• *Report on Fats and Oils*

Big Bull or Little Bull?

RECENT WEEKS have seen the best bull market in beans in several years. There has been tremendous public buying of beans because of the widely publicized close balance between available supplies and probable demand. Even a small increase in demand would drain supplies to the point that a rise in price would be necessary to choke off some of the demand. Past markets indicate that price rises have to carry quite far in order to do this effectively. This is probably especially true when there is a measure of "hoarding" involved, and this type of buying has been stirred up by the incredibly complex situation in Laos. The question now arises whether the market has gone far enough to discount all factors as we now know them. Also we have to be concerned that the early price rise may already have shut off enough demand so that the balance will not be as close as earlier projected. Bean exports are 7 million bushels ahead of a year ago. It must be admitted that the bulge in exports over a year ago has persisted longer in time and farther up on the rally than most analysts expected. It is true that the bulk of bean commitments for Europe was made ahead of the recent sag in conversion there. However this sag may not mean much if European crushers have sold products far in advance at more favorable relationships than now prevail.

An annual increase in U.S.A. bean exports has acquired an air of inevitability to it on this side. Not so in Europe where crushers are accustomed to handling a much wider variety of oilseeds and where there is no special magic about U.S.A. beans unless the price is right. The big question in European demand is whether Mainland China will fulfill her heavy sale commitments. There have been persistent reports that bad weather in Central China would force beans back from Manchuria (the main growing area) and into China in order to relieve food shortages. The peasants of Central China are not accustomed to beans and probably would not accept them free-choice. However it is likely to be a case of beggars not being choosers if the situation is really bad.

European crushers are confident that sale commitments to them by China will be fulfilled. Vessels have been tendered for Dec./Jan. contracts and have been nominated for Jan./Feb. contracts. China is negotiating with Japan to barter Chinese beans for Japanese chemicals and fertilizers. All this does not sound as if shipments will dry up. However it appears certain that China has bought back some contracts in both beans and bean oil from Iron Curtain countries. It is certain that U.S.A. crushers have sold soybean oil to East Germany both directly and through middlemen. Whether this confirms much lighter soybean shipments for the balance of the season we do not know. The big Chinese shipping season is just getting under way. In recent years China has exported to Europe some 500,000 to 900,000 tons of beans a year. Just the difference between the high of these figures and the low would be more than sufficient to tighten up our market should Europe attempt to replace any shortfall here. We have only the vaguest notions as to what motivates buy/sell/consume decisions in an economy such as China's. However we do know that the country is badly in need of hard currency and that beans are one of the most salable agricultural items in world commerce today.

EVEN IF CHINA does not fulfill some contracts or does not offer additional big quantities after fulfilling Feb./March sales, this is not an ironclad guarantee that soybean oil and beans will meet greatly improved demand. The fact is that Western Europe is now more adequately supplied with lauric oils and soon will be adequately supplied with peanut oil. The seasonal Oct./Feb. falloff in Philippine copra shipments will shortly be ended. Copra will continue to flow to Europe as the U.S.A. market remains sticky and is unlikely to recover for a while. Most of the news from the African peanut areas is good. Total availability to Western Europe will be at least 100,000 tons higher (oil basis) than last year, perhaps 150,000 tons higher. Consequently at some point during 1961 consumers in Western Europe (excluding France) will have to be persuaded to alter their formulae to include a great deal more peanut oil. This persuasion can only come from lower prices. So

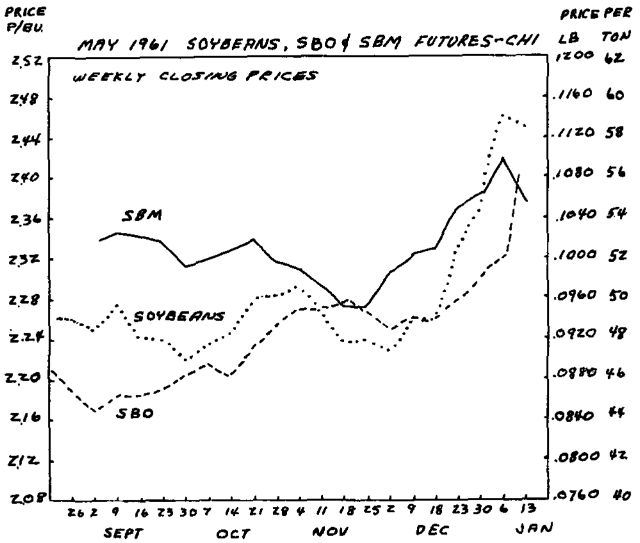

FIG. 1.

coconut oil and peanut oil will both be engaged in trying to win back markets from U.S.A. seed oils. The resulting minor price war would cut U.S.A. shipments very sharply.

It would be my personal opinion that, when coconut oil and soybean oil are selling at the same price in Europe, either coconut oil is too low or soybean oil too high. The size of PL 480 shipments is still up in the air. Depending on whose guesses and whose statistics are used, one arrives at the inescapable conclusion that Spain will require somewhere between zero metric tons and 100,000 metric tons of soybean oil over and above the I.C.A. allocation of 28.5 million dollars. Obviously the difference is substantial, being roughly equivalent in bean consumption to a half-million ton change in Chinese bean shipments.

So the fate of the bean market appears to rest largely on what happens in three very unpredictable places: China, Laos, Spain. Even the slightest indication from any of the three could be enough to set the market racing off in either direction. The current open interest is simply enormous. This means very emotional markets. Any particular piece of news is likely to affect the market more by the drama of its presentation than by its true importance. It may be that news from the three areas will produce only an impasse. On the other hand, if two or all three areas point one way, the market will respond. We should know soon whether it will die a small bull or really roar like a big one.

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

• *Received in the Journal Office*

Two leaflets from the Commonwealth Scientific and Industrial Research Organization, Australia, treat of these topics: "Fishy Flavour in Dairy Products. I. General Studies on Fishy Butterfat," by E.G. Pont, D.A. Forss, and R.A. Dunstone; and "III. The Volatile Compounds Associated with Fishy Flavour in Butterfat," by D.A. Forss, E.A. Dunstone, and W. Stark.

"Gas in Europe," 1960 report of the Gas Committee published by the Organisation for European Economic Cooperation, Paris, France, gives a general outline of the present position in the industry and of the future outlook. The first report, published in 1958 covering the period from 1954 to 1956, touched on every aspect of the gas sector.