Analysing supply: slow, lumpy and political

> **SUPPLY RESPONSE LAG**
>
> The time between a price signalling for more supply and the supply arriving: a season for crops, years for mines and wells. Within the lag, supply is close to fixed whatever the price does - which is why supply analysis is mostly about counting what is already committed, not guessing what prices will summon.

The demand side of a balance sheet drifts. The supply side breaks. Module 1 said it; this lesson turns it into method.

Count what is already decided

Most of next year's supply is not a forecast - it is a commitment already visible. The acres were planted in spring; the wells were drilled last year; the mine expansion was financed in another price regime entirely. Supply analysis starts by counting these commitments: planted acreage and trend yields for crops, rig counts and decline rates for oil, project pipelines for metals. The count gives you the baseline the market is also carrying - and a discipline, because the exciting part is not the count.

The exciting part is the disruption

Weather, for anything grown: one bad month in one hemisphere rewrites a crop's table. This is why grain analysis is half meteorology in season.Outages, for anything drilled or mined: strikes, storms and breakdowns remove supply in lumps, with no lag at all.Politics, for nearly everything: a cartel decision, an export ban, a sanctions round. Module 1 warned that commodities sit close to state power; supply is where that proximity operates.

Disruptions are unforecastable in timing but not in exposure. Analysis can always say which markets are one event from tightness - a balance sheet with thin stocks and concentrated supply is fragile in a way the price may not yet admit - and fragility, unlike timing, is knowable in advance.

The trap in supply work

High prices eventually summon supply, and the summons always arrives after the lag - usually together, from every producer who responded to the same signal. The analyst's error is extrapolating tightness through the moment the lagged response lands. The balance sheet's forward months hold the antidote: the commitments being made now, at today's prices, are next period's top line, and counting them is how supply analysis avoids being surprised by the only thing it could have seen coming.

Check your understanding

1. Why does supply analysis start with counting rather than forecasting?

a. Forecasts are unreliable in commodity markets

b. Most of the coming period's supply is already committed and visible - acres planted, wells drilled - so the baseline is countable

c. Regulators publish supply forecasts already

Answer: b. Inside the response lag, supply is a set of decisions already taken. The analyst's baseline is an audit of those commitments; the market's is the same audit, which is exactly why differing from it requires the count first.

2. What is knowable in advance about supply disruptions?

a. Their timing, from seasonal patterns

b. Which balance sheets are fragile to one - thin stocks plus concentrated supply - even though the event itself is unforecastable

c. Nothing - disruptions are pure chance

Answer: b. The event's date is chance; the market's exposure to it is structure. Fragility analysis converts an unforecastable shock into a positioned-for scenario, which is the honest limit of what supply work can do.