Vol 2008 Issue 18

This issue of my COT Analysis and Forecast contains the following…

- COT Overview
- Are the Declines Over yet?

COT by Jake Bernstein

Commitment of Traders Analysis and Forecast
A Weekly Examination and Study of Commitment of Trader Data

COT Weekly Overview – Trend Changes Imminent

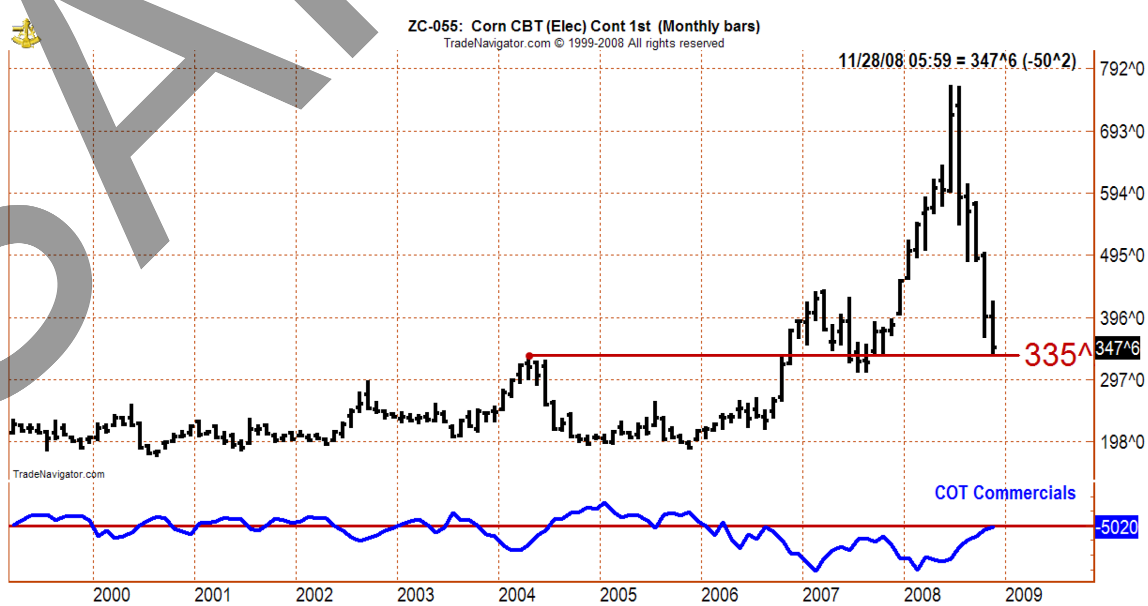
For the Week Beginning 17 - 24 November 2008

The continuing decline in many commodity markets has left many a bull wondering if the best times for their side is over. While there is no doubt that the bears have an upper hand in many markets the longer term and intermediate term trends may soon turn higher again if we pay close attention to what the Commercials are doing, Simply stated, my analysis of the COT data tells me that the odds of market turns back to the upside have increased. Why? Because prices have declined and have already absorbed considerable hedge selling and because, in some cases prices have dropped to levels at which production will be curtailed and/or accumulation of product by end-users will make good economic sense.

Remember, however, that the position of Commercials and the trend of their commitments is, in my work, a set up and not a trigger. It tells us that something may soon happen but it does not prompt us to instant action. Everything must develop as a process within the framework or trading model that I have developed. Accordingly, we will review this week markets in which Commercial activity provides a set up for a bullish move and, where applicable I will alert you to triggers and/or pending triggers.

Corn COT Analysis

The chart below shows two items of importance. First, and of greatest importance is the fact that COTC (COT Commercials) have been using the decline in prices to decrease hedge positions. While this is "normal" COTC behavior it has bullish implications. And second, prices have returned to what I call "spike support" which should, ideally, mean that a low is developing. I advise you to watch for weekly buy triggers.



