• *Report on Fats and Oils*

For many weeks bean and product markets have been characterized by a tug of war between optimists and pessimists. Neither has gained a clear advantage and prices have not moved. Until one side or the other gets some real help, this impasse is likely to continue.

Bean Disposition 1961–1962 Season

	Optimists		Pessimists	
Supply	700 million		700 million	
Pre 10/1 use	5		5	
Available	695		695	
Crush		425		401
Exports		170		140
Feed, seed, etc		40		40
		635		585
Carryout 10/1/62		60		110

Obviously the difference is substantial!

Of this carryover, let as assume that 20 million bushels will be carried by elevators and crushers, assuming that the loan will be approximately unchanged. A substantially lower new crop loan might mean a 10 million bushel decrease in the amount willingly carried. A higher new crop loan might mean a 10 million bushel increase in the amount willingly carried. Therefore, use 20 ± 10. This must be subtracted from the above carryover estimates to make a guess of the amount still in government hands on October 1, 1962. Using the two carryover estimates, then the government is likely to hold 30–50 million bushels if utilization is high, and 80–100 million if utilization is low. Translating this to the amount of beans needed to create artificial tightness and the timing at which this tightness, if any, might occur, let us try the following approach.

Late Season Utilization

	Optimists		Pessimists	
Crush	27		25	
Sept. Exports	7		6	
Sept. Total	34		31	
Aug. Crush	32		29	
Aug. Exports	10		7	
Aug. Total	42		36	
Running Total		76		67
July Crush	33		31	
July Exports	10		8	
July Total	43		39	
Running Total		119		106

To get artificial tightness we need to be forced to extract, from government hands, beans as needed for utilization. This means that to create tightness at a specified time the government carryover holdings plus the usage subsequent to the date under discussion must have been entered into the loan and then forced out. Assuming that this is a correct view and considering that our carryover estimates have merit we arrive at the following:

	Optimists	Pessimists
To create tightness around end—June (July-Sept. use plus govt. carry)	149–169	186–200
To create tightness around end—July (Aug.-Sept. use plus govt. carry)	106–126	147–167
To create tightness around end—Aug. (Sept. use plus govt. carry)	64– 84	111–131
To create tightness around end—Sept. (govt. carry)	30– 50	80–100

The ranges look formidably wide but as the loan is announced and as the season's consumption progresses we will be able to narrow everything down somewhat. In any event, it is obvious from all this that we will have to have heavy impoundings. They almost certainly have to be larger than the 1958–59 total of 140 million bushels if tightness is to come early.

It will be seen that so far entries are pretty well on schedule. Although prices were above loan in many areas during December, entries should be substantial for that month. The farmer has little to lose and potentially a lot to

		1958–59 Season		This season—this yr	
		Entries	Withdrawals	Entries	Withdrawals
As of end:	Oct.	23		16	
	Nov.	67		70	
	Dec.	98	0		
	Jan.	124	1		
	Feb.	140	3		
	Mar.		7		
	Apr.		15		
	May		30		
	June		38		
	July		43		

* Entry privilege was extended to February 15th to encourage greater entries. This is likely to happen again this season if entries are slow.

gain by impounding. About the only set of circumstances that might discourage entries would be a good rally prior to the cutoff date on which rally farmers would not sell, followed by a bad break after cutoff. It seems likely that sufficient entries will be made to tighten the market but timing is still uncertain.

This means that the government will retain reasonable control of the bean price. The principal problem that U.S.D.A. officials have is that they seem to be losing control of the oil price. If the crush is as high as the U.S.D.A. says it will be (425), then they will almost surely have lost control unless oil exports are greatly above their estimates, or unless there is further oil buying for overseas donations.

It costs money to store either beans or oil. Oil costs approximately 9 points per month for storage and 5 points for interest. If trade interests or speculators can be induced for any reason to hold excess stocks, then this 14 points or so does not have to be capitalized into the price of the oil. From a theoretical standpoint, it makes no difference whether the "capitalization" is paid by actual storage payments, by long-side market losses, or by the market advancing.

However, neither speculators nor the trade will carry large amounts of oil (as opposed to working trade inventory) without either carrying charges or considerable upside possibility. Last year a large extra amount of oil was carried by actual speculators and semi-speculators because of mis-assessment of both market potential and the possibilities of sales to Spain. Neither these same speculators, nor others, are likely to make the same mistakes again. If oil stocks are large, obviously the upside possibility will appear limited and it looks as though oil stocks will be large.

