

Psychoanalysis—Not Market Analysis

THE HUGE Canada and Australia wheat transactions to Russia sparked huge buying in U.S.A. agricultural commodities. This is not surprising since any unexpected major buying of almost anything would help reduce our generally burdensome supplies. This would mean increased buoyancy for domestic prices of the items involved. Bean demand would be especially helpful to prices since beans are not in over-supply. The basis for the buying was that if the Russian wheat crop is so badly hurt as to drive the Russians into the world market for large quantities of wheat, then production of other field crops must also be hurt. This, so the feeling goes, is an indicator that shortly there will be Russian buying on a world-wide basis, on a considerable scale, of feed grains, oil-seeds, fats, oils, and protein meals. This feeling has been reinforced by considerable newspaper talk to this effect both here and abroad.

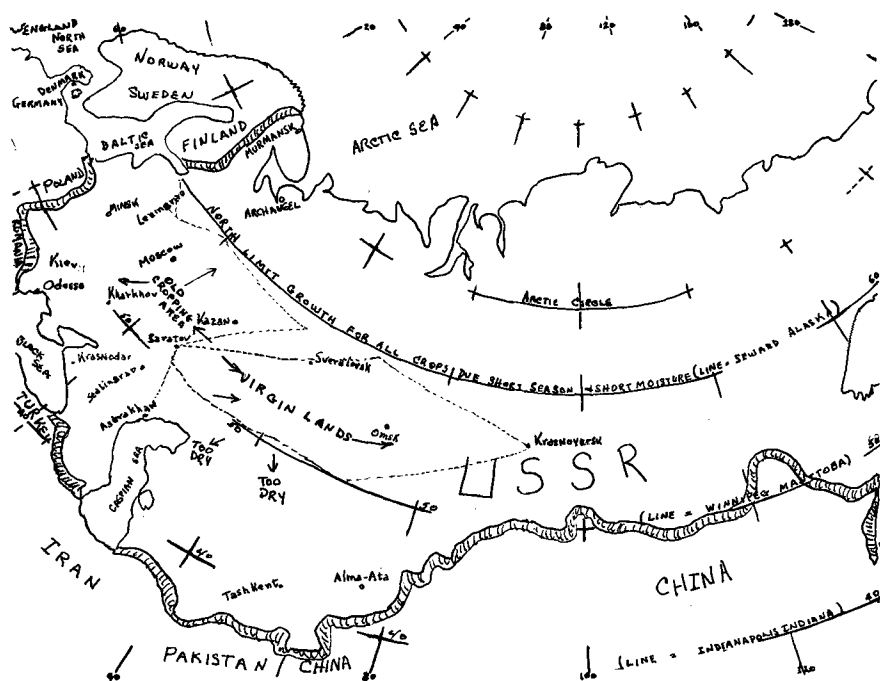
A great many very positive statements have been made on all aspects of the Russian buying subject during recent days, most of which generated more heat than light. As a matter of fact, futures have been both plagued and characterized by an excess of firmly fixed opinions on a basically very foggy subject. One very well posted European source opines that Russian feed grain production has been hurt only slightly. Another very well posted European source says that production of feed grains was a disaster and that imports of feed grains will be enormous. It seems likely that one of these two sources needs his information improved, but it is impossible to tell yet which one. The same wild

difference of opinion exists in estimates of Russian sunflowerseed production, and consequently in the oil and oilseed situation there. One of the two above sources says that production will be 4.2 to 4.3 million metric tons versus 4.8 million for the last two years, a reduction of 10-13%. The other says production of 2.8 million metric tons, a reduction of over 40% and a truly fantastic shortfall. The former estimate would probably mean almost no market influence; the latter would be certain to have considerable impact on the world's fat and oil price structure during 1964. This would be particularly true in the U.S.A. which has literally the only burdensome oil stock in the world. One comforting thing, perhaps, is that at least the two sources are internally consistent, i.e. one not bullish on anything, the other bullish on everything. These are the two extremes by the way; other "informed" opinions fall in between, and are not internally consistent. The real problem is that it will be nearly a year before any really definitive guesses can be made, since official statistics are late and unreliable and guesses can be made only from actual purchases and newspaper talk. The Russians inconveniently do not issue monthly crop estimates. Even within the U.S.S.R. and the ComEcon Bloc there may be lack of internal communication as to crop conditions. This could explain the anomaly, if there is one, in recent sunflower oil sales by Russia to West Germany and Algeria; Bulgaria to Rotterdam; Rumania to Morocco; Hungary to Austria and West Germany.

