• *Report on Fats and Oils*

Far Over the Waves

When observers of the fats and oils scene get together, the usual topic of conversation is the size of prospective overseas movement. This fascination with exports is a reflection of our having become an enormous surplus producer of fats, oils, and oilseeds and a moderate surplus producer of meals. We have become heavily dependent on exports to sustain domestic prices, particularly soybeans and soybean oil (Figure 1).

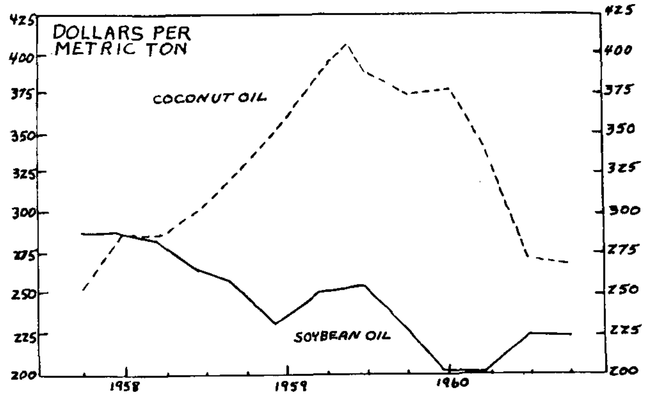

Fig. 1. Prices Straits European coconut oil C.I.F. vs. American soybean oil C.I.F. European ports.

This is going to continue indefinitely into the future as the world can use our oils and protein, but there is no particular need for our main surplus, wheat. (This is why U.S.D.A. is wrong in their projection for 1975 wheat acreage down only 4–9% and bean acreage down 1–3%.)

Domestic oil consumption is predictable within fairly narrow limits. One small problem with domestic consumption lies in the vagaries of liquidation-accumulation in the invisible inventory section, that is, channel of distribution stocks plus consumer stocks. However changes here are normally not large, and frequently a certain "feel" of them can be obtained. The really big and unpredictable shifts are in the export column. First estimates of bean exports for the season just ended were 110 million bushels. They were later raised to 120 million and then to 130 million. The final will be about 140 million. Similarly soybean oil and cottonseed oil export for the season were expected to be unchanged yet will probably end with increases of 125 million pounds and 100 million pounds, respectively. The higher outgo of oils plus the oil content of the higher bean exports are the equivalent of about 2¾ lbs. *per capita* on a domestic basis, a shift that would be years in developing here. Changes in overseas demand are hard to predict, particularly over the long range. All one can do is take what appears to be the pertinent factors and try to arrive at some sort of net differences *versus* the year before.

Reliable inventory, consumption, and crop production information is virtually unobtainable from Russia and China. Even if we had data, they might be of only moderate help because of the essentially different nature of consumer-export decisions in those countries. However we THINK Russian sunflower production will be up, perhaps sharply. We GUESS that Chinese soybean production will be down moderately but not enough to offset Russian sunflower. However Chinese bean offers in Western Europe are still remarkably light. Are Chinese requirements up that much, or will the offers come later? (Philippine copra/coconut oil production has staged a remarkable recovery, and Oct./Oct. availability will be at least 100,000 metric tons higher on an oil basis. At the same time GSA sales have depressed the USA domestic market, resulting in some diversions to West Europe. The result has been extreme weakness in coconut oil *vs.* USA seed oils in Europe (Figure 2). There is no doubt that, other things being equal, this would reduce greatly the free dollar market for USA oils and may damage a bit the market for USA beans.

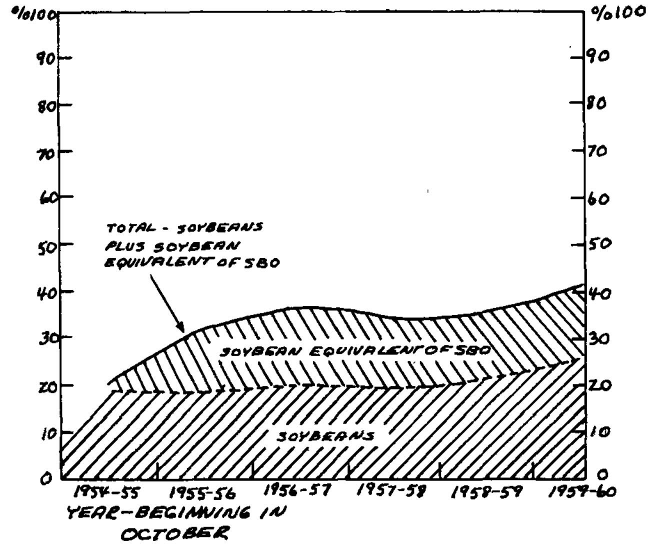

Fig. 2. Soybean exports plus soybean equivalent of SBO exports as a percentage of total usage yearly.

A problem arises however in the tragic-comedy in the Congo. That country in 1959 exported 181,000 long tons of palm oil and 59,000 long tons palm kernel oil. This is an enormous amount of oil. How many years will it be before they do that again, and what will the current short fall be? (The biggest takers of Congo oils are Belgium, USA, Italy, Denmark, France, Netherlands, West Germany, the free dollar market.) U.S.D.A. feels that Spanish olive oil production will be considerably reduced in tune with the regular cycle despite some optimistic private reports to the contrary. Italian production should be down (same cycle), but last year was so low that there is some suspicion that the cycle might not operate normally this season. The true size of the Spanish demand for USA soybean oil was obscured last year by replacement buying *vs.* Spanish olive oil shipped to Italy. What will be the U.S.D.A. attitude on such shipments this year? Private reports from Spain say that country's soybean oil inventory is too large to absorb much quantity of early shipment oil above the 73,500 metric tons for Nov./Dec. However for all practical purposes Spain gets the oil free and is thus much more subject to being influenced as to timing and size of shipments. Argentina will certainly be a larger seller of oils. Algeria and Tunisia will have better olive crops. African peanut prospects are confused, but somewhat larger production may result in additions to stocks rather than bigger shipments. Lower olive production will mean some oil to Greece, and for the first time we are beginning to crank up a real program to India.

Thus we have a shadow outline of the factors. Lower olive crops should mean higher oil shipments, better Philippine production should mean lower oil shipments, more Russian sunflower should mean poorer bean shipments, less Chinese beans should mean better bean shipments, Congo troubles should mean higher oil shipments. The net effect we would guess will be slightly lower shipments, depending on the size of the various ups and downs over the waves.

James E. McHale, Merrill Lynch, Pierce, Fenner, and Smith Inc., Chicago, Ill.

"Information Processing" (Columbia University Press, Columbia University, New York 27, N.Y., $25) contains the proceedings of the international scientific conference on information processing convened by UNESCO last year. The 61 papers are presented in English and French, covering recent developments and current research in electronic computing.