• *Report on Fats and Oils*

Cloudy Crystal Ball

FOR BETTER OR FOR WORSE, the government has made its first official bean and cotton estimates. For cotton they expect 230,000 bales below a year ago, indicating for the marketing year around 110,000 tons less seed. This should mean some 40 million pounds less cottonseed oil. This is probably just as well since we are having to carry a little too much cottonseed oil (particularly refined) into the new season. The bean market has paid some attention to this potential cottonseed oil output-cut, feeling that it means that much less cottonseed oil will have to be hammered into consumption this season by cheap price. The seed output-cut could allow perhaps 3½ million bu. additional bean crush; the bean crush is permissive in contrast to the seed crush, which is compulsive. This, of course, assumes that seed will stay out of the clutches of CCC. This appears likely since the cottonseed meal-hulls-linters markets all appear reasonably sound, and early-season seed prices have been well above support. In the last few years the August cotton estimate has been about correct to a shade high so we probably do not have a great risk of an increase in the estimate later on.

Weather in Arkansas and Mississippi would have to take an immediate and spectacular turn for the better. (Up until a few years ago the August cotton estimate tended strongly to the low side.) In beans a low-August habit appears to be still with us. This may be that August is a much more critical month for beans than for cotton. It might also be that bean reporting is substantially more haphazard. The tendency seems likely to repeat this year because of the much-worse-than-normal weather mid-June to mid-July but nearly perfect weather mid-July to mid-August. This is probably one reason why the 548 million bu.-bean estimate did not bring much buying into futures. If the 548 should stand unchanged, we would have a total supply (crop plus carry-over) of 580 million or so, about 15–20 million below the supply of the previous two seasons.

In as delicately balanced an item as beans, this is a fairly significant reduction. Assuming that crush and exports are roughly equal to this year's probable finals of about 390 and 135, respectively, a cut of this size would mean reduction in carry-over at season's end to only 20 million bu. or so. With such a small amount on hand, it is easy to see how any underestimation of either of the demand items or any international scare could result in considerable tightness. At present, prices seem to have taken the potentially reduced supply situation into account. Price changes will be forced as any increase or decrease from the August figures becomes apparent. (Arkansas, Mississippi, and Minnesota are probably the critical states in bean changes this year.) What is really puzzling traders at this point is whether crush and exports will equal, exceed, or fall short of the levels of the current season.

SOUTHERN Europe is likely to take more PL 480 oil than this past year since this is scheduled to be an "off" olive crop along the northern rim of the Mediterranean. How much more is a debatable point since a great deal of the Spanish taking of soybean oil this year was replacement of olive oil sold for export. Just as a guess, Northern Europe may take somewhat less fats and oils. Price pressure on copra/coconut oil continues. Argentina will be a much more aggressive seller as her supplies are larger and export taxes have been cut sharply. On the other hand, it seems certain that Congo shipments of oil palm products will be greatly reduced, and this is an important factor in Northern Europe's supplies of oils. West African peanuts are not off to a good start. Again as a guess, the North Europe cut might about offset the South Europe increase, with perhaps somewhat more emphasis on soybean oil this year at the expense of cottonseed oil. India is an enormous question mark. For years we have been trying to get shipments going to that country, and this might be the year. (Some day this could be a huge source of buying power.) The distribution of cotton acreage suggests that a heavy portion of Pakistan sales plus Indian sales is likely to be West Coast cottonseed oil.

It seems likely at this time that, although European demand for beans may be a bit higher than this past season, the European meal demand is going to be down, perhaps sharply. West Europe crush-capacity has been expanded since last season. Beans are popular for crush there because they furnish protein for a growing livestock economy but do not add oil to an already burdensome situation. European observers feel that last winter's heavy spate of U. S. meal exports was largely because protein demand there was not realized until late in the season and extraction capacity was not adequate to deal with it until the late winter. (October-June soybean meal exports were 524,000 tons *vs.* 397,000 during the same period the year before. Any backing off could hurt.) Domestic meal demand is likely to be reduced in the early part of the season, owing to less demand for swine feeds, but could pick up later on. That even small changes in swine feed can be important factors is pointed up by the extreme weakness in meal in recent weeks. This late season weakness, coupled with potentially lower meal exports, is preventing analysts from forecasting crush above this past season. However, based on lard and cottonseed oil supplies, we could easily absorb the oil from a 10-million-higher crush.

Since bean exports could easily be up 5 million bu. or so, depending on what China does (who knows?), and since the bean crush might edge up 10 million bu. if we could bury the meal, the total "perhaps" increase is critical when we are talking carry-over of only 20 million. (Remember now we're talking no change from the August bean estimate.) Beans are a high leverage item, and this close a balance can do all sorts of things to the market. The trouble is that too early a recognition of potential tightening factors may well serve to put prices to a point that some of the factors will not come into play. Exports of 150 million bu. might well make beans worth $2.40 or $2.50, but there is nothing that would kill 150 million exports as surely $2.40 or $2.50 beans. A similar situation obtains in oil where cheap prices will attract the big European consumer to the point that the market will tighten up. But if it tightens up first, that same buyer is likely to demur. Herein lies the need for a crystal ball. Unfortunately mine seems a bit clouded.

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

Production Rises

JUNE PRODUCTION of fatty acids classified under Categories Nos. 1 to 12 totalled 49.4 million lbs., up 7.6 million lbs. from May, and up 7.4 million lbs. from June 1959, according to the Fatty Acid Producers' Council, New York. Production of tall oil fatty acids as defined by Category No. 13 was 8.1 million lbs., compared with 7.7 million lbs. in May.

Disposition of all fatty acids, except Category No. 13, amounted to 47.2 million lbs., compared to 42.9 million lbs. in May 1960 and 43.2 million lbs. in June last year. For Category No. 13 disposition totalled 7.5 million lbs. Disposition, as a total of all types now in the census, was 54.7 million lbs. in June *versus* 50.6 million lbs. the previous month.

Finished goods inventories for Categories Nos. 1 to 12 were 47.1 million lbs. on June 30, up 4.6 million lbs. from the May 31 level. Work-in-process stocks, as a total for all categories, was 19.8 million lbs., down 1.5 million lbs. from the end of May.

A.O.C.S. Commentary

(Continued from page 4)

Although improvements have been made in the Expeller since Mr. Ennis' writing in 1909, Anderson personnel plan that the continued program of studies in engineering design, manufacturing techniques, and process development will result in increased savings in those operations where their equipment is employed.

JOHN W. DUNNING, Vice President