In a recent special publication, Mer-

rill Lynch estimated Russian wheat production as having fallen from 70 million metric tons last season to near 60 million this season, or down about 15% USDA sources and wire service reports keep mentioning 10%. European dealers are talking a much bigger loss. However, working from official and unofficial figures and purchases, the loss keeps falling in the 15-18% zone. This does not imply that later purchases will not indicate a larger loss but this is still conjecture. Understanding here of Russian wheat, feed grain, oilseed areas in terms of location, weather, cultivation and cropping practices are pretty casual. However, enough is known as to create considerable question as to why sunflower should be down dramatically relative to wheat, say 40% with wheat down 15%. There is considerable indication that the spring wheat crop in the Virgin Land area of Siberia-Kazakhstan produced very poorly because of a dry spring and dry summer. You will note that all of the Virgin Land area on the map is on a north-south line totally above the latitude of Winnipeg. It is also totally in an area of less than 16 inches of rainfall per year. An area such as this is almost by definition a treacherously uncertain cropping area. The traditional cropping area has to be spring crops in the north plus winter wheat in the south. Guesses are that in the old areas where winter wheat and spring planted sunflower are grown in combination there was a big thaw in the middle of the traditional severe winter. When the thaw was over and winter returned the resulting glaze killed millions of acres of wheat. This would not be a problem for sunflower. Sunflower in Russia appears to be grown entirely in the north Caucasus, the Ukraine black soil region and the Volga River basin. If this is correct then it appears that the sunflower crop went in under pretty good moisture conditions. Although it was quite hot and dry subsequently, sunflower is a reasonably drought resistant plant, and at least a fair crop should have been obtained. Observers who saw the sunflower crop in July said it was good at that time but could have declined later. It appears then that an extraordinary set of bad conditions would have been required to ruin the crop, in the sense of making it return much worse than wheat. A decrease of 15% in sunflower seed would produce considerably less oil than the Russians expected. Also it appears that sunflower seed crops as well as rapeseed crops in the other ComEcon countries were hurt, and Russia may not be able to make up these losses. We have known for some time that Argentine sunflower crops are down. In fact, the

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• *Names in the News*

Psychoanalysis . . .

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world sunflower production picture this season will look pretty dismal compared to last year.

There are a number of categories in which likelihood of Russian oil and/or oilseed purchases would fall based on the home crop. Let us call them:

($\frac{2}{3}$ rds of Crop Delivered; Oil yield = 33%)

Very Likely = 2.8 million metric tons sunseed = 2.0 million metric tons seed loss = 444,000 metric tons oil loss.

Likely = 3.1 million metric tons sunseed = 1.7 million metric tons seed loss = 377,000 metric tons oil loss.

Maybe = 3.4 million metric tons sunseed = 1.4 million tons seed loss = 311,000 metric tons oil loss.

Doubt It = 4.0 million metric tons sunseed = 800,000 metric tons seed loss = 177,000 tons oil loss.

Forget It = 4.3 million metric tons sunseed = 500,000 metric tons seed loss = 111,000 tons oil loss.

This view is based on 1962 Russian net oil exports, including oil content of exported oilseeds, = 157,000 metric tons and estimated 1963 net exports same basis, around 150,000 metric tons (estimated). Calendar 1962 and 1963 were years of tallow imports (U.S.A.) of about 30,000 metric tons and linseed oil imports (Argentina) of about 10,000 metric tons. I think we can assume that imports of both items could easily return to calendar 1961 levels of 90,000 metric tons tallow and 30,000 metric tons linseed oil. Above that level particularly on tallow it will probably be a question of how much sunflower oil has been going to soap for which purpose tallow is equally useful as well as being used edibly. Above that linoil will or at least could be a question of hydrogenation facilities and/or how much linoil can be used for edible purposes. At any rate a return to past import levels of these two items, plus some increased groundnut purchases in underdeveloped African countries (who have the nuts to sell), would allow for 100,000 metric tons of increased domestic consumption and still some small exports to eastern Europe. The principal influence on western markets would be little or no sunoil for Spain in 1964 but that country probably won't want any anyway based on the prospective olive crop. Another reduced sale point probably would be West Germany but sunoil there is a competitor of cotton oil not soybean oil.

