numbers of traders.

The long report, in addition to the information in the short report, groups the data by crop year, where appropriate, and shows the concentration of positions held by the largest four and eight traders.

Supplemental reports show aggregate futures and option positions of Noncommercial, Commercial, and Index Traders in 12 selected agricultural commodities.

HISTORY OF DISAGGREGATED COT DATA - OCTOBER 20, 2009

CFTC will make available more than three years of history of disaggregated data included in the weekly Commitments of Traders (COT) reports. History for the 22 commodity futures markets currently contained in the weekly disaggregated COT reports, first published on September 4, 2009, will be available starting Tuesday, October 20, 2009.

Machine-readable files will be located on the CFTC website, with data dating back to June 13, 2006. One type is a zipped, comma-delimited text file **Historical Compressed**; while the other type is a zipped Excel file. **Historical Compressed** In addition, the 3-year history will be available in a "viewable" file on the CFTC website, by commodity group, and, within group, by commodity. **Historical Viewables** These viewable files will only be available in the "long format."

Please note: CFTC does not maintain a history of large trader classifications. Therefore, *current* classifications are used to classify the historical positions of each reportable trader (this approach is commonly referred to as "backcasting," see the D-COT Explanatory Notes at, [Disaggregated Explanatory Notes](#).)

SPECIAL ANNOUNCEMENT

No announcements at this time.

REPORTS DATED MAY 10, 2016 - CURRENT DISAGGREGATED REPORTS:

Commodity	Reportable	Nonreportable	Disaggregated
Disaggregated Futures and			

RELATED LINKS

- Large Trader Reporting Program
- Speculative Limits

SEE ALSO:

- [OPEN GOV](#)
- CFTC's Commitment to Open Government
- CFTC Transparency
- Comment on Pending Rules and Filings

Report Fraud & Abuse

[File a Tip or Complaint](#)

Market Report Email Subscriptions:

- Commitment of Traders
- Cotton On-Call

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Who qualifies for CFTC reporting.

When an individual reportable trader is identified to the Commission, the trader is classified either as “commercial” or “non-commercial.” All of a trader’s reported futures positions in a commodity are classified as commercial if the trader uses futures contracts in that particular commodity for hedging as defined in [CFTC Regulation 1.3](#), 17 CFR 1.3(z).

Regulations define who is who based on the trading activity they commence. Some of the traders or institutions would be exempt from taxation (hedging only) other would have to disclose books etc.

The most important fact is, these two groups **HAVE TO CARRY OUT A LOT OF TRADING** for CFTC to consider them in the report.

These guys are heavy duty with plenty of capital behind them. The smallest contract they allow to trade is €125,000.

On principle, they know what they doing more often than the retail trader like me or you.

Definitions around Commitments of Traders

There are a few important definitions to grasp in order to fully understand this concept.

1. Open interest

This is very important concept for futures traders.

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Open Interest is the total number of outstanding contracts that are held by market participants at the end of each day.

- For example, if both parties to the trade are initiating a new position (one new buyer and one new seller), open interest will increase by one contract.
- If both traders are closing an existing or old position (one old buyer and one old seller) open interest will decline by one contract.
- The third and final possibility is one old trader passing off his position to a new trader (one old buyer sells to one new buyer). In this case the open interest will not change.

Increasing open interest means that new money is flowing into the marketplace. Traders open new positions and create a new transactions. The result will be that the present trend (up, down or sideways) will continue.

Declining open interest means that the market is liquidating and implies that the prevailing price trend is coming to an end.

Simply put:

- If open interest is rising with the price, the bull market is well supported and should continue. The same applies to bear markets. If the open interest increases with falling price, the bear market is strong.
- If the open interest is starting to drop on still rising prices, it means that the current uptrend is near to its end. Bulls are now liquidating/selling their long positions by replacing longs with shorts. The price drop should quickly follow.
- If open interest is at a multi year maximum, the current trend might be near to its end as there might not be many traders left to transact. They are all in the position already.

