Report on Fats and Oils

P.L. 480 Vegetable Oil Agreements Delayed

About three months ago, in preparing the article for the November issue of this journal, we said: "probably by the time this is read, some sizable P.L. 480 deals will have been consummated, among them an authorization to Spain for 180 million lbs. of vegetable oils." It is now mid-January, and wé might again suggest—though more cautiously—that the Spanish agreement under P.L. 480 will be signed by the time *this* article is read. (Negotiations are now reported to involve 245,000 million lbs. of vegetable oils.) There have been several reasons put forth for the delays which have plagued the negotiators in this important deal, and several times hopes were raised that the difficulties were "being ironed out." Each period of optimism however was followed by another disappointment. In the meantime Spain did receive an authorization from the International Cooperation Administration (State Department) to buy 33 million lbs. of soybean oil and exercised it quickly. In addition, she bought another 33 million lbs. with her own dollars. (This free-dollar purchase incidentally was not necessary to satisfy the U.S.D.A.'s "normal marketing" requirements and has been accepted as evidence of Spain's real need for oil.)

The importance of the Spanish soybean oil agreement cannot be over-emphasized. The quantity of oil in this deal would involve the crushing of about 23 million bushels of soybeans, a quantity which can hardly be ignored. The mere fact that it has been delayed until now has brought about an increase in domestic stocks of soybean oil which has put prices for quick shipment at a discount to deferred positions. So far however these postponements do not seem to have diminished even slightly the general confidence that the deal will be closed before long. We share this confidence, but each week which goes by without action may result in increasing stocks, mill shutdowns, or—worst of all—a general loss of this confidence. These last remarks will, of course, be irrelevant if the agreement is signed before you read them.

Cottonseed Oil in Short Supply, Price May Continue Erratic

Total disappearance of cottonseed oil in the October-December quarter was very high, thanks to good domestic use in October and November, and large exports in December. There is no doubt that this rate of disappearance will decline sharply in the months ahead since the simplest arithmetic reveals that a continuation of this rate will leave carry-over stocks on next September 30 at about minus 400 million lbs. It is still a matter of guesswork to determine what price premium of cottonseed oil over soybean oil will be required to reduce the domestic rate of consumption to a level commensurate with the supplies available. We discussed this problem last month and estimated that with a total production in October 1957-September 1958 of 1,400 million lbs. (crude basis), exports of 350 million lbs., refining losses of 115 million lbs. and a "fixed" or "non-competitive" domestic demand of 685 million lbs., only 250 million lbs. will be available for consumption in the manufacture of shortening and margarine. Since this last figure is a small residual, relatively minor changes or errors in estimates of the other components of the cottonseed oil supply-demand picture could result in significant changes. It is the size of this small balance however, which will be a very important factor in price determination—the tail which wags the dog so far as cottonseed oil and its price relationship with soybean oil are concerned.

More Lard to Compete with Vegetable Oils

Although the above suggests that cottonseed oil may occasionally behave quite independently, it should not be concluded that the same tail will wag the price of soybean oil. The latter, we suspect, will be governed more by the broader forces at work in the over-all fats and oils picture. an increasing supply of lard, a surplus of soybeans, CCC price support operations, a large domestic crushing capacity, and P.L. 480 exports of oil. In this picture the Spanish deal mentioned above looms large in importance. Lard will probably provide more competition for soybean oil than ever before. Its production will be greater than last year, and foreign demand is expected to be less. Since the domestic demand for direct consumption as lard is not likely to change much, the increased domestic supplies will have to be consumed in the manufacture of shortening, margarine, and other products in direct competition with vegetable oils. During the last crop year 527 million lbs. of lard were so consumed. We expect that this figure may rise to over 625 million lbs. in the current year. This form of lard consumption however is sensitive to changes in the lard-soybean oil price relationship, and it may require the price of loose lard to remain at a discount in order to move the surplus into manufactured products.

Soybean Meal Weak, Demand Outlook Brighter

So far in this crop year the price of soybean protein has been under continuous pressure. With hog and broiler numbers above a year ago, demand from those quarters has been good. There has also probably been greater substitution of soybean meal for cottonseed meal, but these favorable factors have been more than offset by the reduced size of the egg-laying poultry flock, improved pastures, reduced foreign demand, cheap corn, and heavier production. A somewhat brighter picture can be painted for the last half of the crop year. Broiler and swine numbers will continue to run above last year, the production of chickens will soon be in a sharp seasonal increase (expected to rise above last year), and export demand is coming closer to the 1956-57 level. Production of competing proteins will be lower so that anything which might reduce the soybean crush could result in a temporary situation of tightness.

Measuring Unreported Inventories

We have discussed in previous articles the strong influence on prices which can be exerted by month-to-month changes in "pipeline" inventories. While these unmeasured inventories are being increased, domestic disappearance rises above actual consumption and commercial demand is greater than expected, frequently resulting in strong prices. Liquidation of these inventories, of course, tends to have the opposite effect. By making assumptions about the monthly rate of actual consumption of food fats based on past statistical experience, one can make a rough determination of changes in pipeline inventories by comparing the assumed consumption with the reported disappearance. Such an approach indicates that these inventories reached a sharp peak in November 1956, declined steadily until March 1957, remained at a low level until July, and then increased steadily into December. One can never be sure of the absolute level of pipeline supplies, but the direction of month-to-month changes sometimes shows up quite clearly. At a later time we will attempt to follow these changes back for a few years and compare them with price behavior.

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"Shortly after 1860 two tragedies struck Memphis in rapid succession. In 1862, during the Civil War, Memphis was attacked by federal gunboats and captured. During those days the city lost almost all of its economic gains, and many of its finest young men were killed on far-flung battlefields. Following close onto the Civil War the yellow fever epidemic struck Memphis in 1878, ravaging the city more than any war was likely to. More than 25,000 fled the city; 4,000 out of the 6,000 citizens who remained died. In 1879 Memphis, depopulated and bankrupt, became a taxing district of the state. But these battles against calamity brought Memphians closer together, working with a conscious pride in their home town."