

Seasonality in price: the real cycles and the sold ones

SEASONALITY

A tendency for a commodity's physical balance to follow the calendar: harvests, heating demand, driving seasons. The physical cycles are real and documented. A seasonal price pattern is a different claim - that prices move predictably on the calendar - and it is weaker than it looks, because a cycle everyone can see gets priced into the curve in advance.

Commodities genuinely follow the calendar, and an entire cottage industry exists to sell you that fact. This lesson is about telling the two apart.

The real cycles

Grain supply arrives once a year at harvest and is stored, drawn down and priced until the next one. US petrol demand rises every summer as the country drives. Gas storage fills through the warm months and drains through winter. These are physical facts, as regular as the seasons that cause them, and module 1's supply-and-inventory model predicts each one.

Why the pattern is already sold

Here is the step the pattern-sellers skip. A cycle everyone can see is a cycle the market prices in advance. Winter gas demand is not news in November - the winter months trade at a premium all year, sitting in plain sight on the curve you learned to read three lessons ago. For a seasonal pattern to make money, it is not enough for winter to come; winter must surprise. The calendar is public; only deviation from it pays.

How the over-fitted version is manufactured

Take twenty years of prices. Test every window of the calendar against every commodity. Publish the combinations that scored well - 'this commodity has risen in this fortnight in 14 of 20 years' - and let the buyer assume the pattern means something. Test enough windows and such records appear by chance alone, in random data, reliably. Notice what the sales page never shows: the pattern's performance after publication, on a back-adjusted chart done honestly, with the roll costs included.

The reading skill

Ask what physical mechanism the pattern claims. 'Petrol before driving season' names one; 'gold in September' names a coincidence count. Ask whether the mechanism is already on the curve. If the winter premium is visible in July, the seasonal 'trade' was priced before you arrived. Treat seasonality as context, the way this module treats open interest: it tells you what normal looks like for the date, so that deviation from normal - the thing that actually pays attention - stands out.

The honest use of seasonality is a baseline, not a signal. Gas drawing down in January is not information. Gas failing to draw down in January is.

Check your understanding

1. Winter gas demand is certain, and every trader knows it. Why doesn't buying gas each autumn reliably profit?

- a. Winter demand is less certain than it appears
- b. The known cycle is priced into winter months long in advance - only deviation from the expected winter pays
- c. Regulations prevent seasonal position-taking

Answer: b. The winter premium sits on the curve all year. Buying into a priced-in cycle earns the cycle minus what was paid for it - roughly nothing, before costs. The surprise, not the season, is the tradeable part.

2. A pattern service reports a commodity rose in the same two-week window in 14 of 20 years. What is the first question?

- a. Which broker offers the lowest cost to trade the pattern
- b. How many windows and commodities were searched to find this one, and what physical mechanism it claims
- c. Whether 14 of 20 is a high enough hit rate

Answer: b. Search enough calendar windows and records like this surface by chance in random data. Without a named mechanism and out-of-sample performance net of roll costs, it is a survivor of a mining exercise, not a finding.

3. What is the defensible everyday use of seasonality?

- a. A calendar of entry dates for each commodity
- b. A baseline for what is normal on the date, so that deviation from it stands out
- c. A filter that blocks trading in certain months

Answer: b. Gas drawing down in January is the script. Gas failing to draw down in January is information. Seasonality earns its keep by defining normal, not by predicting price.