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See more smart resources if you want to learn more about Open Interest

<http://www.investopedia.com/terms/o/openinterest.asp>

<http://www.sharemarketschool.com/futures-understanding-%E2%80%98open-interest%E2%80%99/>

<http://www.crbtrader.com/trader/v1on02/v1on02a04.asp>

http://futures.tradingcharts.com/learning/volume_open_interest.html

See this simple table to analyse open interest

Price	Volume	Open Interest	Interpretation
Rising	Rising	Rising	Market is Strong
Rising	Falling	Falling	Market is Weakening
Falling	Rising	Rising	Market is Weak
Falling	Falling	Falling	Market is Strengthening

2. Commercial Traders

A trading entity generally gets classified as a “commercial” trader by filing a statement with the Commission, on [CFTC Form 40: Statement of Reporting Trader](#), that it is commercially “...engaged in business activities hedged by the use of the futures or option markets.”

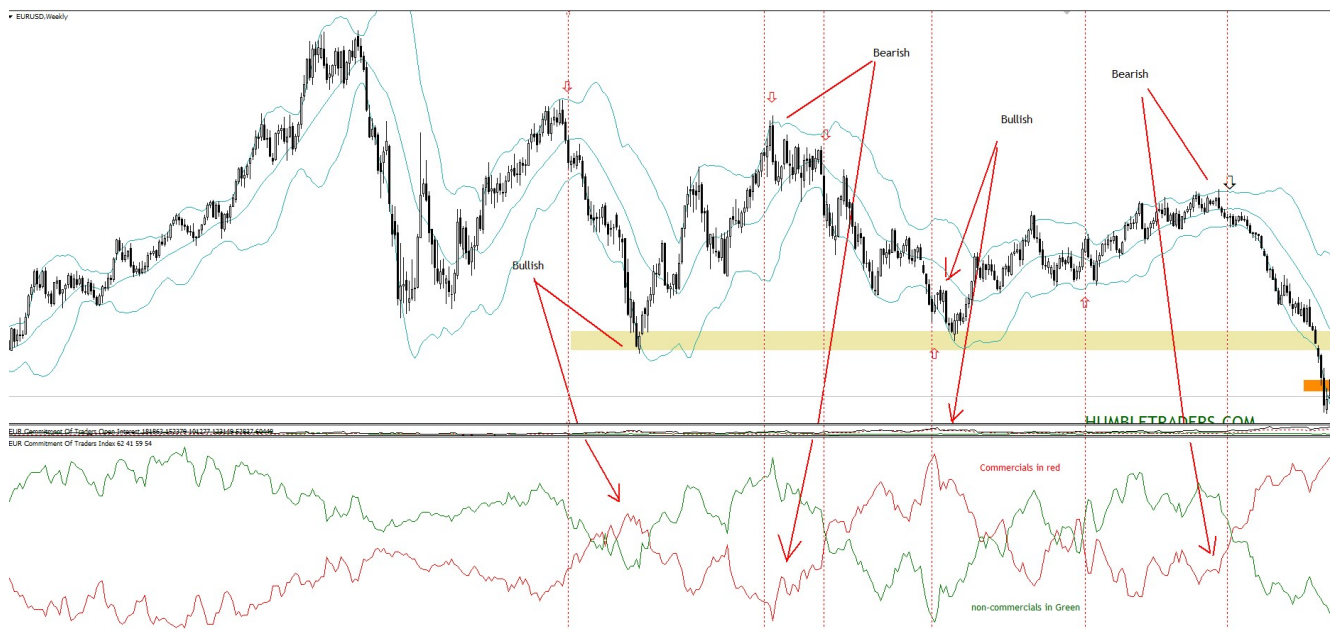
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This group of traders are called hedgers or producers. Depending on the market, this group would include mainly large producers of a given commodity or financial institutions that hedge against future price changes.

For example: Gold Mine, Sugar factory, wheat producers, Nestle (sugar is their main raw material) etc.

