



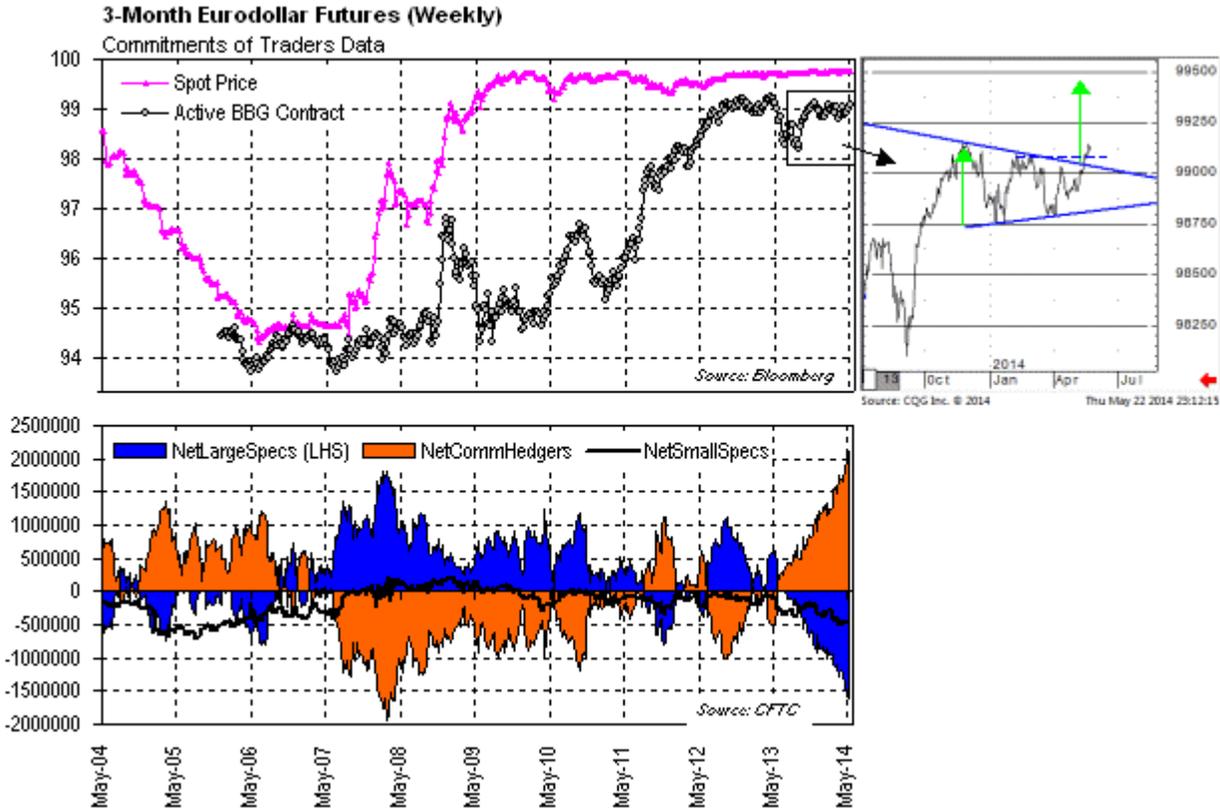
Chart of the Day: Gut Check for ED Shorts

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--Stone & McCarthy (Princeton) -- Later this afternoon (3:30 ET), the CFTC will release its weekly Commitments of Traders report consisting of data compiled through 05/20/14. One of the most interesting stories being told by this report of late has to do with the extreme short base that large speculator accounts continue to build in the 3-Month Eurodollar contract (ED), even as prices have been breaking to the upside. Before we continue, we should note that, due to the vast pool of forward rates, the task of analyzing CFTC data for ED futures is an especially difficult one, and therefore requires its own discussion. In today's Chart of the Day, we are simply going to touch on how the current extreme disconnect between price and this typically trend following segment of the marketplace might affect prices over near-term.

As of [last week's CFTC Commitments of Traders report](#) , large speculator net short bets on 3-Month Eurodollar futures grew to a record 1.56 million contracts, amid record open interest of 11.6 million contracts. However, after overcompensating for higher rates, deferred contracts have been on the rise, with recent breakouts generating POTENTIAL upside that puts them well on track to move more in line with the spot price. That's what makes the recent short extremes so interesting, since any forced covering of these extreme short positions, **should it occur**, is precisely the kind of fuel that is needed to support such a scenario.



Over the long-term, maintaining a short bias certainly makes sense. However, with bets on an accelerating economic recover running into some trouble recently, we're about to see just how long these accounts are willing to fight the recent price moves that are going against them.

Currently, we track the March '16 contract in our daily fixed income comments. However, for of today's discussion we're using what Bloomberg is carrying as the active contract (December '15), which is currently trading at 99.11. As a result of the work this contract has done since breaking north of a 6-month range on 05/14/14, the **POTENTIAL** for a move in the direction of 99.33 - 99.55 over the weeks to months ahead is now on the table. Although there are some short-term pressures building on the chart, this will remain a valid scenario against a trailing stop of 98.975.