• *Report on Fats and Oils*

The Tenuous Thread

Usually by this time of year the situation as to probable season consumption and end-stocks of beans and products is beginning to become clear, at least within rough limits. This is not the case this season.

We mentioned a couple of months ago that one of the principal sources of market uncertainty was Spain. The weeks have dragged on, and amazingly enough Spain is still the big question mark. That country took some 75,000 metric tons of soybean oil in November-December. They bought another 25,000 tons (February?), then another 50,000 tons (March?). This 150,000-ton season total is larger than some earlier expectations and puts that country not far short of the 350 million pounds purchased October-October last season. (This would however still be less than the 500-600 million pounds that some optimists hoped for.) The question now is how much more will Spain buy, and what will be the shipping period on any additional purchases?

There is no question in my mind that some place along the line Spain will buy more oil. She has an option on another 125,000 tons from a New York exporter at cheap prices. Despite severe recent market weakness, option prices to Spain are still nearly one and one-half cents/pound below current old crop values, and about one-half cent/pound below new crop values. On a price basis alone Spain almost certainly would be inclined to take the oil since over time she is going to need it although the incentive decreases as the market falls.

This is a pertinent view when trying to assess the oil picture over the next six months or so, but it is not much help in trying to view it over the next couple of months, which are the critical time. The short view is critical because there is every sign that we are over-crushed in terms of too much oil and perhaps insufficient beans. Bean oil stocks in all positions end-March are too large for comfort at 700 million pounds. End-April will be worse. We are not considering the recent Census Bureau downward revision of refined oil stocks as of end-March, as meaningful as the oil that moved into the salad oil column and out of the once-refined column is export oil and is at port. As a matter of fact, a very large percentage of our total oil stocks is at port. There was nothing wrong with this as long as the oil was moving out for export. Now it is not moving, and the stock in that position must be considered burdensome.

Over-crush, by the way, has been largely responsible for the consistent erosion in bean conversion this season. This erosion should not have been unexpected in a year when it was obviously necessary to ration bean consumption somewhat. The rationing was not fully effective, partly because crushers had big profits in long cash beans and long bean futures, and the obvious way to take the profits was to crush at a relationship that was not profitable on the surface. However, if oil exports finally show that we really are over-crushed, then economics may again return to the scene. This means price relations will be such as to tempt crushers back into the market. Interestingly enough, we probably are not over-crushed in terms of meal, and any sharp cutback in production could be quite helpful to meal prices.

Quite apart from all this, what are the prospects for Spain? We have constructed a table here which tells us a little (very little). It must be used with the greatest of care since it is entirely "guesstimates" (some mine, some other peoples). To illustrate how much guess work is involved, the U.S.D.A., in a recent review of the Mediterranean olive oil situation, estimated Spanish production at 400,000 tons, a figure they have been using for some time. However in a cryptic footnote they "allowed as how" this might be 100,000 tons short of actual production and that Italian production might also be underestimated by 100,000 tons.

Now 200,000 tons of olive oil will pack a lot of sardines and are much more than a mere bagatelle! In the table we tried using both 400,000 and 500,000 and came out with answers pretty far apart. However one significant item appears to emerge. It is that if Spain buys 125,000 additional tons of old crop oil, it is likely to go largely into stocks. Fast shipment may not be necessary. Since it would be to the advantage of the seller not to move the oil quickly, because of the old-new crop oil price spread *vs.* a fixed sale price, the oil may not go out May-August as is currently being reported.

TABLE 1

A Guess on the Spanish Oil Position
(Season 12/1 to 12/1)

Supply	Basis 400M Tons			Basis 500M Tons		
Stocks 12/1/60						
Bean oil	27			27		
Cotton oil	15			15		
Olive oil	15			15		
		57			57	
Production (after refining)		385			480	
Availability before imports		442			537	
Import to Jan. 1		75			75	
			517			612
Purchased since Jan. 1			75			75
Available total			592			687

Distribution to December 1, 1961	
Exports	100–115
Internal edible consumption	450–465
Internal industrial consumption	35– 35
	585–615
Stock requirement (note increase)	75– 75
Total needs	660–690
Available (see above)	592–687
To buy prior 12/1	68– 3

Spain might want to add oil to stocks for a number of reasons: price; concern over high prices of olive oil (This is likely to hurt exports.); the Spanish government taxing of olive oil exports (at 3 pesetas per kilo) and soybean oil imports (at 3 pesetas per kilo) and interest in fostering both; high olive oil prices not popular with domestic consumers; potentially good olive oil export prospects not occurring every year so it is best to move olive oil when the demand is there; olive oil sales earning more foreign exchange than soybean oil purchases absorb even when soybean oil purchases are free-dollar as they are this year; heavy free dollar soybean oil buying necessary maybe to qualify for more PL 480 soybean oil next year.

How many of these reasons will really be considered is beyond our power to assess. Maybe none of them will be and additions to stocks will not take place. If they do not, then the soybean oil market might be in trouble. The additional 125,000 metric tons on option represents the crush from about 25 million bushels of beans. If crush volume is strangled, in order to permit this oil to back up into the domestic market, the whole bean balance changes radically. If we had a large prospective carry-over of beans, say 75 million, one could view a 25-million shift with some equanimity. However when the projected carry-over is for all practical purposes zero, one cannot with a straight face say "zero carry-over, give or take 25 million bushels." Thus one is forced to say that, in large measure, the entire domestic fat and oil and oilseed price structure over the short term depends on this one single item. It is a pretty tenuous thread!

James E. McHale, Merrill Lynch, Pierce, Fenner, and Smith Inc., Chicago, Ill.

• *Names in the News*

H.G. Salomon (1952), president of L.A. Salomon and Bro., announces a move from 216 Pearl street to 245 Fifth avenue, New York.

Michael Bolgar (1961) has left the Applied Science Laboratories for Tracer Laboratory Inc., Waltham, Mass.

K.S. Sree Vatsa (1960), with Non-Edible Oils and Soap Industries in the Punjab, has been transferred to Hyderabad, India.

Duane A. Jones has joined the staff of General Mills Central Research Laboratories, Minneapolis, Minn., as project leader in the Steroid Research Department.