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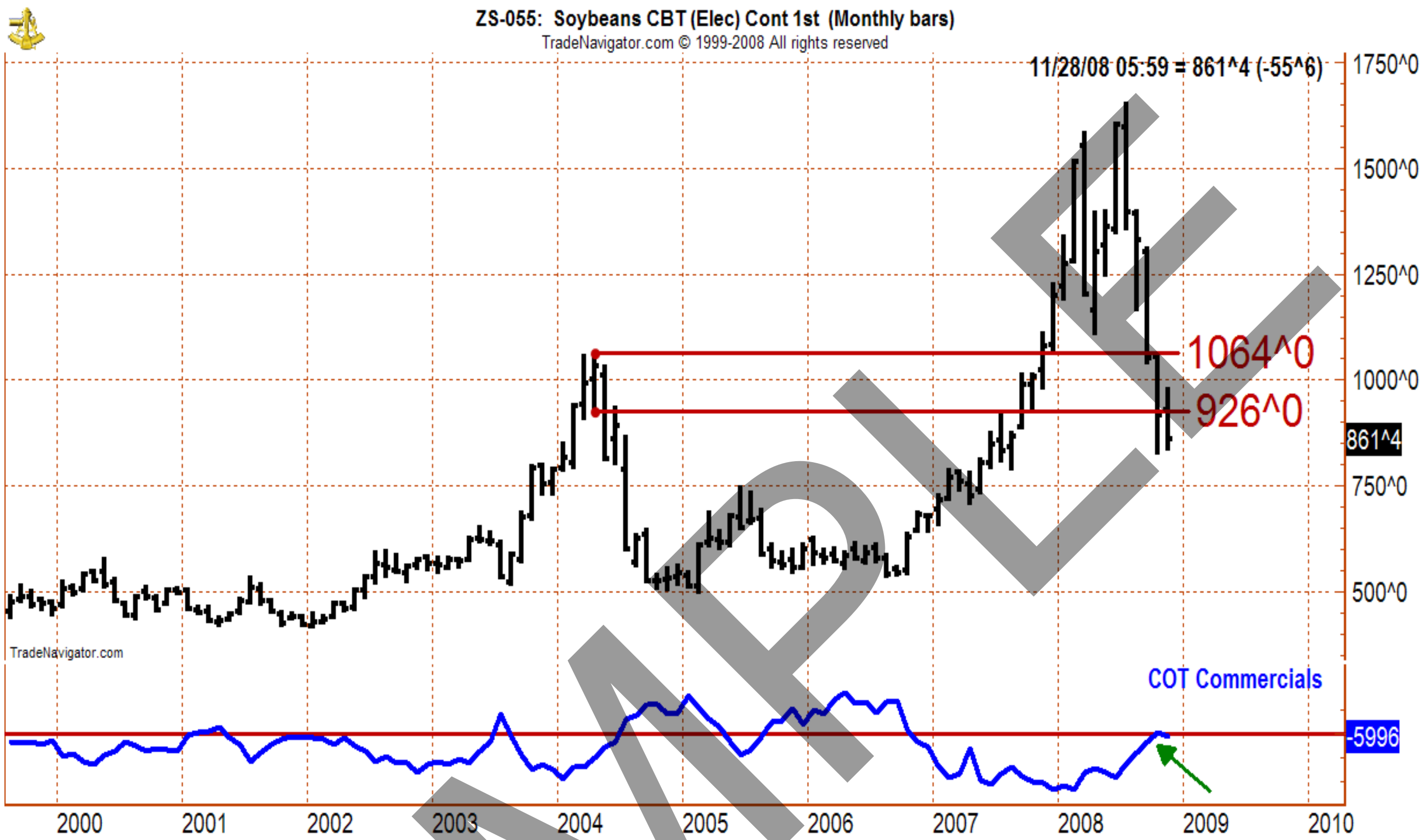
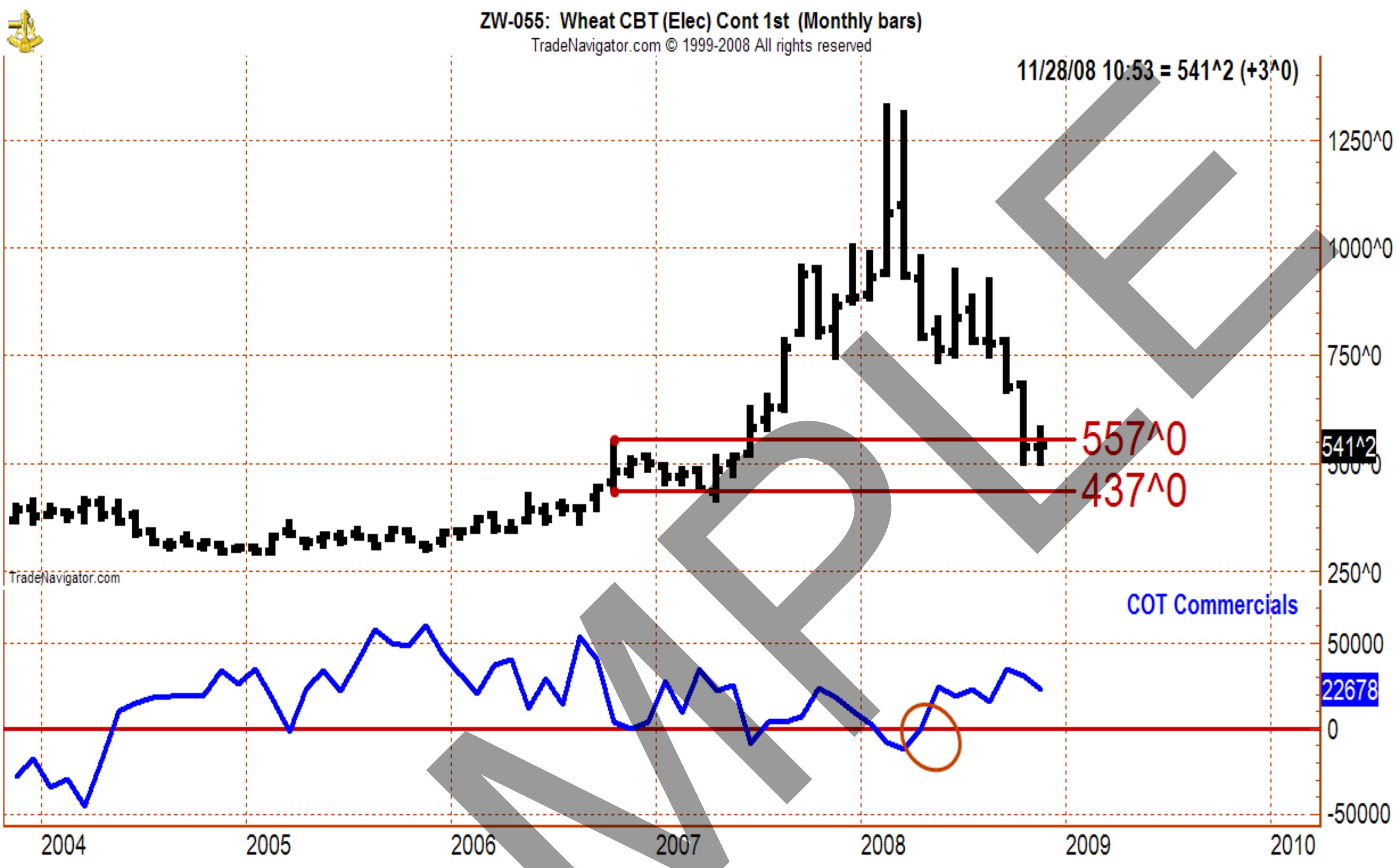
Soybeans COT Analysis



