U.S. Oilseeds and Products Outlook

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The 1978/79 oilseed outlook is for near-record high supplies, continuing strong demand both here and abroad, small changes from this year's relatively low carryover stock levels, and prices averaging higher than during the last marketing year.

The United States harvested a record 81 million acres of oilseeds in 1978, about 5 million more than in 1977. Increased soybean acreage (up 6 million acres) more than offset declines in cottonseed acreage (off 1 million acres). And an increase of one-half million acres in sunflowerseed was about offset by a similar drop in flaxseed acreage. Peanut acreage was unchanged.

The U.S. average farm price for soybeans in October 1978 was $6.41 per bushel, about $1.13 above October 1977. Strengthening soybean prices reflect the heavy crush and export rates to date while farmers store large quantities of beans.

Soybean prices probably will continue strong through at least winter; thereafter they will be influenced by developments in the South American soybean crops to be harvested next May. A record harvest there may cause soybean prices to weaken when new-crop South American soybeans become available. If projected increases in Brazil and Argentina soybean crops don't pan out, U.S. soybean prices will continue strong all season.

Soybean farmers harvested a record 63 million acres, nearly a tenth more than in 1977. A wet spring and late plantings led to yields of 28.3 bushels per acre, down 2.3 bushels from 1977's record high. Consequently, the 1978 soybean crop is only 2% above 1977. As of Oct. 1, the 1978 soybean crop was estimated at 1,792 million bushels, compared with 1,762 million in 1977.

Soybean supply and demand in 1978/79 appears to be in fairly close balance—with both domestic crush and exports increasing to new highs—leaving carryover stocks on Sept. 1, 1979 at around 170 million bushels, or near the 159 million bushels this year.

Soybean crushings this season are estimated at a record 970 million bushels, compared with 927 million in 1977/78. This rise mainly reflects the prospective increase in soybean meal feeding because of favorable feeding price ratios. More poultry, cattle, and hogs will be fed. A season's crush of the size would utilize about three-fourths of the U.S. industry's 1978/79 processing capacity—now estimated at 1.3 billion bushels, up slightly from last season.

Soybean exports in 1978/79 are projected at 730 million bushels compared with 700 million bushels last season. Brazilian and Argentine soybeans and products will not be available on world markets until May 1979. So, U.S. soybean exports face little competition during the first half of the 1978/79 marketing year and could be as much as 75 million bushels ahead by February. From Sept. 1 through Nov. 2, soybeans inspected for export totaled 162 million bushels, about 32 million more than last year.

Soybean acreage in 1979 probably will increase from the 64.4 million acres planted this year, if soybean prices remain favorable to feed grains. A soybean/corn price ratio of 2-½ to 1 is considered favorable for soybeans. On the other hand, the soybean/cotton price relationships have not been favorable for soybean expansion, so some land in the Delta area may be switched from soybeans back to cotton in 1979.

Soybean oil supplies in 1978/79 are projected at about 11-½ billion pounds, compared with 11 billion last season. Domestic use is expected to total 8-½ billion pounds, about 4% more than in 1977/78. U.S. supplies of competitive cottonseed oil, lard, and butter will be smaller than in 1977/78, but greater quantities of sunflowerseed oil, corn oil, peanut oil, and imported palm oil are expected to be available. The domestic consumption of soybean oil now accounts for over 60% of all food fats and oils used in the United States.

Soybean oil exports in 1978/79 are projected at 1.8 billion pounds, down from last season's record high 2 billion pounds. In 1977/78, about one-fourth (500 million pounds) of the exports went to India, where vegetable oil consumption is growing. The Peoples' Republic of China (PRC) and Pakistan imported large quantities—an estimated 450 million pounds.

Soybean oil prices during 1978/79 are expected to be relatively more stable than last season—possibly averaging near last year's 25 cents per pound. Any unexpected pickup in export demand from India or the PRC will provide more strength to U.S. soybean oil prices.

PALM OIL

Palm oil imports into the United States during 1978/79 may increase from the 375 million pounds of last season, possibly approaching 425 million. A rebound in Malaysian palm oil production could encourage expanded imports, assuming prices become competittive with domestic soybean oil. Palm oil prices (c.i.f., U.S. ports, bulk) increased from around 20 cents per pound in October 1977 to 31 cents in July 1978, and then softened a little in August and September. For the entire 1977/78 marketing year, which ended in September, prices averaged about 26 cents per pound, approximately 2 cents above the previous year. Prices in early November were around 30 cents, about 10 cents above a year ago and somewhat above soybean oil.

COCONUT OIL

Coconut oil imports during the 1978/79 marketing year may drop from the 1-billion-pound level of last season if coconut oil prices continue at high levels. Philippine coconut oil output in 1979 is expected to be down about a tenth from this year, an indication that relatively high world prices probably will continue. Coconut oil prices (crude, Pacific Coast) during 1977/78 averaged 30 cents per pound, approximately 2 cents above the previous year. Prices rose from 24 cents in October 1977 to 40 cents in September. Prices in early November were 43 cents, about 19 cents above 1977.

