

Notes at the Margin

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CFTC Data on Commitments of Traders: Statistics on Commitments of Index Funds

Monday, the CFTC issued new information on commitments of “Index Funds” in agricultural futures. These data provide a unique view into the size of the two largest passive long commodity funds, the Goldman Sachs Commodity Index (GSCI) and the Dow Jones-AIG Commodity Index (DJ-AIG). Based on a quick review of the data and the application of some simple algebra, we draw the following conclusions:

The DJ-AIG index has roughly \$40 billion invested in it.

The GSCI has between \$60 and \$66 billion invested in it.

Total investment in commodities is approximately \$100 billion, which roughly matches published figures from other sources.

The CFTC does not present information on index trading in metals or oils. However, one can back out rough estimates. As of Wednesday, January 3, 2007, it appeared that commodity investors accounted for more than 20 percent of the long positions in WTI and Brent, more than 25 percent of the long position in the RBOB gasoline contract, and more than 35 percent of the long position in distillate heating oil.

Background

The CFTC explained the new data as follows:

Supplemental Report – Based upon the information contained in the report of futures-and-options combined in the short format, the Supplemental report shows an additional category of “Index Traders” in selected agricultural markets. These traders are drawn from the Noncommercial and Commercial categories.

Coming from the Noncommercial category are positions of managed funds, pension funds, and other investors that are generally seeking exposure to a broad index of commodity prices as an asset class in an unleveraged and passively managed manner. Coming from the Commercial category are positions for entities whose trading predominantly reflects hedging of over-the-counter transactions involving commodity indices—for example, a swap dealer holding long futures positions to hedge a short commodity index exposure opposite institutional traders, such as pension funds.

All of these traders—whether coming from the Noncommercial or Commercial categories—are generally replicating a commodity index by establishing long futures positions in the component markets and then rolling those positions forward from future to future using a fixed methodology.

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Some traders assigned to the Index Traders category are engaged in other futures activity that could not be disaggregated. As a result, the Index Traders category, which is typically made up of traders with long-only futures positions replicating and index, will include some long and short positions where traders have multi-dimensional trading activities, the preponderance of which is index trading. Likewise the Index Traders category will not include some traders who are engaged in index trading, but for whom it does not represent a substantial part of their overall trading activity.

We summarize the basic statistics from the new CFTC reports in Table 1. There we show the contract, the net position of index funds in the contract, and the percentage of open interest in the contract accounted for by index funds.

Calculating the Size of Individual Funds

The data published by the CFTC can be used to gauge the size of the two principal funds, the DJ-AIG and the GSCI, because neither fund contains all 12 agricultural commodities. For example, the GSCI contract includes Kansas City wheat and feeder cattle but the DJ-AIG does not. On the other hand, the DJ-AIG in-

cludes soybean oil while the GSCI does not. This means that one can gauge the size of each fund *if one assumes there are no other index funds in the market.* (This assumption is extreme because there is at least one other fund, the Deutsche Bank Index. However, it

apparently is quite similar to the DJ-AIG.)

If one makes this assumption, one can calculate the size of the index by determining the value of the index position in the futures contract unique to the index (for example, soybean oil for the DJ-AIG) and then dividing this value by the percentage weight in the index assigned to that commodity. For the DJ-AIG index, the calculation works as follows:

Index funds held 67,874 soybean oil contracts on January 3.

The value of the contracts on January 3 was roughly \$1.2 billion.

The DJ-AIG market share for the index was 3.1 percent.

Thus the total size of the DJ-AIG index was approximately \$39 billion (1.2 divided by .031).

A similar calculation for the GSCI yielded estimates of \$59 and \$66 billion. These market values were then tested against the other commodities. Specifically, we multiplied the estimated value of the GSCI index by the index weight for CBOT wheat and the estimated value of the

Table 1. Net Position of Index Funds in 12 Agricultural Contracts

Contract	Total Open Interest	Net Position of Index Traders	Index Traders as a Percentage of Total Open Interest
Wheat: Chicago Board of Trade	513,744	201,104	39.1
Wheat: Kansas City Board of Trade	127,957	29,963	23.4
Corn: Chicago Board of Trade	1,962,900	421,579	21.5
Soybeans: Chicago Board of Trade	497,953	129,727	26.1
Soybean Oil: Chicago Board of Trade	287,650	67,869	23.6
Cotton No. 2: New York Board of Trade	244,076	82,389	33.8
Lean Hogs: Chicago Mercantile Exchange	180,870	83,346	46.1
Live Cattle: Chicago Mercantile Exchange	267,023	94,995	35.6
Feeder Cattle: Chicago Mercantile Exchange	30,462	7,373	24.2
Cocoa: New York Board of Trade	162,595	13,666	8.4
Sugar No. 11: New York Board of Trade	786,586	156,614	19.9
Coffee C: New York Board of Trade	177,345	36,982	20.9

Source: CFTC Supplemental Report on Commitments of Traders.

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DJ-AIG index by its weight for CBOT wheat. The sum of the two values 92 percent of the estimated index investment in wheat. Percentages for the other commodities were generally between 95 and 105 percent, although weights differed considerably. This test provides initial confirmation that the sizes are roughly correct.

vestment in the commodity as a percentage of the commodity's value.

The December 2006 issue of *The Petroleum Economics Monthly* and the January 15 issue of *Notes at the Margin* will provide much greater detail on these calculations.

Calculating the Market Share in Petroleum

Our estimate of fund size was used to calculate the aggregate index positions in energy markets. The calculations are shown in Table 2. Column 1 shows the estimated value of the individual market (price multiplied by open interest on January 3, 2007). Columns 2 and 3 show the share of total investment in the fund to the individual contract. Column 4 shows our estimate of the total fund in-

Table 2. First Approximation of the Share of DJ-AIG and GSCI in Principal Energy Funds

Commodity	Dollar Value of Contracts (Millions)	DJ-AIG Allocation (%)	GSCI Allocation (%)	Percent of Market Accounted for by Index Investors
Natural Gas	\$128,769	7.1	7.4	5.6
WTI	\$99,570	10.6	31.2	23.1
NY Harbor RBOB	\$9,747	3.2	2.4	27.6
NY Harbor Heating Oil	\$14,909	3.1	8.0	40.5
Brent	\$33,343		15.0	27.0
Gasoil	\$16,526		4.4	16.0

Source: Weights taken from Alvin Ying et al., *Commodity Index Monitor*, December 2006; PKVerleger LLC.