The chart above shows the monthly nearby futures contract for Soybeans. Here are my conclusions:

- I have marked the COTC with a green arrow showing that the data has not only been heading higher but also that it has briefly crossed above the zero line. This suggests that Commercials have used the extreme weakness in soybeans to exit hedge positions and that hedge pressure has been declining. This is a relatively "normal" pattern of behavior
- The brief cross above zero for COTC suggests that demand for long has increased and that end users are buying into the market. I consider this to be a bullish indication for the intermediate and for the long term as well. The numbers to be released at the end of this week and month will be very important as well as revealing in terms of the bigger picture outlook for soybean prices as well for the entire soybean complex
- Of equal importance is the fact that prices have fallen into what I call "spike support". This range is shown on the chart above. In fact, not only has the market dropped into the spike support range but it has also dropped well below this range. I consider this to be an important development. Although I tend not to use the terms "overbought" and "oversold" I do, in this case, consider the market to be over-sold. What to do next?
- I recommend watching for WEEKLY BUY triggers to go long soybeans. There have already been daily buy triggers.

Wheat COT Analysis

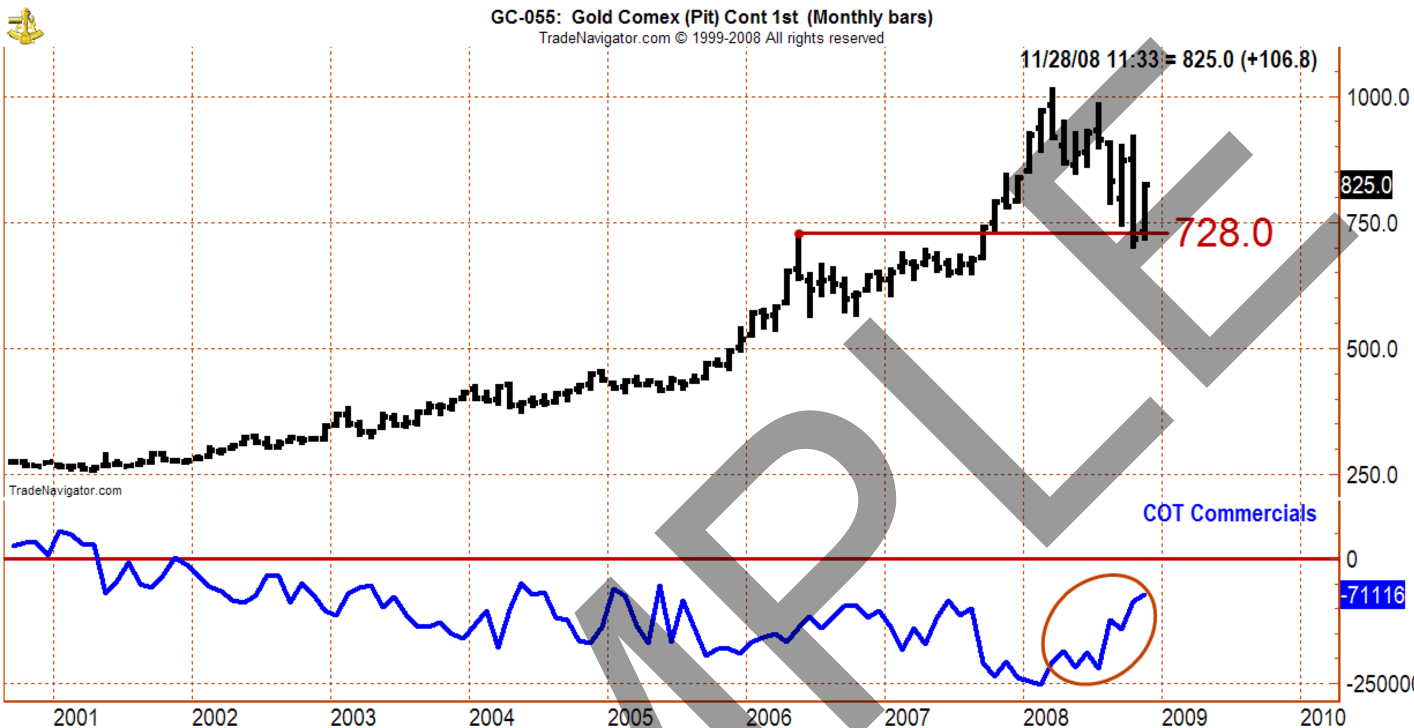


Here is what I see in the wheat market. Please refer to the chart above

- The chart above shows that COTC is in positive territory. It has been above the zero line for the most part since 2004. This suggests that COTC are buyers. This is a bullish indication for the intermediate and longer-term trends. It confirms my longer-term bullish expectations and it suggests that another leg to the upside is likely in the wheat market.
- The chart also shows that prices have pulled back to their long-term spike resistance area. This suggests that prices should recover and move higher
- What to do now? Here are my suggestions and expectations:

1) A support area has been entered
2) COTC remains bullish suggesting that a major rally is likely
3) A weekly decline below the zero line would be considered intermediate and long term bullish
4) I suggest looking for weekly buy triggers for intermediate term buy signals

Gold COT Analysis

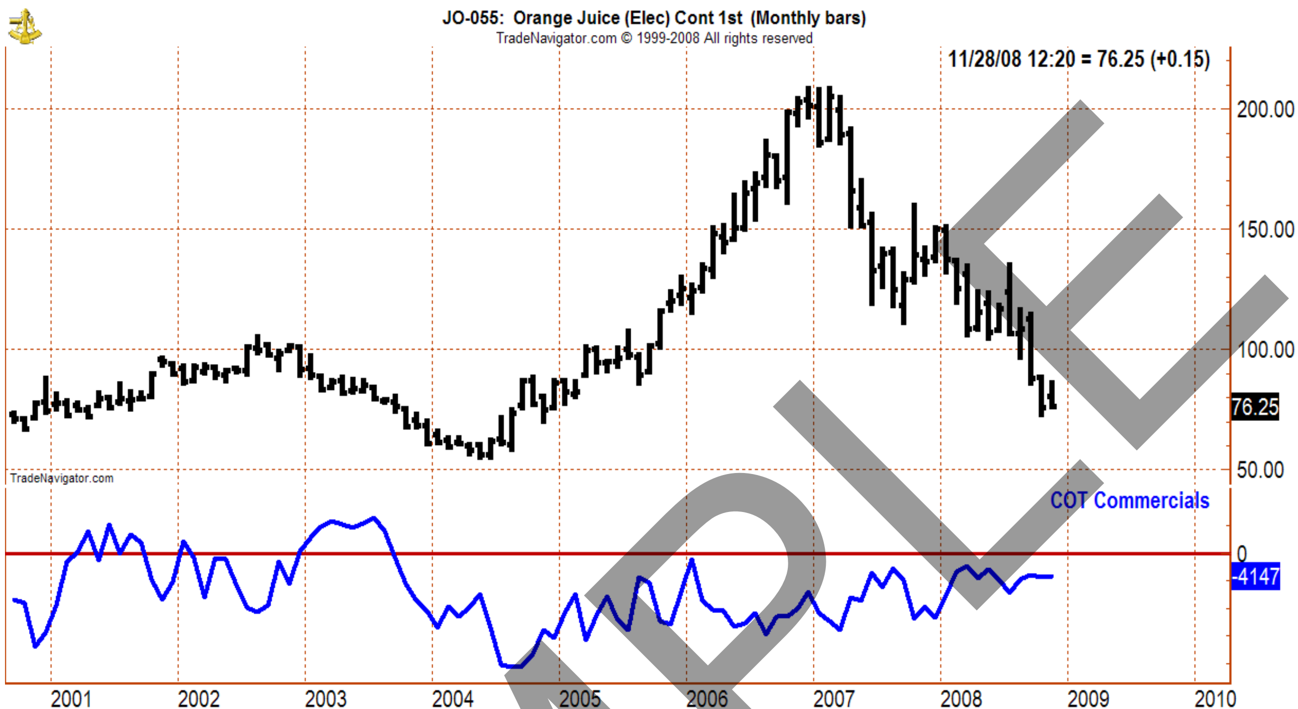


Here is my analysis of the gold COT situation as of the end of last week.

- The chart above shows that COTC has been moving in the positive direction since early 2008 as prices have been dropping. As in the case of corn, soybeans and wheat, as previously noted, I see this as a normal situation. Commercials have been using the weakness to close out hedges and it is also likely that Commercials have been buying into the market
- The above situation is seen as essentially bullish for the intermediate and longer term trends in the gold markets
- The market has dropped to my indicated "spike support" level from which has rebounded strongly. This also suggests that a recovery rally, at least for technical reasons, is likely to continue
- What to do now?

1) Watch weekly indicators for a buy trigger
2) Consider longs in gold shares as an alternative to gold futures if and when they also trigger on a weekly basis

OJ COT Analysis



The OJ chart above does not give me any important clues as to the outlook. No new potential signals at this time.

