Industry Economics . . .

The Journal Committee has long felt that current economic news and data would be of great interest to readers of the Journal of the American Oil Chemsits' Society and is now happy to report that Mr. R. D. Willemin Sr. of Merrill Lynch, Pierce, Fenner, and Beane has kindly agreed to supply such editorial material on a regular basis. We are grateful to him and his firm, which is one of the world's largest brokerage houses, trading in all types of fat and oil commodities.

If you, our members and readers, find this new Journal service interesting and helpful, we would welcome your suggestions and comments.

The information in these reports will be the best and most current that is available to the market analysts. However no further responsibility for it can be assumed by the American Oil Chemists' Society, the author, or the firm of Merrill Lynch, Pierce, Fenner, and Beane.

A. R. BALDWIN, EDITOR

THE NEW CROP YEAR in fats and oils began officially on October 1 and will be attended not only by the soybean harvest and the expanding production of lard and cottonseed oil but also by the harvest of a new crop of estimates of how the year will turn out. Guesses will be made of production, domestic consumption, exports and stocks. As the year wears on, one of the principal price-making factors in the market will be the extent to which these guesses are proved wrong. If it were possible for the majority of analysts to hit the nail on the head with their estimates at the beginning of the year and have their accuracy confirmed month after month by the official figures, a principal cause of price fluctuations would be removed (not all of them, of course—there's always something).

It is probably true that futures prices tend to reflect the average of supply and demand estimates made by analysts all over the country, whether they are made public or not. In 1955–56 it was in the area of exports where the guesses went awry; and as the estimates were raised to reflect the strong foreign demand, so were prices. In 1956–57, the year just ending, the economists sharpened their pencils and had exports figured pretty well, but from December to April domestic disappearance fell so far below expectations that estimates of that item had to be adjusted downward, and this was accompanied by a similar adjustment in prices.

The problem of the analyst is complicated further by the question of timing. If he could correctly project production, consumption exports, and stocks for the year, and predict an average price for the year, he would be wise to let it go at that. Unfortunately however the changes in price over shorter periods of time are very important. Since the implicit objective of all supply-demand analysis is to predict prices, it becomes necessary for the economist to examine quarters of the year, or occasionally even months.

The timing of price moves is governed by a number of things, most of which are unpredictable. One of the most important of these is speculative sentiment, which can manifest itself in several ways. In the first place, it can result in an apparent change in domestic consumption. If we define domestic consumption of fats and oils for food as the quantity which is actually eaten in a given period of time, whether it be on a piece of bread, or in a cake or on a salad, then we can distinguish it from domestic disappearance, which is the arithmetic result of adding beginning stocks, production, and imports and subtracting ending stocks and exports to arrive at the amount which "disappeared" domestically. If the official figures on stocks included inventories at every level, including those in the home, in bakeries, in retail stores, etc., then every pound would be accounted for and domestic consumption would be the same as disappearance. Unfortunately this is impossible, and the best the Census Bureau can do is provide us with stocks at factories and warehouses. Other inventories are not measured and constitute "invisible inventories."

Domestic disappearance can be calculated statistically, but even after you have it, you can't tell whether it was all consumed or whether part of it went to increase the invisible inventories. When the businessmen who control these unmeasured stocks are favorable to the price outlook, they tend to build up their inventories. While this is going on, domestic disappearance may exceed actual consumption for several months.

THIS IS A CASE where speculative sentiment, by encouraging inventory accumulation, can have a pronounced effect on the apparent demand. The analyst who based his projections on a certain assumed rate of consumption gnashes his teeth, not knowing whether he underestimated consumption or whether the big disappearance is merely reflecting a build-up in invisible inventories. The important thing however is that whichever it is, it increases the demand above expectations and exerts an upward pressure on prices. If it later turns out that it was just another inventory situation, then eventually the domestic disappearance will fall below actual consumption as the swollen inventories are again liquidated to normal proportions.

Speculative sentiment also has an effect on prices to the extent that it influences speculators who trade in futures, whether they be doctors, artists, or professional traders. If speculators as a group are buyers on balance, this also has the effect of increasing the demand. It doesn't actually change disappearance statistics, of course, as inventory accumulation will; but it does have the effect of changing the ownership of the available supplies. If speculators are increasing their commitments, the price tends to advance to a point where the trade is willing to surrender part of the ownership to the speculators who desire it, through the process of hedging in futures. This also is eventually followed by a period when speculators are net sellers as their positions in futures are reduced. Then, of course, there is a tendency for prices to slip to a level where the trade is willing to assume the ownership again.