On principle these guys want to sell their produce in the market at a high price and buy it back at the lowest price possible. This is why Commercial traders are most bullish at the bottom of the market and most bearish at the top.

See how Commercial traders (in red) were positioned at the multi year extreme levels of their orders. The price reversed right after to begin a new, long term trend.



3. Non-Commercial Traders – Speculators

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The buyers of goods and the risks attendant to them are called speculators. The main objective of a speculator is to generate profit from the difference between the current and future prices.

They provide high market liquidity.

Large banks, investment and hedge funds would be included in this section.

These guys manage money for their clients and are highly profit driven. They are **trend followers** and would be most bullish at the end of the bull market and most bearish at the end of a bear market.

See how Speculative positions (in green) are positioned at the extreme levels right before the market turns.



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4. Non-reportable

The long and short open interest shown as “Non-reportable Positions” is derived by subtracting total long and short “Reportable Positions” from the total open interest. Accordingly, for “Non-reportable Positions,” the number of traders involved and the commercial/non-commercial classification of each trader are unknown. CFTC

Essentially, whoever is left after classification goes into this group. This section includes small, retail traders like me and you. We are not eligible to report our trading positions to CFTC. They don't give a tiny rat's ass about our trading.

Retail open positions do not move the markets

We have no impact on the market prices. This group is a “heard” and it is on the wrong side of the market in most cases. It should be used as a **contrarian indicator**.

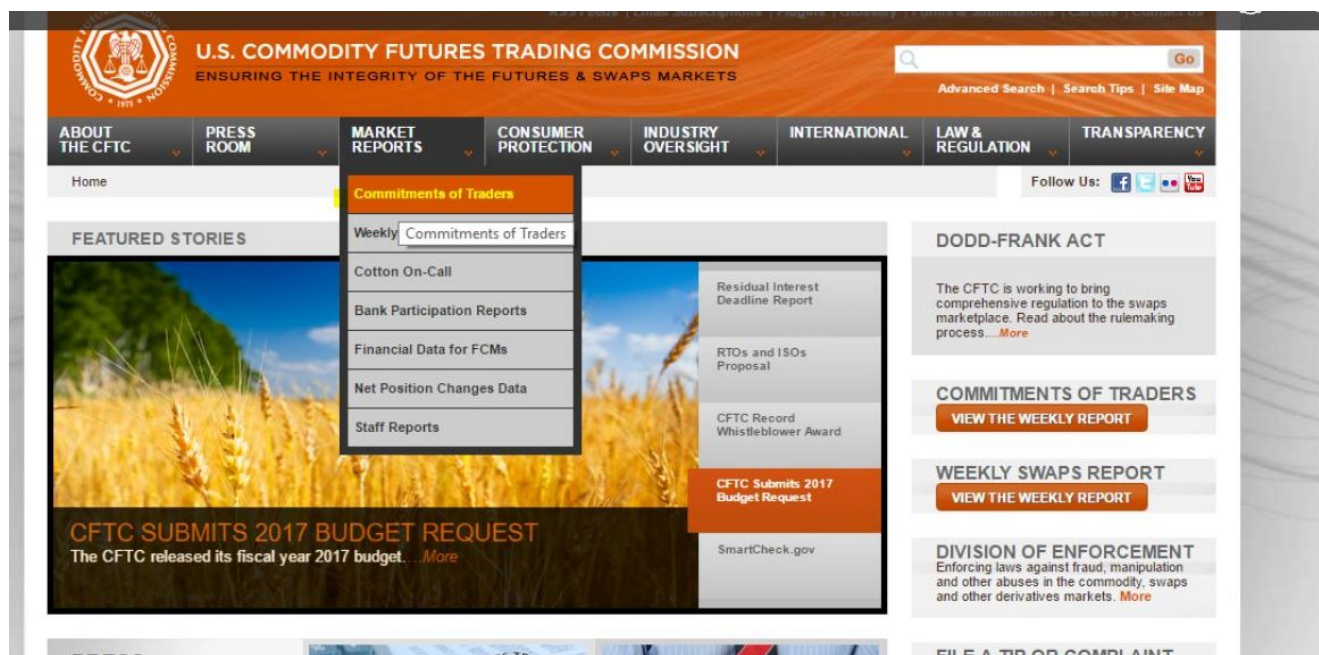
How to find the report

Finding the report is a fairly easy task.