Cocoa COT Analysis

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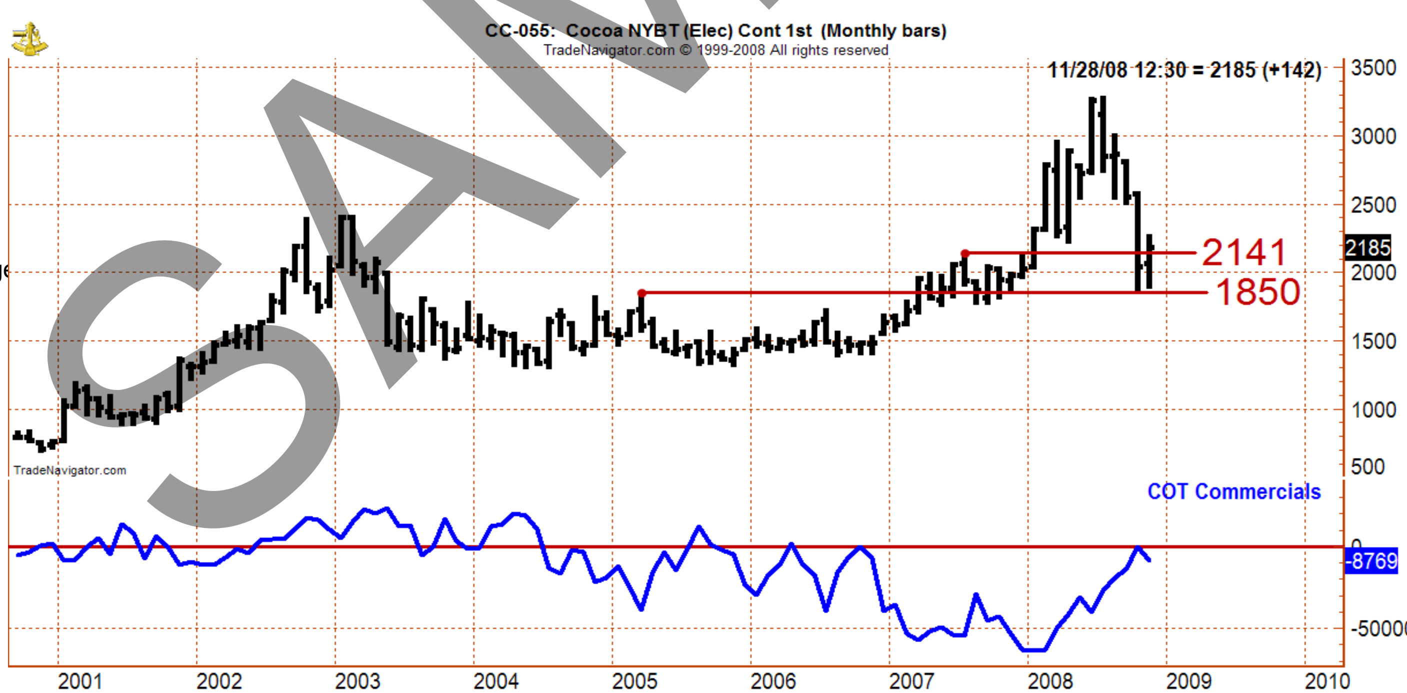
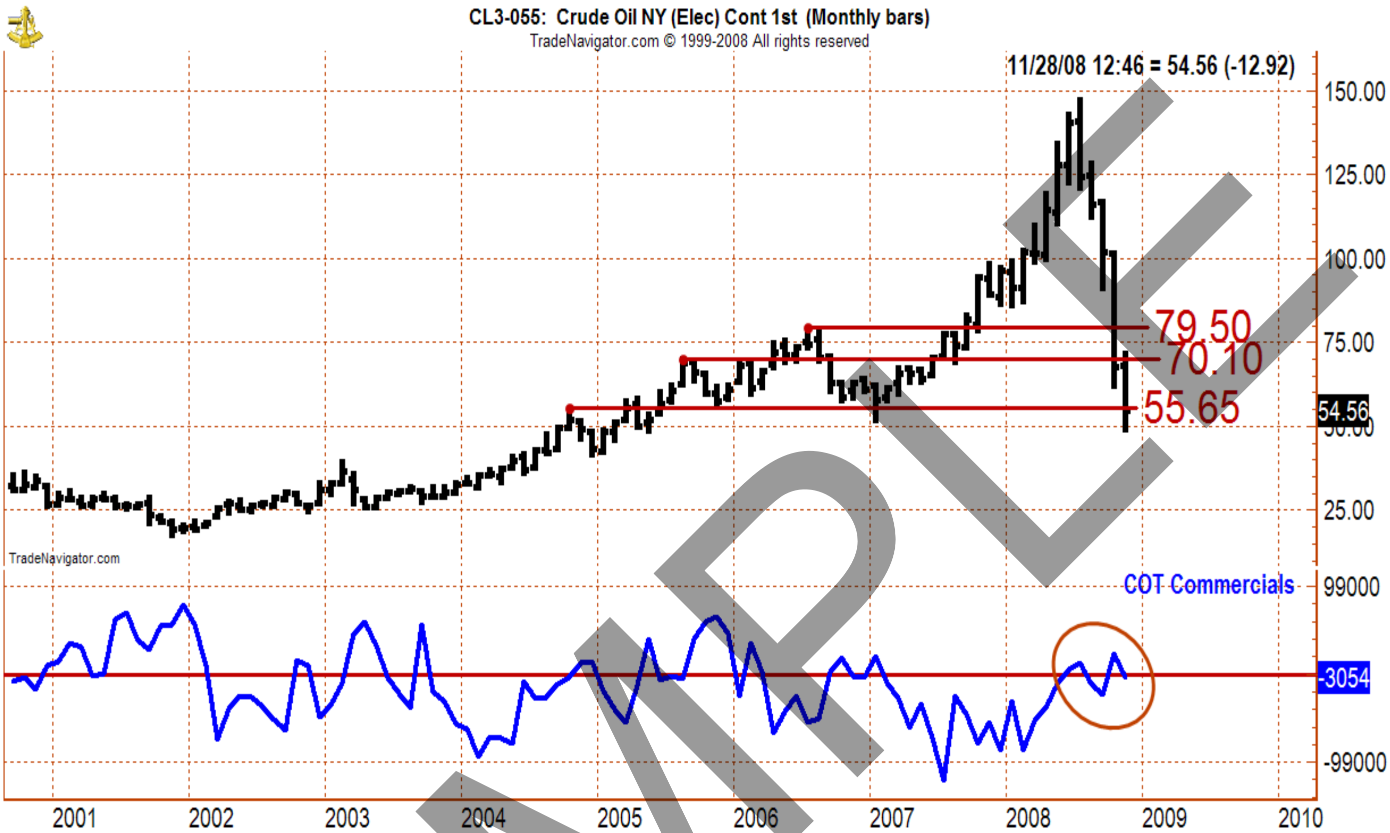


