The KC DCOT Dealer Commercial Split Signal: Contrarian Positioning Overlay for Arabica

Why the CFTC DCOT dealer-intermediary net position z-score delivers a daily Spearman information coefficient of minus 0.142 against Arabica forward 60-day returns across 20 years.

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The signal with the limits stated upfront

Three things the reader must know before the rest of this brief lands.

First, the full-distribution daily Spearman information coefficient against Arabica forward 60-day returns is minus 0.142 at p-value 2.8e-24 on a sample of 5,066 daily observations spanning 2006 through 2026. Strongly significant on the 20-year DCOT window. The polarity is contrarian: dealer long concentration precedes KC weakness.

Second, Phase +1 (Dealer Long) delivers minus 2.58 percentage points below baseline across 2,152 trading days (42.5 percent of sample) and Phase –1 (Dealer Short) delivers plus 0.67 percentage points across 2,198 days (43.4 percent). 3.25 pp directional spread between Phase +1 and Phase –1.

Third, the phase pattern is non-monotone around Phase 0. The middle bucket (On Trend) delivers a surprising plus 5.72 pp edge across the 14.1 percent sample share. The middle outperforms both extremes; readers must not treat On Trend as neutral and should read the signal strictly on the directional extremes.

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The thesis: dealer positioning as physical-hedge proxy

The CFTC Disaggregated Commitments of Traders report breaks commercial positioning in US futures markets into dealer-intermediary, asset-manager, leveraged-fund, and other-reportable categories. The dealer-intermediary category covers the swap dealers and merchant intermediaries that stand between physical commodity producers and end-consumers. Dealer positions in coffee futures proxy physical-hedge demand from coffee merchants, roasters, and producers.

When dealer long concentration is high, it means the physical-market side is actively hedging long physical inventory via futures contracts. Empirically this precedes Arabica forward weakness at 60-day horizons as the physical-hedge pressure works through the futures market and extends into subsequent

weeks. When dealer short concentration is high, the physical-hedge pressure has unwound and Arabica strength is more likely to follow.

The signal takes the CFTC DCOT dealer-intermediary net position (long minus short) in ICE US Coffee C futures, z-scores on a rolling window, and tanh-bounds. State thresholds plus or minus 0.2 (moderate) and plus or minus 0.5 (extreme). Phase +1 at composite above +0.3, phase −1 below −0.3. Target: ICE US Coffee C first-nearby back-adjusted close.

Historical window: CFTC DCOT reporting began in June 2006; engine runs from 2006 onward with 504-bar warmup.

What the firings have actually done

Computed over 5,066 daily observations post-warmup from 2006 onward. The baseline Arabica forward 60-day return is mean plus 2.45 percent and median plus 0.42 percent across the live-window sample.

> **Baseline Arabica forward 60-day return:** mean plus 2.45 percent / median plus 0.42 percent across the live-window sample.
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> **Daily Spearman IC (fwd 60d):** minus 0.142, p-value 2.8e-24, N equals 5,066. Strongly significant.
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> **Non-overlap IC (60-day step):** minus 0.102, p-value 0.35, N equals 85. Sign-consistent but not independently significant.
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> **Phase-conditional forward 60-day Arabica returns:** Phase +1 (Dealer Long, 2,152 days / 42.5 pct): minus 0.13 percent, edge minus 2.58 pp. Phase 0 (On Trend, 716 days / 14.1 pct): plus 8.18 percent, edge plus 5.72 pp. Phase −1 (Dealer Short, 2,198 days / 43.4 pct): plus 3.12 percent, edge plus 0.67 pp.
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> 3.25 pp directional spread between Phase +1 and Phase −1. Non-monotone around Phase 0.

Three findings. The daily IC is strongly significant with clear contrarian polarity. The Phase +1 and Phase −1 extremes carry the directional information consistent with the contrarian positioning thesis. Phase 0 (On Trend) delivers a surprising plus 5.72 pp edge across the 14.1 percent sample share; the middle outperforms both extremes. This non-monotone pattern is important for the reader to understand.

Three cases that frame how to read the signal

The canonical anchors are the 2022 post-frost physical hedging regime, the 2011 supercycle peak hedging, and the 2019 cycle-low hedge-unwind.

