

Foreign Exchange: Behind the scenes  
by  
Noble DraKohn, Author Trade Like a Pro  
[www.speculatoracademy.com](http://www.speculatoracademy.com)

Foreign exchange (forex) trading is definitely the most exciting new opportunity in the investment world today. Active traders worldwide have discovered this form of speculation over the past few years. Once the domain of only international banks, new rules allow skilled speculators the opportunity to participate.

Numbers vary, but the forex market's notional value reaches in the trillions daily. Far more than the stock market and bond market combined. In this brief article I will cover a simple way to determine what currencies are on the move and in which direction they may be headed.

The forex market is divided into two separate arenas. There is the over-the-counter (OTC) forex market and the futures forex market. Since the OTC market is not centralized it is impossible to obtain information on volume, open interest, and the positions (long or short) that the major players i.e. banks, financial institutions, and international conglomerates hold. This inability to have a full picture of the OTC market makes it exceptionally difficult for speculators to properly analyze the speed and force that may drive a particular currency.

In order to resolve the lack of information provided in the OTC market the speculator needs to turn only to their futures forex exchange traded counterparts for guidance. In the futures forex market there are multiple contracts that expire in various months. The month closest to the OTC market moves in tight relationship to it. While the OTC market has little to no information about their participants, the government keeps highly detailed records on the futures forex market. What makes their constant fact gathering even more impressive is their legal requirement to make this same information available free to the public.

Once a week the Commodities Futures Trading Commission (CFTC) issues what is known as the Commitment of Traders report. This insiders report details the exact positions (long and short) of the major players, as well as the total amount that their positions increase or decrease from week to week.

Why this information is valuable is two fold. First, it gives the OTC forex trader an idea as to the general sentiment of the major players. Second, over time it shows the gradual shift in momentum from weak to strong or strong to weak. With these two helpful pieces of information an OTC forex trader can determine what position he wants to take, based on the major players, as well as when the ride may be coming to an end, so he won't be left holding his position at the top, or bottom, of the market.

There are a myriad of other ways to trade the Commitment of Traders report, in both the OTC forex market as well as the futures forex market. With diligence and the willingness to trade both forex arenas, with and against each other, every speculator should have a

fulfilling trading experience. Current and historical *Commitments of Traders* data are available on the Internet at the Commodities Futures Trading Commission's website: <http://www.cftc.gov>.

#### Euro FX – Chicago Mercantile Exchange Futures Only Positions as of 03/02/04

NON-COMMERCIAL			COMMERCIAL		TOTAL		NONREPORTABLE POSITIONS	
Long	Short	Spreading	Long	Short	Long	Short	Long	Short
(CONTRACTS OF 125,000 Euros) OPEN INTEREST 135,662								
COMMITMENTS								
24,451	7,423	776	62,136	94,594	87,363	102,793	48,299	32,869
CHANGES FROM 2/24/2004 (CHANGE IN OPEN INTEREST: 2,158)								
-7,329	2,010	187	7,494	208	352	2,405	1,806	-247
PERCENT OF OPEN INTEREST FOR EACH CATEGORY OF TRADERS								
18	5.5	0.6	45.8	69.7	64.4	75.8	35.6	24.2
NUMBER OF TRADERS IN EACH CATEGORY (TOTAL TRADERS: 79)								
29	12	10	25	23	57	43		

#### Example of a Commitment of Traders Report from the CFTC

Noble DraKohn is the author of the best-selling books *Forex For Small Speculators*, *Futures For Small Speculators*, and *Single Stock Futures, For Small Speculators*, available on [www.amazon.com](http://www.amazon.com). He has been a futures investor, broker, and analyst for almost 11 years. You can subscribe to his free monthly newsletter at [www.liverpoolgroup.com](http://www.liverpoolgroup.com) or purchase his seminars on CD titles at [www.pristine.com](http://www.pristine.com)