The chart above shows a similar configuration to the charts for soybeans, wheat and corn. Support is now developing.

Crude Oil COT Analysis

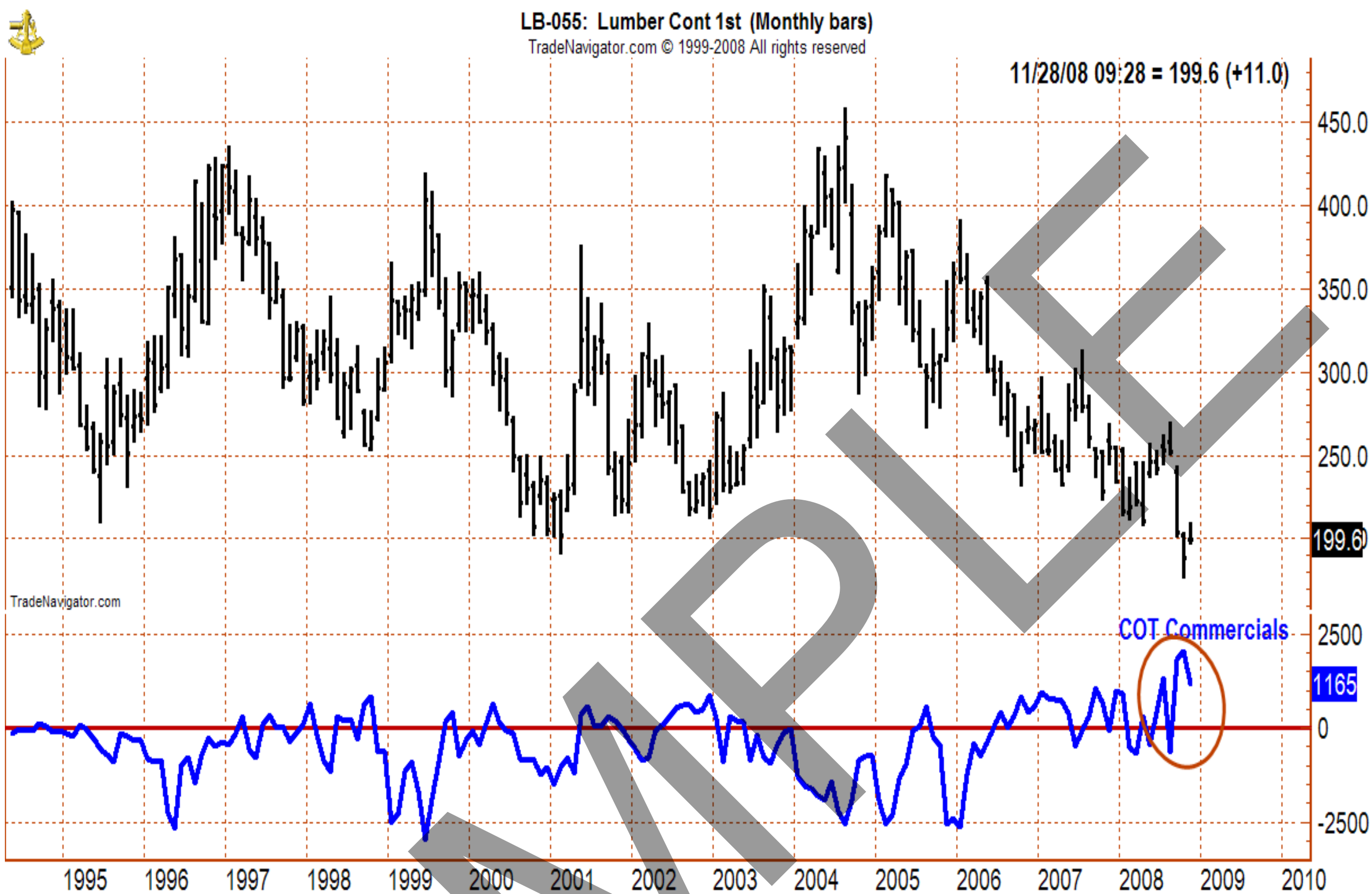


Here is my analysis of the weekly COT chart for crude oil:

- The chart above shows that the COTC has been hovering between the plus and minus area during this period of price declines. For the COTC to be positive in spite of the decline or even in response to the decline is, in my view, a bullish event. It strongly suggests that the bull market in crude oil is about to begin again.
- Combined with the above situation the spike resistance levels, as shown above, take on particular importance since these important levels are now being tested
- What to do now?