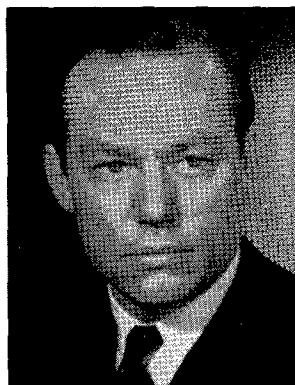
So it would appear to me that in order of influence the Russian sunflower seed shortfall would benefit tallow, linseed oil and maybe eventually cottonseed oil. Interestingly enough, neither tallow nor linseed oil has responded nearly as much as soybean oil where the exotic prospect of trading with the Russians has made for a mad scramble of buying. Soybean oil may stay buoyant for a while even if the Russians do not buy, as stories such as this spring up all at once but fade away slowly. If the Russians even make a faint pass at the market then strength will probably continue. In markets such as these, guessing price action is more of an exercise in mass psychology than anything else. What traders need in here is a psycho-analyst, not a market analyst.

JAMES MCHALE

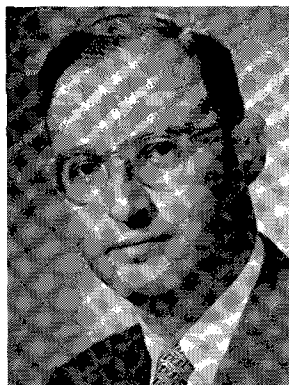
Merrill Lynch, Pierce, Fenner & Smith, Inc.

• *Industry Items*

CARGILL INC., Minneapolis, Minn., recently announced plans for the construction of a fatty chemical plant with an annual capacity "in excess of 10,000,000 pounds." The cost of the project was not disclosed. Construction, adjacent to Cargill's alkyd resin plant at Carpentersville, Ill., is scheduled for completion in April, 1964. It will produce a full line of fatty chemicals, including amines, diamines and quaternaries, and will incorporate processing techniques developed at their plant near Savage, Minn.



Vagn Jespersen



Hans Wolff

Vagn Jespersen (1947), President and Consul General of C. E. Bast's Efterfølgeres Talgsmelteri, Copenhagen, Denmark, celebrated 25 years of service with the Company, Nov. 1, 1963. He is also chief of their laboratory, and is working with their export and commercial departments.

M. A. Pollack (1946) rejoined Drew Chemical Corp., Oct. 1, as Manager of their newly formed Edible Chemicals Division. He will manage all production and sales of products. Dr. Pollack was formerly Director of Research for the Company from 1942 through 1947.

Hans Wolff (1944) has returned from a year's leave of absence to serve as Group Leader of the A. E. Staley Manufacturing Company's Chemical Products Laboratory. He had previously been Group Leader in the Oils and Proteins Section of the Chemical Research Department, joining the staff in 1942.

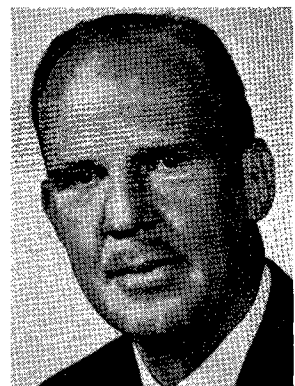
R. W. P. Short has been promoted to Senior Research Chemist in the A. E. Staley Manufacturing Company's Chemical Research Department, having joined the firm in 1956.

T. J. Weiss (1953) was recently appointed Technical Director of The Capital City Products Company. Dr. Weiss had served for the past seven years as Head of the Edible Fats Research Division of Swift & Co.

E. L. Gordy (1935) has announced his recent retirement as Communications Coordinator, Research and Development, Standard Oil Company of Indiana, with headquarters in Chicago, Ill.

R. A. Phair (1927) has announced his retirement as Chairman of the Board, H. Kohnstamm & Co., Inc., New York. Mr. Phair has been an AOCS member for 36 consecutive years.

S. G. Brooker (1947) has been elected 1963-64 President of the New Zealand Institute of Chemistry—the professional body of embracing chemists from all avenues of government, research, universities and industry. F. B. Shorland (1951) held this honor two years ago.



E. L. Gordy



T. J. Weiss

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