The balance sheet: supply, demand and the stocks between

STOCKS-TO-USE RATIO

Ending inventories divided by a period's consumption: how much of the year's demand is already sitting in storage. It is the balance sheet's summary statistic - comparable across years and commodities in a way raw stock levels never are - and grain markets in particular price off it directly.

Every commodity market carries a running model of itself: how much will be produced, how much consumed, and what remains in storage when the period ends. That model is the balance sheet, and learning to read one is learning the language the whole market argues in.

Three lines, one identity

Supply plus opening stocks, minus demand, equals ending stocks. The identity always balances - it is accounting - so the argument is never about the arithmetic, only about the estimates feeding it. WASDE publishes exactly this table for every major crop each month; the energy agencies publish the oil version; the metals consultancies sell theirs. When a release 'moves the market', what moved is a line in this table against what the consensus table expected.

The summary statistic

Raw stock numbers mislead across markets and eras - a million barrels is a glut in one context and a rounding error in another. Stocks-to-use fixes the denominator: inventories as a share of the period's consumption. Grain traders live on this ratio, and its behaviour is sharply non-linear - the difference between 25% and 20% barely prices, while the difference between 10% and 7% can double a market, because the buffer from module 1 is approaching empty and the price must start doing the rationing itself.

Reading one in practice

Find the consensus table first - the agency's current estimates. That is the priced view, the thing your analysis must differ from to matter.Watch revisions, not levels. A balance sheet that has been tightening for three consecutive reports is a market learning its buffer is smaller than believed.Locate the current stocks-to-use on its own history. The same headline number is boring at the 60th percentile and explosive at the 5th.

The next three lessons take the table a line at a time: supply, demand, and the stocks line that settles their arguments.

Check your understanding

1. Why does stocks-to-use beat raw inventory levels for analysis?

a. It is published more frequently
b. It scales the buffer by consumption, making it comparable across years and commodities - and its effect on price is non-linear as it approaches empty
c. Raw levels are usually estimated inaccurately

Answer: b. A stock level means nothing without knowing how fast it drains. As the ratio falls toward the bottom of its history, the buffer stops buffering and the price takes over the rationing - which is why low ratios price so violently.

2. A monthly report leaves every estimate unchanged except ending stocks, revised down 3%. What actually moved the market?

a. The report itself, mechanically
b. The gap between the revision and what the consensus table already assumed
c. Nothing - a 3% revision is within error

Answer: b. The table is the consensus. The market reprices only the difference between the new line and the one it was already carrying - module 2's expectation machinery, applied to the balance sheet itself.