There are other unpredictables beside speculative sentiment to badger the hard-working analysts in their guessing games. The attitude of farmers toward marketing their soybeans can have a strong influence on prices for several months in the crop year. Needless to say, the vagaries of weather and government policy (both U. S. and foreign) can also reduce any well-considered analysis to shambles. The factor of speculative sentiment however is probably the most important, especially when it affects both inventory policies and speculators in futures. It behooves the observer to watch closely for the first signs of its changing.

Which factors will provide the surprises in the coming crop year? At the present time it certainly appears that the area of exports is the least clear-cut and the most likely to provide unexpected changes. Actual pressing needs of foreign countries will probably not be as great as in the past two years so that exports are likely to be more a result of price and somewhat less of a cause. Domestic consumption ordinarily doesn't change much, but as long as notoriety is still being given to the alleged connection between heart disease and saturated fats, it will be important to watch figures closely to discover any possible effect on eating habits which would affect demand.

Next month, and thereafter, we'll have current figures on these things and will give them closer scrutiny.

R. D. WILLEMIN SR.
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Fenner, and Beane
Chicago, Ill.

Officers of A.O.C.S. Sections

The four sections of the American Oil Chemists' Society have elected 1957–58 officers as follows:

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Treasurer, R. C. Hussong, Spencer Kellogg and Sons, Edgewater, N. J.
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Convention Steering Committee, chairman, H. C. Bennett, Los Angeles Soap Company, Los Angeles, Calif.

In October 1922

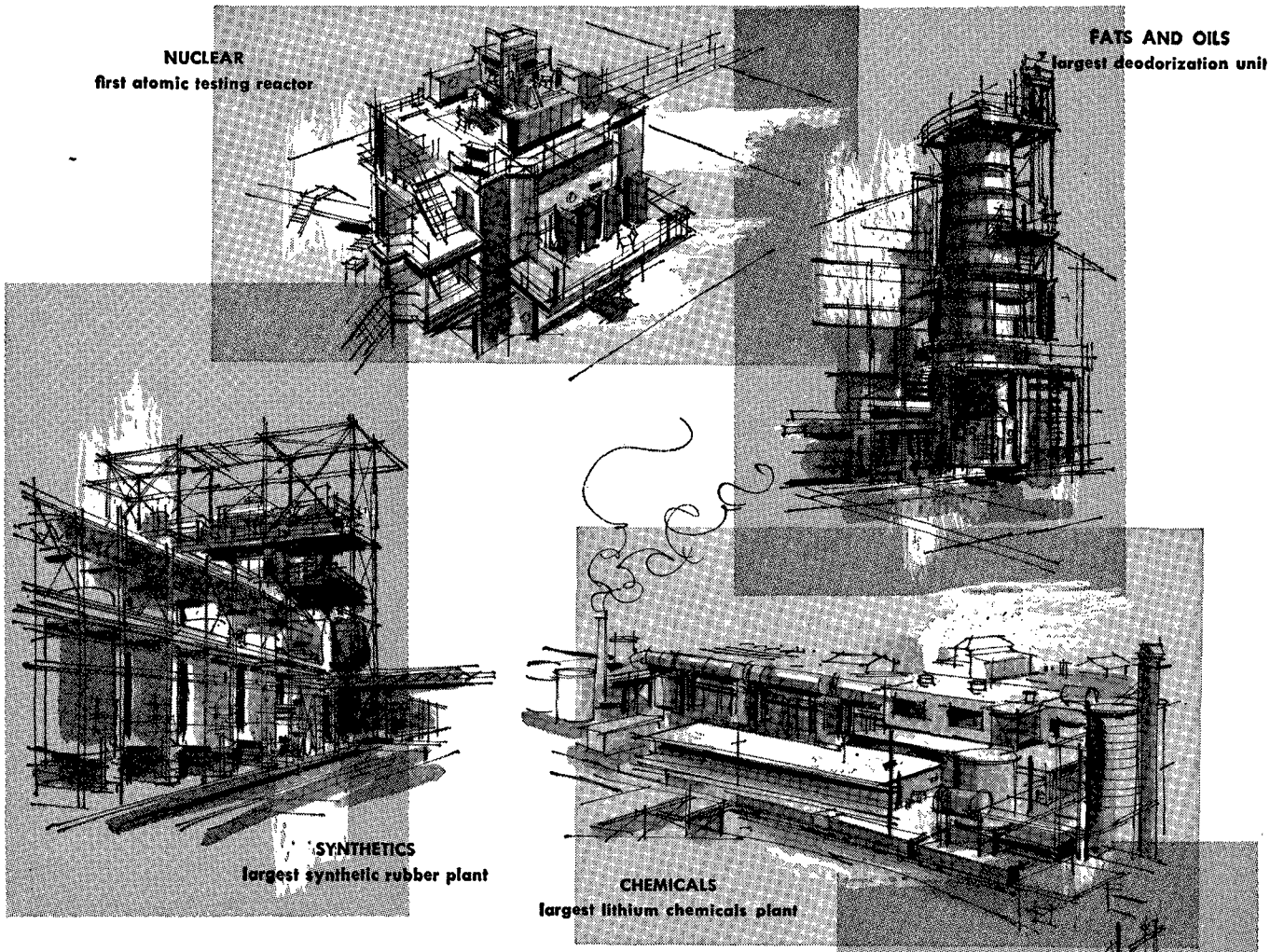
The adoption of a policy of cooperative research in the investigation of fundamental problems in the refining and handling of edible oils is praised by L. M. Tolman in his presidential message for October.

