What actually moves a commodity price

> **INELASTIC SUPPLY**
>
> Supply that cannot respond quickly to a price change. A mine takes years to open, a crop is planted once a season, a well produces what it produces. When neither supply nor demand can adjust in the short run, the price does all the adjusting - which is why commodity moves are so much more violent than the underlying change in the physical world.

An equity trader watching a commodity market for the first time always asks the same question: why are the moves so big? The answer is that nobody at either end of the market can respond.

Supply is slow and lumpy

Raising oil output means drilling; raising copper output means years of mine construction; raising the wheat supply means waiting for the next planting season. In the short run, supply is close to fixed. And when it changes, it changes in lumps - a freeze takes a region's crop, a strike halts a mine, a storm shuts a basin's platforms. Not percentage points; chunks.

Demand barely flinches at price

Airlines do not ground flights because jet fuel rose ten per cent this week, and bakers do not stop baking. Physical demand follows economies and seasons, not the daily price. So a supply shock cannot be absorbed by demand politely stepping back - the price must rise until it hurts enough somewhere to force the physical books to balance.

Inventories are the shock absorber

Between slow supply and stubborn demand sits storage: tanks, silos, warehouses. Stocks absorb the surprises - which is why traders watch inventory data with an intensity that seems absurd from outside. In the US, the EIA reports petroleum stocks every Wednesday, and the USDA's monthly WASDE report re-draws the balance sheet for world agriculture. These are scheduled volatility events, listed in advance, and module 2 teaches you to read them. Respect them before you understand them: an open position through an inventory report is a position through a coin toss you did not need to take.

Two movers imported from other markets

The dollar. The benchmarks are dollar-quoted, so a strong dollar makes every barrel and bushel dearer in everyone else's currency - commodity prices and the dollar tend to lean against each other, mechanically.Politics. Cartels manage oil supply openly; sanctions re-route it; export bans appear overnight in grain markets when harvests fail. Commodities sit closer to state power than any other asset class you will trade.

Slow supply, indifferent demand, a buffer that empties, and a price doing all the work. Hold that model and commodity volatility stops looking like chaos - it looks like exactly what the physics of the market requires.

Check your understanding

1. Why do commodity prices move more violently than most financial asset prices?

a. Commodity markets are less regulated

b. Short-run supply and demand are both nearly fixed, so the price must do all the adjusting

c. Commodity traders use more leverage

Answer: b. Mines, wells and crops cannot speed up on demand, and physical consumption barely responds to weekly prices. When a shock lands, nothing can give way except the price.

2. Why do commodity traders watch weekly inventory reports so closely?

a. They show what large speculators are doing

b. Stocks are the buffer between fixed supply and steady demand, so a surprise in the buffer re-prices the whole balance

c. The reports set the official settlement price

Answer: b. Inventories absorb every mismatch between production and consumption. A surprise draw or build is direct evidence the balance is not what the market priced - and the release times are known in advance.