Positioning: reading the COT report

> **COMMITMENTS OF TRADERS REPORT**
>
> The US regulator's weekly breakdown of open interest by participant type: producers and merchants hedging physical business, money managers speculating, and the rest. Published every Friday from Tuesday's positions, it is the only place retail traders can see who holds a market - not just how much of it is held.

Step back and look at what this asset class has handed you. The curve photographs the physical balance daily. Open interest counts the market's commitments nightly. And the COT report, weekly, names who is holding them. Balance, commitments, players: commodities publish all three, and no other asset class you will trade publishes even two. FX made you infer everything from price; commodities put the market's books on the table. This lesson opens the last of the three.

What the report says

Every Friday the regulator sorts each futures market's open interest by who holds it: commercials - module 1's producers, merchants and consumers, hedging physical business - and the managed money on the other side, with smaller categories around them. Two readings matter. The net position of each group: are the funds long or short this market, and how hard? And the extreme: where does today's positioning sit against its own multi-year range?

How the two sides read differently

Commercial positions mirror business, not opinion - lesson 3 of module 1 stands. Heavily short commercials usually mean producers locking attractive prices, which says something about value, said by the people who see physical flows.Managed-money positions are opinion, leveraged and crowded. An extreme here is a market where nearly everyone with discretion has already taken the same side - and module 2's open-interest logic says the fuel for continuation is thinning.The classic tension - commercials record-short while funds are record-long - is not a signal. It is a description of a crowded trade sitting on top of sceptical physical players, and worth exactly that description.

The honest limits

The report is three days stale by publication, its categories are imperfect - a merchant can speculate, a fund can hedge - and extremes resolve late: record positioning has a habit of becoming more record for months. Use it the way this module uses everything: as context that disciplines a read. A bullish balance-sheet view held alongside record-long funds is a view the crowd already holds, and lesson 1 told you what an undifferentiated view is worth. That check - is my read already everyone's position? - is the COT's daily job, and no other asset class lets you perform it at all.

Check your understanding

1. What can a commodities trader see that no other asset class publishes?

a. Real-time institutional order flow

b. The physical balance (the curve), the market's commitments (open interest) and who holds them (COT) - all three, from public sources

c. Exchange margin requirements by participant

Answer: b. Curve, OI and COT together put the market's books in public view. FX and indices force you to infer positioning from price; commodities publish it weekly with names on the categories.

2. Why do commercial and managed-money extremes read differently?

a. Commercials trade larger sizes

b. Commercial positions mirror physical business and its view of value; managed-money positions are leveraged opinion, so their extremes mark crowding

c. Managed money reports with a longer delay

Answer: b. A producer short is revenue being locked by someone who sees the flows; a fund long is a discretionary bet that many others have also made. The same net number carries different information depending on whose it is.

3. Your balance-sheet read is bullish, and the COT shows managed money record-long. What has the report told you?

a. The read is confirmed - smart money agrees

b. The read is already the crowd's position, so its edge is suspect and its unwind risk is real

c. Nothing - positioning and fundamentals are unrelated

Answer: b. Lesson 1's test: a view is worth its difference from consensus. Record-long funds mean the view is largely priced and crowded - not necessarily wrong, but no longer differentiated, and vulnerable to its own unwind.