• *Report on Fats and Oils*

Hide & Seek

DOMESTIC SOYBEAN OIL demand, the heavier portion of total disappearance, rolls along unspectacularly. Most analysts confidently predict it in advance, then add a range of estimates for exports, thus arriving at an estimated range of total disappearance. If one has a confident opinion on stock changes, this has to be added or subtracted. The result should be an estimate of the oil vector of the bean crush. A similar process is undertaken for meal. If the oil crush vector and the meal crush vector disagree, then you have to fiddle with the numbers again until an esthetically satisfactory equilibrium is constructed. Most of the fiddling has to be with meal production, price, consumption, and stocks because in meal, price is far more of an influence on demand than is the case in oil. Of all the various numbers, the one that undergoes the least juggling is domestic oil consumption. On the infrequent occasions when domestic oil consumption does not do what it is supposed to do, analysts generally react in a manner that can best be described as petulant. I suspect that we are all concerned that our employers or customers will feel that if we cannot even estimate domestic oil consumption, then there arise certain questions as to the usefulness of analysts. As a result, there is a general tendency toward showing the current statistics are in error, not the original estimate.

A certain amount of suspicion of apparent sharp changes in domestic oil consumption is warranted. This is because history indicates that most consumption changes are more apparent than real. That is to say, that up-moves in per caput oil demand will be followed by roughly compensating down-moves later, and the reverse. This implies that in many cases, these shifts are not really changes in per caput final consumption but only accumulation/distribution in pipeline stocks. Using the apparent ebbs and flows in the pipeline, rough prediction systems can be constructed to help to indicate whether at any time we are toward the high, low, or center portions of the accumulation/distribution scale.

This crop year has witnessed, apparently, accumulation in pipeline supplies. Domestic consumption was well above expectations for the period October–January. The margin over expectations was larger than the margin that can be assigned to "Food For Peace" exports which, because they are not export-billed separately, fall back statistically into domestic consumption. February domestic consumption was poor. It had been expected that March would also be poor. However, March Census total disappearance was quite good. As this is written, March exports are not available, but fragmentary indications are that they were not large enough to reduce domestic sufficiently to make the domestic side of the season really sensible.

Therefore, barring the unlikely possibility of a change in the fat ingestion habits of the population, we have to assume that the oil price break of last spring–summer created some inventory liquidation and that the steady-to-firm fall–winter market encouraged replacement. An obvious alternative to a pipeline change is that, for some reason or other, oil is being stored in non-report positions. This appears to me to be an unacceptable hypothesis because when we are talking about big volume, this sounds a lot easier than it really is.

There is certainly one other possibility, that is that the Census figures are truly in error somewhere. This also appears to be difficult to accept simply because of the apparent size of the accumulated error, probably 200,000,000 lb for six months. The Census Bureau report forms are pretty straight forward as governmental forms go, and it seems to me that an error this size would produce internal contradictions somewhere. If there is an error, there is no question in my mind where it lies, it is in salad oil. This is where the numbers seem to be out of line. The salad oil category is also the most error prone because of varying definitions of what constitutes salad oil. If this is the case, the error may show up during the period of heavy oil exports beginning in April. The apparently much enlarged demand for soybean salad oil has not been at the expense of margarine, shortening or other salad oils. In a sense this is a suspicious indicator of error since it appears to me that pipeline accumulation should not be so selective. However, in the absence of a better explanation, I think that we may have to guess that we are in an accumulation move that will be followed later by a liquidation move. A guess on timing of any liquidation or even cessation of accumulation or even re-appearance of any "lost" oil becomes important because this season, as usual, exports will tend strongly to be concentrated in the final six months of the October–January season. If pipeline accumulation continues at the same time that the crush is down because of poor meal demand and also while the big exports are moving out, then the oil statistics (and maybe oil prices) for the balance of the season are likely to look pretty good. If liquidation sets in while exports are moving, then big exports may not help the market. If pipeline liquidation begins during the traditional fall–winter period of weak prices, slack exports, and heavy hedge pressure on beans and products, then late this year the oil market might encounter trouble.

Trying to figure out where the oil went, and why and how, and also when and why and how and if it will come back is becoming the current analytical rage. It is sort of a high priced, high stakes game of hide and seek.

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Report of the President . . .

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and guests attended the three-day meeting in Toronto which offered over 100 papers of unquestionable excellence in a Technical Program of unequaled breadth. All were impressed by the efficiency with which the meeting was run as well as by the friendliness and opportunity for enjoyment provided by a variety of entertainment features. For making the convention the success that it so richly deserved to be, I cannot let this opportunity pass without expressing the thanks of the entire Membership to General Chairman Sven Young, and to the members of his many Committees. I know that it not only is my hope but the hope of numerous other members of the Society that we can have another meeting in Canada before too many years have gone by, and also that it will be possible to work out some kind of a joint meeting with similar societies in Europe.

A very important activity of the Society during recent years has been the holding of the AOCS Short Course of instruction in various phases of the fats and oils industry, this activity being under the direction of the Education Committee. I am happy to report that the highly practical Short Course held at Lehigh University on July 8-11 of last year had a registered attendance of 76 and featured talks by several leaders of the industry. Almost needless to say, the staging of this Short Course required a tremendous amount of thought and time on the part of those organizing the program and presenting the talks. On behalf of the entire Membership of the Society, I want to express appreciation for the fine job that was done not only by N. H. Kuhrt, Chairman of the Education Committee and W. C. Ault, the Short Course Program Chairman, but also by the Short Course lecturers. Also, appreciation is expressed to H. A. Nelville, President of Lehigh University, not only for permitting the holding of the AOCS forum on the campus, but also for his graciousness in personally welcoming the entire group. In this same connection, it should be mentioned that another Short Course program is scheduled to be held at the Princeton Inn on June 23–26 of this year and will feature "Advances in Soaps and Detergents." On behalf of the AOCS, I