Case 1: The 2022 post-frost physical hedging

Dealer Long firing anchored the 2022 period as merchants and roasters locked in physical hedges into the post-frost Arabica rally. The 2021-2022 Arabica rally had taken KC above 2.40 per pound by early 2022, and commercial dealers piled into physical hedges at those elevated levels. Composite held

in Phase +1 territory through the 2022 peak period. Subsequent 60-day returns consistent with the contrarian Phase +1 edge as physical-hedge pressure worked through the market.

Case 2: The 2011 supercycle peak hedging

Dealer Long firing in Q1 2011 at the KC supercycle peak as commercial dealers piled into physical hedges at historic high prices. KC had reached above 3.00 per pound and commercial end-users rushed to lock in hedges before the peak rolled over. Composite held in Phase +1 territory through the peak. Subsequent rollover through 2011-2012 confirmed the contrarian Phase +1 edge; KC gave back more than one-third from the peak into 2012.

Case 3: The 2019 washed-arabica trough hedge-unwind

Dealer Short firing through 2019 as commercial dealers unwound physical hedges into the cycle-low Arabica pricing regime. Composite held in Phase −1 territory through 2019 as the washed-Arabica trough reached multi-year lows. Subsequent mild Arabica strength through 2019-2020 consistent with the Phase −1 edge; cycle-low dealer short concentration historically precedes modest Arabica strength.

How to use this signal today

Composite is currently reading plus 0.738 in the Dealer Long band. The HEALTHY phase began February 2025, 427 trading days ago. CFTC DCOT dealer-intermediary net position has run elevated above the rolling z-score mean through 2026 consistent with heavy physical-hedge demand regime.

Pair with the following for stacked conviction: ENSO supply signals (fundamental supply driver), USDA PSD (systemic supply anchor), Cecafe realized price (transaction tightness), and macro overlay signals. This positioning signal tells WHAT IS HAPPENING in the dealer book; pair with supply fundamentals for the full read.

Reader rule: Dealer Long firings flag contrarian bearish regimes where physical-hedge pressure precedes Arabica weakness. Dealer Short firings flag mildly bullish regimes where hedge unwind precedes Arabica strength. On Trend is the surprising best bucket; use strictly on the extremes.

Methodology

Data source: CFTC Disaggregated Commitments of Traders weekly report, dealer-intermediary category net position in ICE US Coffee C futures. Computation: dealer long minus dealer short, z-scored on a rolling window, tanh-bounded. State thresholds plus or minus 0.2 (moderate) and plus or minus 0.5 (extreme). Phase +1 at composite above +0.3, phase −1 below −0.3. Target: ICE US Coffee C first-nearby back-adjusted close.

Historical window: CFTC DCOT reporting began in June 2006; engine runs from 2006 onward with a 504-bar warmup for the rolling z-score.

Validation computed on 5,066 post-warmup daily observations. Daily Spearman IC minus 0.142 at p-value 2.8e-24 across 5,066 observations, strongly significant on 20-year DCOT sample. Phase +1 per-day forward return minus 0.13 percent (minus 2.58 pp below plus 2.45 percent baseline). Phase −1 per-day forward return plus 3.12 percent (plus 0.67 pp above baseline). 3.25 pp directional spread. Non-overlap IC at 60-day sampling minus 0.102 at p-value 0.35 across 85 samples, sign-consistent but not independently significant.

What this signal does not cover

The signal does not cover asset-manager or leveraged-fund positioning (see separate speculator positioning signals). It does not cover fundamental supply (see USDA PSD, ENSO, CHIRPS). It does not cover macro overlay (see CPI, DXY, real yields). Dealer positions can persist in extreme regimes for extended periods; the current Phase +1 episode at 427 days is a cautionary example that positioning extremes can persist much longer than fundamental cycles.

Disclaimer

This brief and the signal it describes are for informational purposes only and do not constitute investment, legal, tax, or trading advice. Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. The phase-conditional forward-return stats reported above are a full-sample unconditional measurement. Readers should consult a licensed financial professional before taking any trading action.

References

US Commodity Futures Trading Commission, Disaggregated Commitments of Traders weekly report, ICE US Coffee C, cftc.gov.

ICE Futures US, Coffee C first-nearby back-adjusted continuous contract (ticker KC), end-of-day settlement.