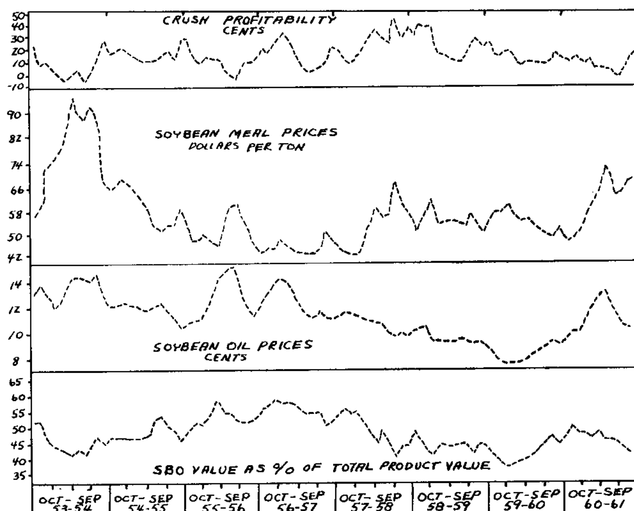
Side Issues

When assessing the bean-oil-meal markets before a new season begins, one must try to look at price and marketing prospects from as many angles as possible. Obviously the place to start is supply which is now assured at a very high level. The next is demand which is likely to be substantial but is considerably less certain than recent confident statements in the "Fats and Oils Situation" and elsewhere would have you believe. The two items lead to the inescapable conclusions that the government will be tendered a very large amount of beans on the loan program and will have them for sale next summer at a price that is likely to set the ceiling on the market. Carryover should be somewhere between 60 and 110 million bushels. These main issues presumably disposed of, let us turn to some of the side issues that are less frequently considered.

Wrapped up in the side issues are some seldom considered relationships a few of which are charted here. First, we would like to point out that since oil as percentage of total tends to parallel oil prices outright, indications are that the general level of total product price and consequently the bean price, appears to be more closely associated with oil price moves than meal price moves. Thus, the governmental emphasis in recent years on keeping oil prices up rather than meal prices up is probably a properly placed emphasis assuming that any help is worthwhile and necessary. This stress on oil is likely to continue.

All sorts of stories are floating around about high governmental goals for bean and oil prices this season. There are even more stories about how the goals will be pursued. Suggestions have included an oil export subsidy as noted last month and an oil purchase program. Also rumored have been a bean export subsidy and stockpiling of beans and/or oil overseas. The least attractive of all these is probably a bean export subsidy. This would put the domestic crusher at a serious disadvantage. Not only would he probably have to pay more for the beans than domestic product sales would justify, but the domestic crusher has to compete to some extent for European free dollar markets in oil and meal. Subsidizing bean exports would put the overseas crusher at an advantage over the U.S.A. crusher to the extent of that subsidy. The net effect is likely to be that subsidy will end up in the profit margin of the European crusher with no effect on overseas product consumption which presumably a subsidy is designed to encourage. This may also mean much higher domestic meal prices as a result of the reduced domestic crush and this could have a serious effect on animal feeding ratios, particularly broilers. An oil purchase program and/or stockpiling of oil overseas are a good deal more attractive on the surface due to the above mentioned tendency for strong oil prices to be more effective than strong meal prices in supporting beans. Also big crush means cheap meal.



However, there may be some hidden disadvantages. For one thing, high oil prices seem to have no particular association with profitable conversion and there are even some signs that lower oil prices—relative to meal—do have some such association. (Random?) There are signs that high meal prices have some association with profitable conversion periods. Now it is entirely possible that these apparent relationships may be entirely coincidental. However, if I were a processor I might be a little careful about plumping for anything that could shove the crush high enough to massacre meal prices. If I were a processor, I would also be concerned about where and how any purchased oil would be stored. Unless some dramatic movement takes place of free oil out of domestic tank storage the government could be forced to store the oil as finished products. In any case, the oil is not going to magically disappear. It is going to come back someday to fill some domestic or overseas demand. If I were a speculator, I might be inclined to buy oil and sell meal if we got a purchase program and sell oil—buy meal if we did not. Also I might be inclined to put on reverse conversion much less aggressively with a purchase program as weak meal could more than offset strong oil, especially in view of current stocks of both items and with beans near the loan.

It is true that all these are, in a sense, side issues to the mainstream of the total market and to the central issue of whether prices are going up or down and when. Nonetheless, ignoring them can be bad policy.

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Fatty Acids

July production of fatty acids, as classified under categories 1–13, totalled 356 million pounds, down seasonally 19.0 million pounds from June, but up 3.5 million pounds from July, 1960. Production of saturated fatty acids was 13.6 million pounds, compared with 21.4 million pounds in June and 12.1 million pounds in July last year. Unsaturated fatty acid production, including the tall oil types, was 22.0 million pounds, versus 33.2 million pounds in June and 19.9 million pounds in July, 1960.

Disposition of all fatty acids amounted to 42.1 million pounds, down seasonally 15.2 million pounds from June, but up 5.1 million pounds from July last year.

Finished goods inventories totalled 40.9 million pounds on July 31st, down 2.9 million pounds from the June 30 figure. Work-in-process stocks amounted to 14.5 million pounds, compared with 16.6 million pounds at the end of last month.

Glycerine Production

According to the U. S. Department of Commerce, production of crude glycerine (including synthetic) for the month of July 1961 was 18.7 million pounds, down 3.5 million pounds from June, and down 2.2 million pounds from crude production reported for July last year.

At the end of July, crude and refined glycerine stocks in the hands of producers totalled 64.3 million pounds, down 0.1 million pounds from June, but up 17.3 million pounds from the end of July 1960.

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