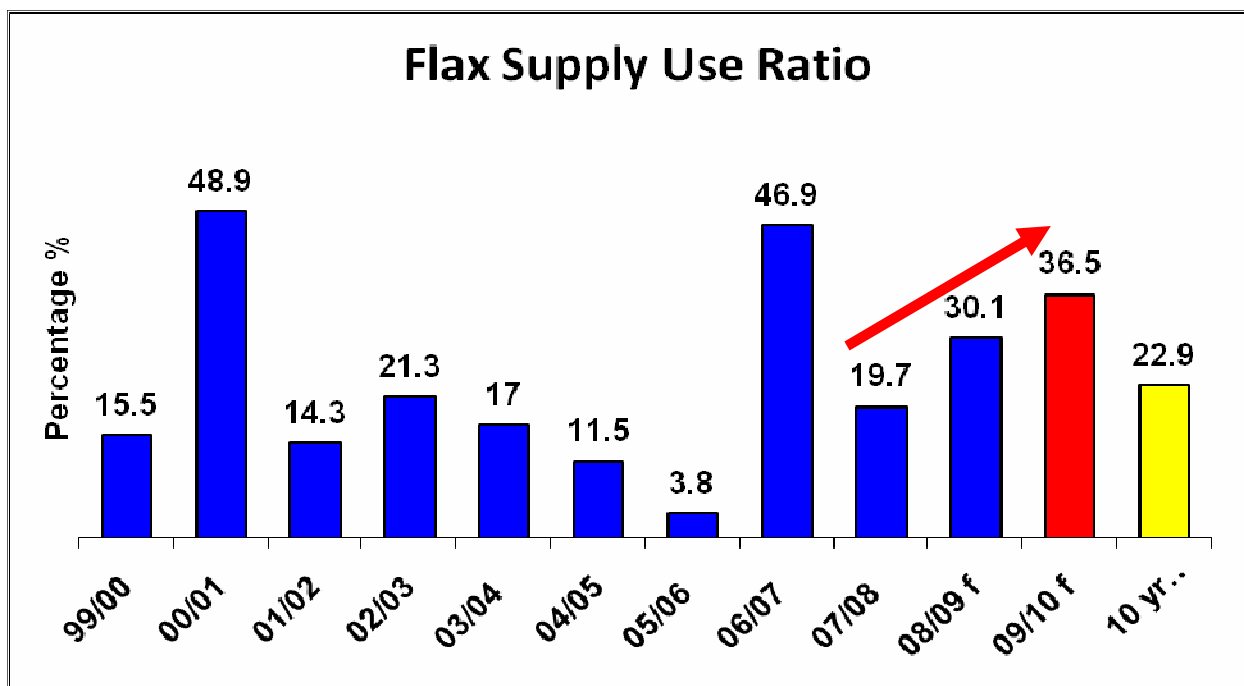


# Keep your eye on the ball: utilizing the S/U ratio



Like the batting coach who continually tells the hitter to “keep your eye on the ball”, *Just The Flax* will continue to utilize the supply/use ratios until it becomes second nature in our quest to keep hitting singles and staying in the game.

The S/U ratio indicates the level of grain left at the end of the marketing year (July 31) as a proportion of the total demand or use. Production represents the total grain produced in a given year. Usage includes domestic use, exports, feed and a category for next year’s seed, waste and dockage. Total supply is determined by adding last year’s carryout stocks to this year’s total production. If you divide carryout stock by the total usage, we can use this percentage to analyze previous year’s supply balances.

This ratio is highly correlated to price movement. An increase in the stocks-to-use ratio signals falling prices, whereas a decrease in the ratio results in rising prices. The S/U ratio is a fitting measure of supply and demand



of any commodity. It gives a farmer a quick glance method to determine possible price action for the coming year.

In the chart above, there were two extremely high S/U ratios, both coming off of poor crops. The first in 2000-01 was after a very cool, wet spring in southeast Saskatchewan in 1999, and the second was in 2005-06, after the devastating frost on August 19, 2004. Taking the two extremes out of the equation, the possibility of an increase of over 10% seems remote.

Revised ending stocks, increased acres and trend line yields have increased S/U ratios dramatically in the past two months. If everything on the weather front was “normal”, the S/U ratio would indicate a sell signal as supply was going to increase. Ted Allen, the former Chair of Agricore United defines “normal” as the average of two extremes. Given the weather circumstances this year, we are on the precipice of extreme and the sell signal should be muted until such time as weather and crop development are better known. 🌱