

Report on Fats and Oils

Exports Remain a Large Unknown

ORDINARILY by this time of the year most of the important goings-on in the fats and oils markets have already gone on, and traders are beginning to think about the new crop situation. If inventories had been built up for any reason earlier in the year, they would begin to be reduced at about this time. Most of the export business for the year would already have been done, and unshipped balances would be fairly predictable quantities. Sometimes there would be doubt whether there would be enough soybeans to go around until new supplies were available, but this does not appear to be much of a problem this year. Domestic consumption would be near its low point for the year, but over-all production of fats and oils would be declining even more rapidly and total stocks would be reduced in order to help satisfy the demand.

The current crop year is similar to most in many respects, but there is one outstanding difference, namely, that a tremendous part of the export business is still to be booked or shipped and at this writing (mid-April) the factor of exports still looms as a large unknown in the old crop situation. The biggest part of the Spanish purchases, for example, which traders first began talking about last August, are still "imminent." (Mr. Webster may have to re-define that word after this crop year, with a special connotation when it is used in connection with Spanish oil business.) Large Italian and Polish purchases remain to be made. Furthermore there may still be additional authorizations for edible oils issued to other countries calling for shipment before October 1. Consequently the old crop situation, with only a few months left, still commands attention and may yet provide a few surprises.

In analyzing this situation, it will be necessary to make certain estimates of what those exports will amount to, but it should be kept in mind that they are merely guesses based upon present information and that every analyst should watch closely for new factors which would change them. Starting with the demand side, we will estimate that the total domestic disappearance of all fats and oils for food uses (except butter) in the present crop year will be 6,305 million lbs. This would compare with the equivalent figure for last year of 6,224 million lbs. and has been made larger to allow for the population increase. This estimate, incidentally, ignores the fact that this domestic disappearance so far in the year has run 6½% above last year, and, in using it, we are clinging to the basic assumption that, regardless of temporary aberrations, domestic disappearance tends to remain almost constant (on a *per-capita* basis) over a long period of time. Last year at this time domestic disappearance figures were running well below expectations, to the dismay of analysts who suspected that domestic consumption had finally undergone a basic change. By the time the crop year was over however, it proved to be merely a pipeline situation where invisible inventories had been heavily liquidated, and everything turned out all right. We suspect that the figures this year reflect an increase in pipeline supplies as well as a possible error in the reporting of commercial stocks and hope that by October 1st the figures will bear this out.

Now we come to the area of exports. So far as lard is concerned, foreign business so far indicates that total exports will fall well below last year, and we will estimate them at 450 million lbs. compared with 588 million lbs. in the 1956-57 crop year. Further, exports of the minor food fats—corn oil, peanut oil, beef fats, and finished products—can be placed at 100 million lbs. compared with 130 million last year, reflecting poorer business in peanut oil. So far as cottonseed oil and soybean oil are concerned, we will have to be guided to a large extent by the known and pending business under P.L. 480. Making a small estimate for free-dollar exports for the rest of the crop year and acting

on the perhaps naive assumption that most of the P.L. 480 business will materialize as generally expected, we can place total foreign shipments of cottonseed oil and soybean oil at 1,084 million lbs. This makes a grand total of 1,634 million lbs.

How will this domestic and export demand be satisfied? Perhaps this can best be answered by a table showing comparisons with last year so we have constructed one.

Food Fats^a: Supply and Disposition, 1957-58, With Comparisons (million lbs.)

	1956-57		
	Oct.-Mar.	Apr.-Sept.	Total
A. Domestic disappearance of all fats and oils for food.....	3121	3103	6224
B. Less, food uses of nonfood fats ^b	116	130	246
C. Domestic disappearance of food fats ^c for food.....	3005	2973	5978
D. Plus, exports of food fats ^d	1198	751	1949
E. Plus, nonfood uses of food fats ^e	238	202	440
F. Total demand for food fats (C,D,E).....	4441	3926	8367
To be satisfied by:			
G. Lard production.....	1337	1090	2427
H. Cottonseed oil production.....	1181	441	1622
I. Production and imports of "other food fats".....	371	363	734
J. Production of soybean oil.....	1782	1649	3431
K. Total production (G,H,I,J).....	4671	3543	8214
L. Change in commercial stocks (K-F).....	+230	-383	-153
1) partly estimated 2) estimated			
	1957-58		
	Oct.-Mar.	Apr.-Sept.	Total
A. Domestic disappearance of all fats and oils for food.....	(1)	(2)	(2)
B. Less, food uses of nonfood fats ^b	3320	2985	6305
C. Domestic disappearance of food fats ^c for food.....	135	120	255
D. Plus, exports of food fats ^d	3185	2865	6050
E. Plus, nonfood uses of food fats ^e	679	955	1634
F. Total demand for food fats (C,D,E).....	254	225	479
G. Lard production.....	4118	4045	8163
To be satisfied by:			
G. Lard production.....	1209	1140	2349
H. Cottonseed oil production.....	1045	427	1472
I. Production and imports of "other food fats".....	355	355	710
J. Production of soybean oil.....	1872	1760	3632
K. Total production (G,H,I,J).....	4481	3682	8163
L. Change in commercial stocks (K-F).....	+363	-363	0
1) partly estimated 2) estimated			

^a Except butter. ^b Principally coconut and palm kernel oils. ^c Includes lard, cottonseed oil, soybean oil, and "others" (peanut, corn, olive oils, and beef fats). ^d Includes shipments to territories. Includes finished products. ^e Includes refining losses.

In this table most of the figures on the demand side were discussed above. The production figures for lard, cottonseed oil, and "other food fats" are based upon anticipated animal slaughter, cottonseed supplies, and other factors. The production of soybean oil for the 1957-58 crop year however was selected to make things come out even, provided that commercial stocks for the year did not change. This figure of 3,632 million lbs. incidentally would indicate a total soybean crush of about 337 million bushels, when this year's lower yields are taken into consideration. It should be kept in mind however that if any of the principal export deals under P.L. 480 should fail to materialize fully or should run into delays which would extend them into the next crop year, it could make a tremendous difference to the fats and oils markets. A large crush of soybeans could bring an end to the remarkable strength in soybean meal prices and thereby bring about firmness in oils. If however anything should happen to reduce the export demand for oils below expectations and reduce the soybean crush in the process, the pattern of strong meal prices and lethargic oil prices could remain with us. The above implicitly assumes that soybean prices will remain in a narrow range around the loan level.

R. D. WILLEMEN SR.
Merrill Lynch, Pierce,
Fenner, and Smith
Chicago, Ill.