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

David M. Bartholomew, Manager, Oilseeds Dept., Commodity Division, Merrill Lynch Pierce Fenner & Smith Inc., Chicago

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:

1. *Time lag* – There is approximately six months' time lag between a major shift in dollar value and the resulting demand reaction. In the current economic phase, the dollar first demonstrated major weakness beginning August 1977. Many traders and analysts automatically concluded that this was the reason for a surge in consumption in the September to December period of 1977, and that it would not continue beyond that. In reality the large consumption in those four months was the result of inventory replenishment following a tight supply situation. Much to the surprise of most persons, the demand and therefore consumption rate continued very strong right through all of 1978 and to the present. (See page 95A of the Feb 78 issue in which this prediction was presented). Following this economic reality, we now can predict that that consumption will continue at a high rate into the first quarter of 1979 because of demand having been fixed for that period prior to the end of October. Following that, and maybe extending for many months, the demand will be at a reduced level. This assumes that the dollar will not weaken further, and probably will be recovering in the months ahead.
2. *Crush profit margins* – Coinciding with the concept in item number one is the margin of profit for crushers. This is of great importance also, and in some aspects more so. Profits have been excellent in recent months, and should continue so through most of the first quarter of 1979. Thus it is seen that crushers are operating almost universally at full capacity, reflecting the strong demand for meal and oil. But the futures' market calculations of crush margins have consistently been very unattractive beginning with the second quarter of 1979. Traditionally, this is a very solid indicator of the nature of future demand. Moreover, those margins may get even worse. It has become popular for speculator advisors to recommend the "reverse crush" (buying oil and meal vs. selling beans) on the May and July contracts, as they make the presumption that those months will ultimately become as strong as the nearby months have been. The opposite is likely to happen as all those speculators liquidate, probably at a loss.
3. *Brazil* – Of related importance, of course, is the crop situation in Brazil. The 1978 crop fell 26 percent below expectation. That aided demand of U.S. origin and produced stronger price trends than would have been otherwise likely, but did not change them from weak to strong. It was a matter of magnitude rather than direction. What will 1979 bring? At the present time it must be assumed that Brazil's crop will be at least 13.5 million tons, vs. approximately 9.5 million in 1978, because planting conditions have been mostly favorable. But some caution is in order. A small drought area affected the 1977 crop beginning late December 1976. A larger drought area affected the 1978 crop beginning late December 1977. Both seasons had a good beginning. It could happen again, and in an even larger area, because drought patterns traditionally are of three years' duration, with the third being the worst. Thus the critical period to watch is from late December to mid-January. If conditions are favorable into the final half of January, then a good Brazilian crop would be assured. Not to be overlooked, however, is the projection that Argentina will produce 4.0 million tons vs. 2.4 million in 1978. If achieved, this will either help off-set a poor crop in Brazil, or add to the ample supply produced by Brazil.
4. *Premature Market Judgments* – Going back to the earlier remarks about strong demand related to a weak dollar, and the market reacting prematurely to a potentially recovering dollar, some further elaboration is now in order. It is only those countries of Western Europe that have had strong currencies that have taken advantage of the situation by buying ahead. They have very much completed their purchases through February and partially into March. Also, they have purchased heavily from October 1979 to April 1980. But they have done little for the April to September 1979 period, preferring to await developments in Brazil. So that demand still is to be felt in the market, and it will be a supporting factor during the period prior to then. Moreover, Japan did not buy ahead in the same manner because of differing internal trading and pricing factors, even though the Yen was very strong. Furthermore, the many other importing countries whose currencies are closely related to the dollar had no incentive to buy ahead during a price uptrend. This enables us to predict two things: a) all that purchasing remains to be done, keeping prices from sinking too much despite the strengthening dollar and confusing the speculators who think only in terms of "strong dollar-weak soybeans"; and b) demand in those countries will not be so strong for soybeans unless prices as expressed in U.S. dollars are kept at an attractive level. This will confuse traders who will think only in terms of stronger soybean prices if perchance the U.S. dollar weakens again. An illustration of this point is that some foreign demand (even in Japan) shifted toward Canadian rapeseed last August when the delivered price slipped under soybeans. This clearly illustrates that the industry in most importing countries is still very sensitive to price relationships and in this case also in the relationship of the Canadian dollar to the U.S. dollar.

Without question there are other factors which will influence the market in the period ahead. But they are the more traditional ones. For example, and not to be treated lightly, there will be massive liquidation of the open interest from January second to approximately January fifteenth as tax-spreaders unwind positions. During this procedure it could drop at least 200 million bushels. Also, traders will anticipate larger marketing of soybeans by farmers in late December and early January for tax reasons. It doesn't happen anymore, but it used to and speculators find it hard to forget previously established patterns.

Taking everything into consideration, we must expect a rough road ahead, mostly never travelled before and therefore very uncertain, but no significant price weakness is likely until there is more conviction that Brazil will have a large crop and the dollar really is on the road to further recovery. If these two things come to pass, then we can confidently talk of realistically lower prices from the second quarter of 1979 and onward. In fact, it is not impractical to anticipate the mostly flat and discouraging action seen in the last period of heavy supply – 1968 and 69. Not the same price level because the USDA support price is higher, but the same kind of market action (or nonaction) could be seen. ●