COTTONSEED OIL

Reduced cotton acreage and smaller cottonseed yields resulted in sharply lower cottonseed production in 1978. Output is estimated at 4.2 million short tons, about a fourth below last year's crop. Cottonseed supplies for the 1978/79 marketing year, which began Aug. 1, are estimated at 5 million short tons, about 13% below last season. Larger carryover stocks on Aug. 1 partially offset the reduction in output.

Cottonseed oil supplies for the 1978/79 marketing year are estimated at 1.4 billion pounds, somewhat below last year. Domestic disappearance may approximate last season's 0.7 billion pounds. However, large supplies of soybean and sunflower oils will provide more competition. Cottonseed oil exports are expected to fall below last year's 0.7

billion pounds. Although world vegetable oil supplies will be larger, U.S. cottonseed oil is preferred in Western Europe, South America, and Egypt and should remain competitive in these areas.

Cottonseed oil prices (crude, Valley) have been strong, reflecting in part the smaller cottonseed crop and good demand for cottonseed oil. During August-October, prices averaged 31 cents per pound, about 10 cents above the same period a year ago. Prices may moderate some as crushings and oil production increase seasonally. Nevertheless, prices likely will remain relatively strong. Last season, prices averaged 24 cents per pound.

SUNFLOWERSEED

U.S. sunflowerseed production is forecast at a record 3.4 billion pounds, up 23% from 1977. This estimate is for production in North Dakota, South Dakota, Minnesota, and Texas. 1978 market prices for sunflowerseeds are averaging better than 11 cents per pound, up almost 3 cents from 1977.

Exports are still the largest outlet for U.S. sunflowerseeds, with about two-thirds of the 1978 crop probably moving overseas. Domestic demand for sunflowerseed oil is on the increase as more manufacturers are using it as an ingredient in margarine and salad oil.

LARD

Lard production in 1978/79 is estimated at just under 1 billion pounds, off slightly from the previous year. Although hog slaughter may be up a little, lower lard yields per hog will be more than offsetting as high pork prices likely will favor lighter fat trim. Domestic disappearance of lard is expected to total near the 0.8-billion-pound-level of the past 3 seasons, the all-time low. Exports in 1978/79 again may approximate 0.2 billion pounds, the same as last season.

PEANUT

The 1978 peanut crop is estimated as of October 1 at a record 4.0 billion pounds (farmers' stock basis), 6% above the 1977 output. Record production in the Southeastern area mainly accounts for the increase. National average yield per acre at 2,608 pounds is up 151 pounds from last year, and a new record. Adding carryover, the 1978/79 peanut supply totals 4.5 billion pounds, about 4% above last year.

Edible use of peanuts in 1978/79 is expected to increase to about 1.9 billion pounds or about 9 pounds per person. Last year, use in edible outlets totaled 8.6 pounds per person.

Peanut exports, a record 1 billion pounds last season, may decline slightly this year. Increased peanut supplies in major producing areas such as India and Africa are expected to lessen the dependence upon U.S. supplies. U.S. exports last season were mainly edible peanuts, where historically we shipped peanuts abroad primarily for crushing.

FLAXSEED

The 1978/79 flaxseed supply totals 18 million bushels, nearly 2 million bushels below last season. The 1978 flaxseed crop, at 11.7 million bushels, is aoubt 4-½ million bushels below 1977. Harvested acreage, at 0.9 million acres, is down about a third. Yield per acre, at 12.6 bushels, is up over 1 bushel. Flaxseed crushings likely will total around 11 million bushels, down from the 11.6 million of last season.

TALLOW

U.S. Tallow and grease production has doubled during the past two decades, rising from 1-½ million tons in 1958 to an estimated 3 million for 1978; the average annual rate of increase was about 4%. Production hit a peak of 3.1 million tons in 1977 and held near that level in 1978. It is expected to decline slightly in 1979. Cattle slaughter probably will decline more than tallow output in 1979, since a larger proportion of the slaughter will be from feedlots. Cattle from feedlots likely will be heavier and will yield more tallow than the grass-fed animals. •

PIONEER MARKET

Fats & Oils Outlook

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Beginning in November the market for soybeans and related commodities entered into an era never travelled previously. This makes pioneers of those who participate. They have no map. They lack knowledge or confidence of where they are going. They are carving out new routes in virgin territory.

What makes the current situation so new; so unusual? It is the dollar relationship to other major foreign currencies. Never before in history has the U.S. dollar been so weak as it was in the months preceding November. Therefore, there never was a time when the dollar had the prospect of recovering so much. Traders knew how the soybean market should perform when the dollar weakened. They think they know how it should perform during the dollar recovery. But there is no certainty that they are correct. This is the most important fact to keep in mind as developments unfold during the next several months. Traders prefer to operate in markets where some precedent has been established in the past. They can anticipate a repeat performance, at least with some similarity. This time there is no precedent.

Soybean demand went up when the dollar weakened, and quite properly so, which produced firm prices despite adequate supply. Then beginning in early November prices fell back as first signs of dollar strength appeared. Traders reasoned that demand should diminish. Ultimately that judgment is correct, but their timing is premature, and there are other influences that will contribute to that slower demand that are of equal or possibly greater importance.

It is not suggested that one should argue with market action just because it may be performing in a less-than-precise manner based on economic fundamental reality. But it is recommended to be prepared for some abrupt action and reaction in price performance while these uncharted trails are being laid out. Here are the salient points that are essential to observe: