• *Report on Fats and Oils*

"What Goes Up . . ."

THIS ADAGE is frequently applied to markets where there is the implication that they will respond to economic factors as surely and immediately as weighted objects respond to gravity. This is probably always true over the long pull, but for the short-to-intermediate range more than just the economic and statistical figures have to be considered. Trader psychology can play an enormously important part. Even chart consideration cannot be entirely ignored. New-crop soybeans and products are examples of how attitudes can shift, but only rather slowly. The year that is just ending saw traders with their minds "set" on a year for a bear market. Because of the fact that a large portion of traders will only take the long side, this meant only wishy-washy rallies and a generally listless market. The same attitude was taking place for this on-coming crop which may now be reversed. If it has, we may see a much better market this coming year.

The change seems to be taking place for several reasons. 1. Traders have been generally hypnotized by the prospect of a large carry-over. An early-season usage forecast would have called for consumption of 479 to 489 million out of a supply that turned out to be 595 million. However both crush and exports did so well that the early-season carry-over forecast must now be cut nearly in half. As the months progressed, the market seemed to adopt the attitude that each month's figures would be the last good ones. Favorable trades took a long time to sink in on account of the tendency for traders to get their minds set. 2. There was a general agreement that bean planting would be large despite lower bean support and higher average corn support. Acreage however did not come up to expectations. At first there was a tendency to feel that government acreage figures were wrong. It was finally realized that this was an antique attitude since U.S.D.A. will not revise acreage until December, probably too late to establish positions. In addition, experience tells us that July to December acreage revisions are not very large. 3. It was assumed, as it had to be, that we would experience roughly normal growing weather. However rainfall in the heavy producing-areas of the belt has been light. Although good rains fell the latter part of July, it seems almost certain that some damage has been done. There is probably no chance at all of making last year's yield of 24.2 bushels per acre, and we may not even make the short-term average of 23.2. (This is especially true since the acreage distribution changed so much, decreasing planting in the better producing-areas. This alone will lower the average yield.)

One would think weather markets would be slow-moving as each day's developments added a little volume to the pile. However this year, as usual, it took a long time for the word to get around. When it did, the market moved rapidly.

The sum of all this is that with a potentially good market for beans anticipating for the current year a crop of 400 million bushels, exports of 105 million, seed use of 26 million, and feed and residual of 5 million, we can come up with a total disappearance of 536 million, perhaps 540 million, if late season crush holds up. This would mean a carry-over of no more than 59 million bushels plus a new crop probably not over 500 million (this is written prior to the first crop report in August) so our supply situation is likely to be some 36 million bushels lighter than a year ago. There has definitely been some expansion of crushing capacity so if production can hold up (no small if), we could see a crush equal to or higher than last year. Exports may well depend on China's action but should not be lower than this year and the U.S.D.A. expects a 20 million bushel expansion. Feed use might be a little higher if we have a good bean market (which is possible) and a lower corn loan next year (which seems likely). At any rate, utilization should be closely in line with this year or higher, and carry-over should be conducive to a very heavy manageable level, 620 or 630 million bushels.

In almost every instance we know an early-season low on months, then trading has been made in October, usually early in the month. This is the result of hedge selling plus speculator unwillingness to take on long beans during the peak of the harvest movement. This low has provided for the speculator an outstandingly long-sided season play. Even in the two years that the early low did not hold, it was violated by only a couple of cents. (In both cases the violation was followed by excellent rallies.) The history of the size of up side-profit from these October lows has been erratic. Because of early highs it has ranged from as little as $5\frac{1}{2}$¢ to as much as \$1.61$\frac{3}{4}$. In addition, in about half the years there has been a rally late in the season. In most years it would have been well to accent profits on the early rally and hope to reinstate positions later after the market called for doing so. There has also been a tendency for prices to soften after the first rally. The unmentioned trick above is that one is required to pick the October low. This is obviously not easy to do. A position within reasonable shouting distance of the low might be established by watching the market closely, especially by watching its relationship to this loan and the amount of conversion in the position when it is established. The closer to the loan and the more the apparent available conversion, the greater the confidence that can be placed in the position.

JAMES E. MCHALE, Merrill Lynch, Pierce, Fenner, and Smith Inc., Chicago, Ill.

Offers Russian Abstracts

English Abstracts of Russian Technical Journals, a listing of some 100 Soviet technical periodicals abstracted regularly by U.S. Government agencies, is currently available by subscription from the Office of Technical Services, U.S. Department of Commerce. The periodicals cover such fields of research as aeronautics, astronomy, and mathematics, chemistry and chemical engineering, civil and electrical engineering, fuel and power, geography and geology, mechanical engineering, mining and metallurgy, physics, and general science and technology. The list may be obtained by writing the OTS, U.S. Department of Commerce, Washington 25, D.C.