Follow the step below to access the Commitments of Traders report.

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Go to <http://www.cftc.gov/index.htm> and choose Commitments of Traders from the Market Report tab in the main menu



Scroll down to CURRENT LEGACY REPORTS section and choose “Short format” report next to Chicago Mercantile Exchange

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Petroleum and Products	Long Format	Short Format	Long Format	Short Format
Natural Gas and Products	Long Format	Short Format	Long Format	Short Format
Electricity	Long Format	Short Format	Long Format	Short Format
Metals and Other	Long Format	Short Format	Long Format	Short Format

- [Disaggregated Futures-Only Commitments of Traders Comma Delimited](#)
- [Disaggregated Futures and Options Commitments of Traders Comma Delimited](#)
- [Disaggregated Explanatory Notes](#)

[Weekly Swaps Report](#)

CURRENT TRADERS IN FINANCIAL FUTURES REPORTS:

	Traders in Financial Futures; Futures Only	Traders in Financial Futures; Futures-and-Options -Combined
Financial	Long Format	Long Format

- [Traders in Financial Futures; Futures-Only Commitments of Traders Comma Delimited](#)
- [Traders in Financial Futures; Futures and Options Commitments of Traders Comma Delimited](#)
- [Traders in Financial Futures; Explanatory Notes](#)

CURRENT LEGACY REPORTS:

	Futures Only	Futures-and-Options-Combined
Chicago Board of Trade	Long Format	Short Format
Chicago Mercantile Exchange	Long Format	Short Format
Chicago Board Options Exchange	Long Format	Short Format
Chicago Climate Futures Exchange	Long Format	Short Format
Kansas City Board of	Long Format	Short Format

Once clicked in, you will see a basic page with many instruments. This is where CFTC reports data on major markets including: commodities, currencies, indices.

Here you will find butter, cattle, British Pound, Eurodollars or S&P 500 futures.

We are after the major currencies. These are our favorite!

Each market is being given a table. All relevant information is included in that table.

The data is published every Friday but compiled up to the previous Tuesday.

For example, there will be new set of figures published this Friday 20th May. The data will be compiled for a week 10th-17th May and so on.

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This is important especially when important news is due to be released. Sometimes the COT report will not include them until the week after.

What those numbers mean?

1: EURO FX - CHICAGO MERCANTILE EXCHANGE
FUTURES ONLY POSITIONS AS OF 05/10/16

2: (Points to the main table header)

3: Code-099741

4: NONREPORTABLE POSITIONS

5: (CHANGE IN OPEN INTEREST: -15,483)

6: NUMBER OF TRADERS IN EACH CATEGORY (TOTAL TRADERS: 217)

7: PERCENT OF OPEN INTEREST FOR EACH CATEGORY OF TRADERS

8: (CONTRACTS OF EUR 125,000)

NON-COMMERCIAL			COMMERCIAL		TOTAL		NONREPORTABLE POSITIONS	
LONG	SHORT	SPREADS	LONG	SHORT	LONG	SHORT	LONG	SHORT
101,277	123,149	9,001	181,863	152,379	292,141	284,529	52,837	60,449
CHANGES FROM 05/03/16							(CHANGE IN OPEN INTEREST: -15,483)	
-11,757	-13,504	724	-2,661	-4,587	-13,694	-17,367	-1,789	1,884
PERCENT OF OPEN INTEREST FOR EACH CATEGORY OF TRADERS								
29.4	35.7	2.6	52.7	44.2	84.7	82.5	15.3	17.5
NUMBER OF TRADERS IN EACH CATEGORY (TOTAL TRADERS: 217)								
59	80	37	56	52	131	155		