1) I believe that the crude oil market could very well surge higher again even if only for a bear market recovery
2) Given that COTC is now essentially positive the odds are that the coming rally could easily be more than a bear market recovery
3) Look for weekly buy signals to develop at any time now for what could very well be a major recovery in a bear market or even the start of a new intermediate term bull market

Lumber Weekly COT Analysis

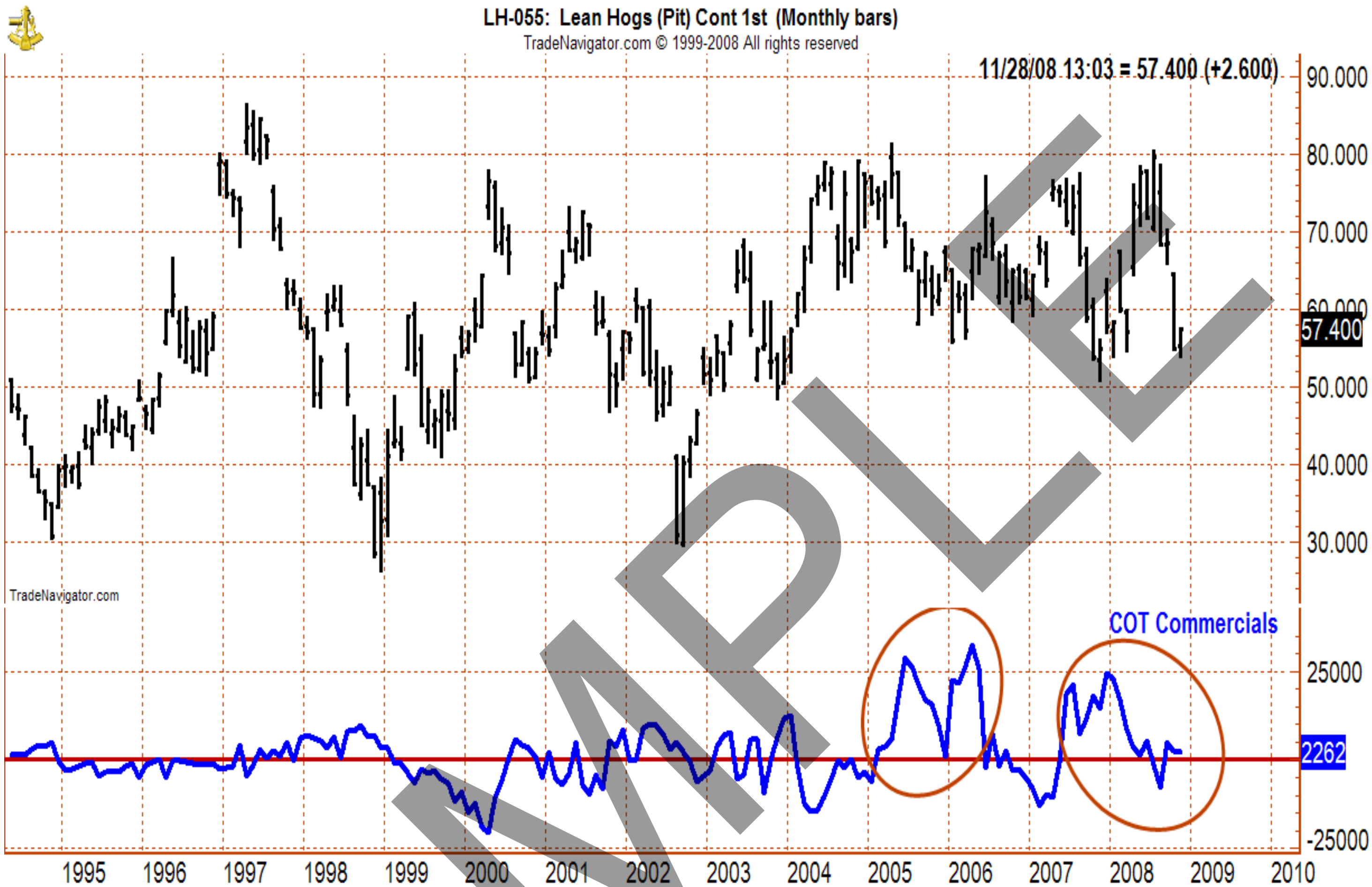


I have been waiting a long time for lumber to turn bullish and I am still waiting for signals which could develop very soon. Here is the analysis of my expectations based on the chart shown above:

- COTC long positions remain at record high levels. In fact the COTC long positions have been so large for quite some time now. I consider this to be very bullish. What it also suggests to me is that forward thinking Commercials are establishing long positions at very low prices and that there is limited hedge pressure at these levels. And that's no surprise. It could also reflect a slowdown or even a cessation in production due to low demand and low prices
- What to do now?

