Building a commodity read

> **READ**
>
> A view assembled from the module's components - balance, calendar, positioning, structure - stated in numbers, with the release that will test it and the price that would invalidate it named in advance. A read is not a prediction; it is a difference from consensus with an audit date.

Eight lessons produced instruments. This one plays them together, in order.

The assembly

The balance: where do supply, demand and stocks actually stand against consensus - and where specifically does your table differ? (Lessons 2-5.)The calendar: which release audits the difference, and when? A read without an audit date is an opinion on holiday. (Lesson 6.)Positioning: is the read already the crowd's? COT extremes on your side subtract edge and add unwind risk. (Lesson 7.)Structure: where does the market accept and reject prices now - so the entry, stop and invalidation have addresses? (Lesson 8, module 4's stop discipline.)

Then it becomes arithmetic

A read that survives assembly converts to numbers: an entry, a stop the read is wrong beyond, a target where the repricing it expects completes. At that point the trade has a ratio and a break-even win rate - worked below - and module 4's sizing takes over entirely. Notice the handoff: analysis decides whether and where; the risk plan decides how much; and neither is permitted to do the other's job.

What a read does not give you

Certainty, obviously - but more specifically, it does not give you frequency. Good commodity reads are occasional, because differentiated views of well-audited balance sheets are rare by construction; most weeks the honest output of this module's machinery is 'the consensus looks right'. The FX and indices tracks ended their analysis modules on the same warning, and it survives the asset class with the best raw materials unchanged: the discipline is wanting the read to be true less than wanting to know whether it is. The calendar will tell you. That is what it is for.

Worked example - figures in USD

A WTI read converted to a trade: entry $78.50, stop $76.40, target $82.70. Ratios of prices carry no currency.

1. The read says the balance is tighter than consensus and Wednesday's count should show it. Entry $78.50, stop $76.40 - one ATR below, per module 4 - and target $82.70, where the read says the repricing completes.
2. That is $2.10 of risk against $4.20 of reward per barrel: a ratio of 2.0. The view now has a shape, not just a direction.
3. At 2.0:1 the trade breaks even winning 33.33% of the time. The read's job was never to be certain - it was to be right more often than that number, and the calendar will keep score.

Check your understanding

1. What must a commodity read name in advance to be a read rather than an opinion?

a. The trader's conviction level

b. The specific difference from consensus, the release that audits it, and the price that invalidates it

c. The expected profit in account currency

Answer: b. Difference, audit date, invalidation: the three commitments that make a view testable. Everything else is commentary - and the commodities calendar makes the audit date uniquely enforceable.

2. Most weeks, this module's machinery honestly outputs 'the consensus looks right'. Why is that a feature?

a. It reduces trading costs

b. Differentiated views of publicly-audited balance sheets are rare by construction - frequent 'edges' would mean the machinery is manufacturing them

c. Consensus views are usually profitable to follow

Answer: b. The market's table is built by well-informed participants and audited weekly. Genuine differences are scarce; a process that finds one every week is finding its own reflection. Rarity is the evidence of honesty.