Commitments of Traders – An Ultimate Guide for a Forex Trader

1. Non-Commercial/Speculators' section includes three rows; Long, Short and Spreads. We are concerned about the long and short positions
2. Commercial/producers' section includes two rows with short and long positions. In this example commercial traders held 181,863 long positions and 152,379 short positions.
3. Non-Reportable/Retail Traders' section includes two rows with long and short positions. In this example retail traders were 52,837 long and 60,449 short.
4. Total Open Interest in this market as per close of Tuesday that week. There were 344,978 transactions in total.
5. Change in Open Interest from the previous week. In this case, there were 15,483 closed/covered transactions that week.
6. This is % of Open Interest for each group of traders. See Commercial traders holding 52% of the whole market in longs.
7. Weekly changes in long, short and spread across all groups. This will tell you how many additional contracts have been purchased or covered since the last report. IN this case, non-Commercial traders reduced their short positions by 11,757 and shorts by 13,504.
8. Total transactions held by each trading group. In this example, Speculators held 101,227 long positions and 123,149 short positions. They are still NET SHORT in this market.

How to use it in trading

COT report is not designed as a market entry tool.

The market can be short term bullish in a long term downtrend.

The report is designed to gauge supply and demand of important market participants.

Commitments of Traders – An Ultimate Guide for a Forex Trader

It can be used to confirm mid/long term fundamental bias in a given market.

For example:

Decrease/flat non-commercial long positions on rising prices might suggest the top is imminent. Traders should seek a short setup near the resistance.

Increase in short non-commercial positions on falling prices might support the downtrend.

Depending on the trader, one of the groups might be analysed. Some traders will look into Hedgers behaviour and analyse their positioning in the market. Some are of the opinion that these guys

are the biggest in the market hence know the market best.

Other traders would analyse Speculative positioning. Personally, I like to look at both groups open interest. In most cases, they would be exactly opposite anyway.

There are two main techniques you might use for your trading.

1. **Extreme levels swings**
2. **Net positioning.**

Extreme levels swings

There is a strong correlation between multiyear high or low positions and market swings.

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On the chart below we analyse EURUSD and EURO FX Commitments of Traders data.

On the chart below you see that Commercial traders (in red) were at multiyear low or high levels right before the price topped and reversed. The rule is to wait for the highest or lowest level in 3 years to “start to think” (didn’t say “to enter”) of long term reversal. Remember, Commitments of Traders is not a market entry tool.

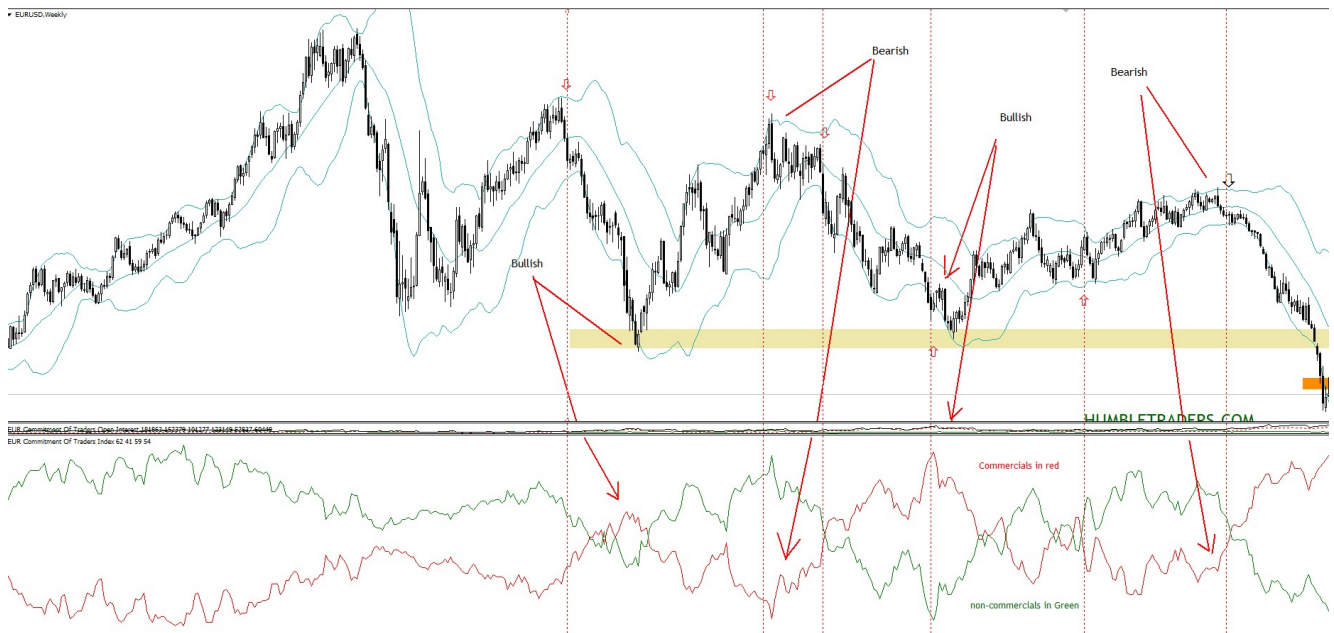
Commitments of Traders will indicate the current trend is about to end but it is still likely to carry on for a little while. We don’t know if this is 100 or 500 pips. As the market’s participation grows over time it might be difficult to predict the top or bottom. There could always be more traders in the market this year than they were last year.

