

# COT Report

by Valknut Analytical

## Method, Formulas & Definitions

<b>Confidence</b>	<p>What is confidence?</p> <p>When both Specs and Producers indices are in extreme areas (close to 0/100) we are highly confident that trend is unchanged. You continue holding your positions and roll them or open towards the direction of the trend (i.e. Buy if zone is Bullish or Sell when zone is Bearish).</p> <p>When one of indices is out of their extreme zone, our confidence would be low. We do not recommend opening in any direction, we recommend holding.</p> <p>Should both indices be out of extreme zones for 2 weeks - we call the end of current bullish/bearish zone. We do not call the end of the zone immediately, because exit of extreme areas can be a temporary thing. But we do not want to wait for too long either.</p> <p>IMPORTANT - this indicator is useful to signal the end of current zone. Consider other 3 when deciding as to opening/holding/rolling your positions.</p>
<b>Regression Analysis</b>	<p>This part is a bit scientific. What we try to achieve is we want to catch the moment when 'the music stops' - the trend ends or when trend movement is no longer supported by sizable increases to Speculators position meaning that price may reverse any moment.</p> <p>Instead of looking at weekly readings like +5000 or -10000, we use changes to position of Speculators to plot a line chart that would show us the trend of changes to Speculators positioning. It makes understanding the picture easier.</p> <p>Why Specs not Producers? Because Producers are always quiet and Speculators always drive the rallies.</p> <p>What interests us here is angle of the chart. And not just its current value but its dynamics - every week we add a new input value, re-plot the chart and get a new value of the angle. Is the chart becoming steeper - the angle is shifting towards 90 degrees (speculators buying gets stronger, their Net Position grows more and more) or towards -90 degrees (buying gets weaker, selling accelerates)? Or is the chart becoming flat when the angle is shifting towards 0 meaning Speculators end adding to their positions? Once again - it is week-over-week changes that matter the most as they help us to find the answer to the big question "Has the music stopped"?</p> <p>During first couple of months week-over-week changes can be wild, this is a problem of lack of data when every new reading can greatly affect total picture. Bear this in mind and do not make rash decisions.</p> <p>But as our zone matures the chart becomes more and more reliable.</p> <p>We observe that if the angle stays within -30 to 30 degrees range for 3+ weeks - this can be the moment when the music stopped and rally expired. It can still regain its strength but this is the time when we do not recommend increasing your position. This can also mark a beginning of a stagnation, so if you look for strong moves - look somewhere else.</p> <p>IMPORTANT - any price reversals are only temporary if they are not supported by other metrics.</p>
<b>Swap dealers</b>	<p>Swap dealers are excluded from this analysis. This group is mostly represented by large financial institutions and they act as agents for anyone - both producers and speculators. And this makes it difficult to understand their motivation, whether they come to hedge or speculate, whether parties behind them have inside knowledge of markets or have not.</p>
<b>Non-reportables</b>	<p>Non-reportables are excluded. They are not insiders and should not be followed. They are too weak to affect markets.</p>
<b>Index Formula</b>	<p>= [Current Week - Period Minimum] / [Period Maximum - Period Minimum] This formula is the same for both Prod/Spec and Velocity. We also make some "data noise" removal adjustments but this is our secret.</p>
<b>Velocity</b>	<p>This is a Velocity Index split into quartiles - Low, Medium, High, Extreme.</p>
<b>Velocity Formula</b>	<p>Week-on-Week Position Change / OI, the result of this formula is used to calculate Velocity Index.</p>
<b>Bullish/Bearish Zone</b>	<p>We recognize a beginning of a zone after Prod or Spec index reached high values and remained high for some time to confirm.</p>
<b>Neutral Zone</b>	<p>A zone where indices do not satisfy definitions of Bullish/Bearish zones. A middle ground between them two.</p>
<b>Asset Codes</b>	<b>Asset</b>
<b>C</b>	Corn
<b>CC</b>	Cocoa
<b>CL</b>	Crude Oil
<b>CT</b>	Cotton
<b>GC</b>	Gold
<b>HO</b>	Heating Oil
<b>KC</b>	Coffee
<b>NG</b>	Natural Gas
<b>RB</b>	Gasoline
<b>S</b>	Soybeans
<b>SB</b>	Sugar
<b>SI</b>	Silver
<b>W</b>	Wheat