

Analysing demand: the economy wearing units

DEMAND ELASTICITY ASYMMETRY

Commodity demand barely responds to ordinary price moves but bends at extremes: consumers substitute, conserve or shut down when a price becomes intolerable. Analysis therefore treats demand as an economic series most of the time and a behavioural one only at the edges - and knowing which regime a market is in is half the demand call.

Supply breaks; demand drifts. That asymmetry makes demand the quieter half of the balance sheet - and the half where a wrong assumption survives longest undetected.

Demand is the economy, denominated in stuff

Copper demand is construction and grids; diesel demand is freight; grain demand is population, herds and fuel mandates. Most commodity demand is industrial or structural, which means it tracks the economic cycle with a lag and ignores the daily price entirely - module 1's stubbornness, now a forecasting convenience. The practical consequence: demand estimates borrow their shape from macro forecasts, so a commodity analyst's demand view is usually an economy view wearing units, and honesty means knowing that is what it is.

The edges are behavioural

Elasticity sleeps until the price becomes intolerable, then arrives all at once: utilities switch fuels, airlines hedge and re-price routes, food processors reformulate, and the marginal factory simply stops. Post-2022 European gas is the textbook - demand fell double digits in a year, a move no smooth elasticity model predicted, because destruction is a threshold behaviour. When a market prices at multiples of its norm, demand analysis stops being macro extrapolation and becomes a hunt for the thresholds: who breaks next, at what price, for how long.

Two disciplines

In the ordinary regime, source the macro honestly: a demand view is only as differentiated as the economic view under it, and pretending otherwise double-counts confidence. Near the edges, count thresholds instead: substitution prices, shutdown economics, mandate changes. The balance sheet's demand line goes non-linear exactly where these live.

And in both regimes, the dollar stands behind everything: dollar-quoted commodities become dearer to most of the world when it strengthens, which taxes demand globally without any economics happening locally. It is the one demand driver shared by every market this track covers - and the reason a commodity analyst watches FX whether they want to or not.

Check your understanding

1. Why is a commodity demand forecast usually 'an economy view wearing units'?

- a. Demand data is only published annually
- b. Industrial and structural demand tracks the economic cycle and ignores ordinary price moves, so the estimate inherits its shape from macro forecasts
- c. Commodity demand cannot be measured directly

Answer: b. Freight, construction and food demand follow economies, not daily prices. Recognising the borrowed macro under a demand view is what keeps its confidence honestly priced.

2. When does demand elasticity actually appear in commodities?

- a. Continuously and smoothly, as textbook models assume
- b. At price extremes, as threshold behaviour - substitution, conservation and shutdowns arriving all at once
- c. Only in agricultural markets

Answer: b. Demand ignores ordinary moves and then breaks in steps when prices become intolerable. Analysis at extremes becomes a hunt for who breaks next and at what price - not a curve, a cliff.