The entry must be determined by using other technical price action signals. These could be **candlestick reversal pattern** on daily or weekly charts, double top/bottoms, divergences and more.

These will vary from the market to market and should be chosen individually based on the trader’s preference.

Personally, I find the **engulfing daily candle** very reliable to signal the end of the current trend.

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Net positioning.

This is my favourite technique. It is more accurate and reliable compared to the extreme levels strategy. It is based on a more tangible principle.

The basic premise of this concept is to “start thinking” about trend change if the Speculative positions turn NET long or NET short.

Speculators will be NET LONG if their long positions exceed short positions. THEY WILL HOLD MORE LONGS ON BALANCE.

On the example below, speculators hold more short positions (123,149) than longs (101,277), hence they are NET SHORT

Commitments of Traders – An Ultimate Guide for a Forex Trader

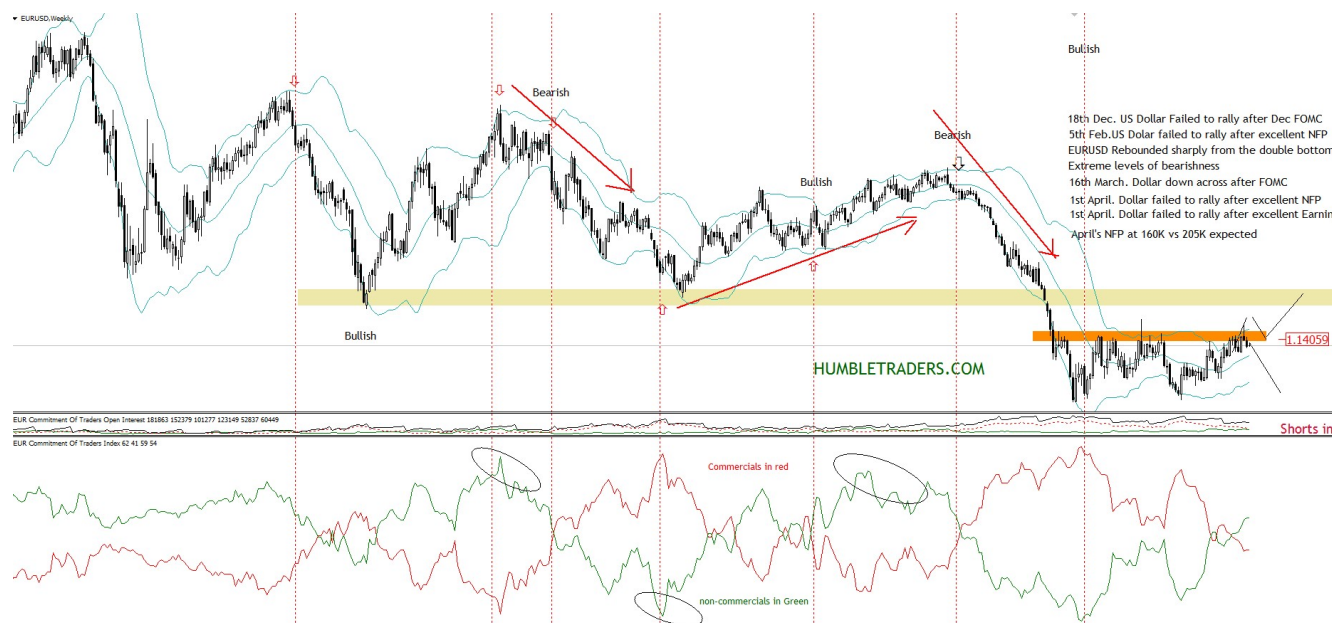
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59	80	37	56	52	131	155			