❖

Helpful hints for the chemist who serves as first-aid officer at his company are offered by W. H. Bailey of Wesley Hospital, Oklahoma City, who suggests a variety of remedies for injuries due to the effect of heat and frostbite.

❖

That methods employed in the use of the Lovibond colorimeter should be standardized was recommended by the Committee on Color of Oil and Meal. The purpose of this was to cut down the sources of error in differences due to light variation and in those due to the depth of column and meniscus error.



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Industry Items . . .

Perfection of a hard glass, KG-33 borosilicate glass, which will serve as a new source of supply for expanding laboratory and research requirements, has been announced by KIMBLE GLASS COMPANY, Toledo, O.

❖

BJORKSTEN RESEARCH LABORATORIES FOR INDUSTRY INC., Madison, Wis., has opened a new Texas laboratory in Houston. Luther L. Yaeger, vice president, will be in charge.

❖

Will-New York Inc., a subsidiary of WILL CORPORATION, has moved to larger modern quarters at 45 Goble place in Bronx.

❖

The technical library at the new central laboratories of BENJAMIN MOORE AND COMPANY, Newark, N. J., contains several hundred volumes on paint chemistry and allied subjects and is believed to be one of the most complete libraries in the paint industry.

Announce Canadian Symposium

A SYMPOSIUM on "The Chemistry and Physiology of Fats," sponsored by the biochemistry division of The Chemical Institute of Canada, is being held at the University of Ottawa on October 9–10, 1957.

Speakers at the session on the chemistry of fats include B. M. Craig, Prairie Regional Laboratory, on "Chemistry of Natural Glycerides;" D. C. Herting, Distillation Products Industries, on "Acetylated Monoglycerides and Related Fats;" and R. T. Holman, Hormel Institute, on "Separation of Fatty Acids."

Papers on the physiology of fats are "Stereospecificity and Substrate Specificity in the Fatty Acid Cycle," by J. R. Stern, Western Reserve University; "Transport and Utilization of Lipides," by D. S. Frederickson, National Institute of Health; and "Nutrition and Atherosclerosis, with Special Reference to the Fat Content of the Diet," by F. J. Stare, Harvard University.

Discussion leaders include C. Y. Hopkins, National Research Council; R. Lemieux, University of Ottawa; F. A. Vandenheuvel, Fisheries Research Board; P. G. Scholefield, McGill-Montreal General Hospital Research Institute; C. C. Lucas, University of Toronto; and J. M. R. Beveridge, Queen's University.

V. D. Anderson Delivers Expeller

The V. D. Anderson Company, Cleveland, O., manufacturer and distributor of vegetable oil milling equipment, recently delivered a seven-ton expeller and its accessories to San Andres Island, seven square miles in area and located about 115 miles east of the Mosquito Coast of Nicaragua. Especially made for handling hard, fibrous materials with high oil content, the heavy-duty expeller has been installed at the Fabrica de Grasas San Andres plant and will be used for the processing of copra.

The expeller was flown to its destination, the main body of the machine in one plane and the accessories in another.

Fatty Acids Drop

PRODUCTION of saturated and unsaturated fatty acids in July 1957 was 20.8 million lbs., according to the Fatty Acid Producers' Council, New York. This figure, reflecting seasonal plant shut-downs, is about 14.3 million lbs. below production in June 1957 and 2.1 million lbs. below July 1956.

Disposition in July totalled 26.5 million lbs., down 5.1 million from the June figure and down 1.2 million from the disposition figure for July 1956. Stocks of finished goods at the end of July totalled 28.0 million lbs., about 5.5 million lbs. lower than the previous month's figure. Work in process remained close to the June level.