1) The backdrop is very bullish but there is no timing trigger as yet
2) Watch for weekly buy triggers but take no action as yet given that there are no triggers
3) Daily triggers have developed but these do not necessarily indicate the start of a new secular bull market
4) Consider proxies in the stock market as alternatives to lumber futures

COT Analysis Hogs

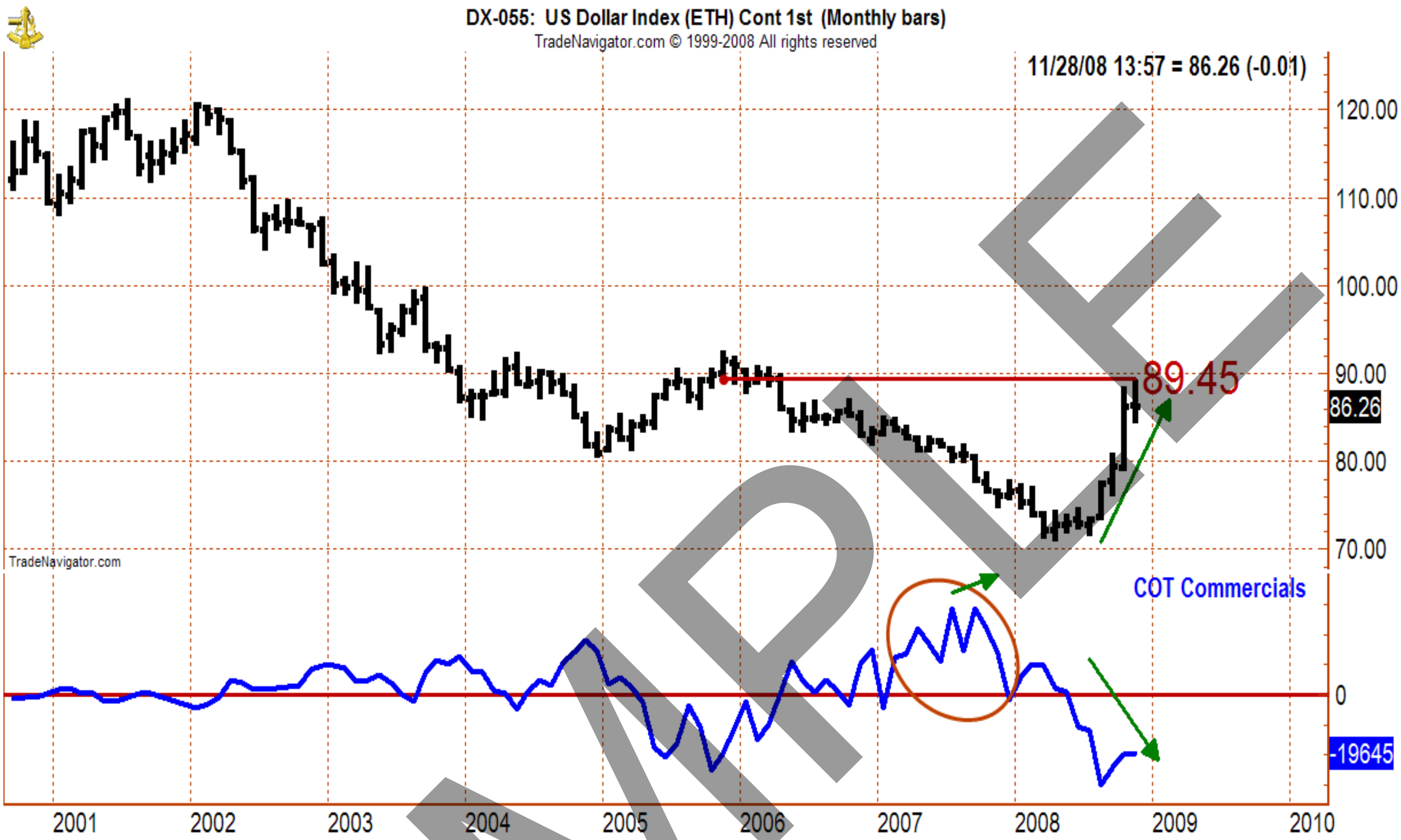


The chart above shows several very important COT aspects for the hog market. They are as follows:

- COTC, after being at record high levels in 2005 and into early 2006 dipped below the zero line and then started higher again into 2007 and early 2008.
- The COTC being as high as it was and then coming above the zero line again is considered to be a very bullish situation which I expected (and still do expect) would lead to new all time highs in the next few years
- COTC dropping below zero after being above it is also taken as a bullish sign for the intermediate and long term trends
- What to do now?

1) Wait for weekly buy signals
2) Watch my COTC moving average lines (as explained and illustrated in precious issues of this newsletter) for buy triggers

US Dollar Index COT Analysis



The chart above shows my COTC in Dollar Index futures weekly chart. The chart is very revealing. Prior to the recent huge rally COCT was at its largest long levels ever. The rally has prompted a rush to get hedged but this is not, in and of itself, bearish. Note that prices have hit spike resistance levels which is why they have halted their rally.