On the chart below you notice how the Speculators turned bullish or bearish on a few occasions. **These are marked with the horizontal red line.** Every time, the price reversed and followed

the supply or demand law. If the speculators turned NET LONG, the price climbed substantially. The same is true for bear markets. Once Speculators turned NET SHORT, the price quickly flowed

to the downside. Again, this is not an entry tool. Market entry should be determined by using other technical indicators to decrease the risk.

Commitments of Traders – An Ultimate Guide for a Forex Trader



How to bring it to the chart

If you are using MT4, there are number of indicators to choose from. The simplest way is to google “commitments of traders mt4”.

I personally use <http://www.cot4metatrader.com/>. This is a very reliable and cheap (\$10 per month) solution.

I get an email every Friday after NY close with the file to be uploaded to my MT4 folder. The data for all major currencies is populated right away.

Plus, Lynn is a very nice guy who is always willing to help.

The indicators come with a few options. You can track open interest, total positions or index of each individual group.

How accurate is the Commitments of Traders really ?

Commitments of Traders – An Ultimate Guide for a Forex Trader

This indicator doesn't generate many signals. There might be less than five signals per year across major FX crosses once they unfold, they are highly reliable and allow the trader to stay in the position for the mid to long term.

Commitment of Traders has proven to be a very powerful tool on many occasions.

See the below articles and watch the signals unfolding many weeks before the price swing.

In most cases, the retail sentiment is on the opposite side of the market – This is you – the guy who is of the opinion that C.O.T is an old data and can't be used in trading.

See what you think

<http://humbletraders.com/commitments-traders-predicted-gbpusd-decline/>

<http://humbletraders.com/commitment-of-traders-report-predicted-higher-prices-audusd/>

<http://humbletraders.com/how-commitments-of-traders-report-predicted-usdjpy-decline/>

Conclusion

I don't remember times when I traded without looking to see what is smart money doing in the markets. I can't imagine trading without C.O.T.

C.O.T predicted market swings many times before with deadly accuracy.

Some insights to take away

Commitments of Traders – An Ultimate Guide for a Forex Trader

The COT report is not design as a market entry tool. The Market can be short term bullish in a long term downtrend.

The COT report is designed to gauge supply and demand of important market participants.

It can be used to confirm mid/long term fundamental bias in a given market.

It's not suitable for day traders who enter the market many times a day and take a few pips every time.

Day traders don't have to have long term bias for their given currency. Trading is performed based on short term fluctuations.

C.O.T. report is designed for traders with longer horizons. Those who plan their trading a few months ahead. Swing traders enter markets a few times a quarter.

The mid to long term bias is very important in this case. Trader must be certain of the long term market direction. He positions his orders accordingly and uses short term fluctuations as an opportunity to add to the portfolio.

This is the only way to survive in this game in the long shot.