The 456 million pound Food for Peace purchases are absorbing the overcrush from last season. Who is going to absorb any overcrush from this season, and why? The potential overcrush shapes up roughly as follows:

		Million lb
Carry in, crude and refined SBO, crude and refined CSO, plus salad oil		1,000
Production CSO		1,850
Production SBO on the U.S.D.A. estimate		4,650
Total Available		7,500
U.S.D.A. Export Estimate CSO plus SBO	1,900	
Domestic Usage CSO	1,400	
Domestic Use BSO	3,300	
Utilization SBO plus CSO	6,600	6,600
Carry out, crude and refined SBO, crude and refined CSO plus salad oil		900

If we define "normal oil carryover" as that of the two end-crops prior to the most recent one then this is what "normal" looks like:

Crude and refined CSO	150–200
Crude and refined SBO	365–400
Salad oil	50– 50
Total "normal" carry-over	565–650

Conclusion: again, this end-season, somebody is going to have to carry a fairly large supply of oil. Carriers are likely to be hard to find unless there is a clear cut incentive.

The 3.3 billion pound soybean oil and 1.4 cottonseed oil domestic consumption figures were estimated by working from total domestic through lard and cottonseed oil to soybean oil as follows:

Potential 1961–1962 Lard Situation		
Carry in	100	
Production	2,500	
Available	2,600	
Exports		450
Domestic		2,050
Total demand		2,500
Carry out	100	

Here we are making the domestic consumption a residual that leaves carryover unchanged. Lard will not keep well as lard, and will not keep at all in its raw form (hogs). As a result, lard tends to price itself into consumption. A similar situation prevails in cottonseed and cottonseed oil. With premiums for cottonseed oil over soybean oil high, and probably going higher, cottonseed oil carryover probably will not increase much.

Potential 1961–1962 Cottonseed Oil Situation		
Carry in	170	
Production	1,880	
Available	2,050	
Exports including Food for Peace		500
Domestic consumption		1,350
Utilization		1,850
Carry out	200	

Domestic Consumption—Lard plus CSO plus SBO

	1959–60	6.5 billion lb
	1960–61	6.6 billion lb
estimated	1961–62	6.7 billion lb

Domestic consumption lard see above	2,050
Domestic consumption CSO see above	1,350
Total CSO plus lard	3,400
Residual for SBO	3.3 billion lb

One method of getting someone to carry the oil would be to price it properly so that it competes in the world market. Then foreign buyers would increase inventories. However, the support price increase is hurting U.S. oil consumption around the world. The U.S.A. oil price does not exist in a vacuum. Germany and Canada are our best free dollar buyers. This is what has been happening in Canada.

	Margarine		Shortening	
	10 mo. 1960	10 mo. 1961	10 mo. 1960	10 mo. 1961
Coconut oil	under 3.6	10.3	2.3	2.8
Cottonseed oil	9.3	5.9	9.8	9.7
Bean oil	26.5	55.8	52.9	38.2
Palm and palm kernel	6.6	14.9	5.4	14.6
Fish and marine	9.6	23.8	4.6	13.2
Other	3.6 with) CCNO)	5.7 (without CCNO)	4.6 with) CCNO)	9.6 (without CCNO)
Lard	......	......	27.5	20.6

Conclusion from the above: This shows the impact of excessive pricing and the U.S.D.A. is dreaming when they estimate that Canada will increase both bean imports and oil imports this season.

If the U.S.D.A. oil export estimate should turn out to be on the high side the U.S.D.A.'s oil export problem is aggravated to the extent of the shortfall.

The U.S.D.A. export estimate implies strongly that there will be no interference of the Food for Peace exports with free dollar and PL 480 exports. Since there is no way to prove otherwise I can only say that this is possible but sounds unlikely. In such countries as Italy, Egypt, and various Latin American nations, some interference would seem to be almost inevitable. Pakistan can use a great deal of oil over time but an increase from 58 to 185 million pounds in one season sounds too big. The handling and holding facilities there are probably not up to it. Spain is an enigma as usual. Their taking will be up but U.S.D.A. could easily be 50 million pounds high.

Conclusion: U.S.D.A.'s problems appear to be severe. They are probably worse in oil than they are in beans, As long as beans are impounded heavily they will retain at least short term control of the situation. The U.S.D.A.'s alternatives appear to be:

A. Pursue somehow their announced goal of high crush. This will cause a flow of excess oil into the market. It will probably force weak oil prices and may mean additional U.S.A. buying of oil in the summer, perhaps another 200 million pounds. Meal will be weak late in the season. Beans will be firm all year. U.S.D.A. expenditures will be larger than they figured (potentially much lower cost if they held and later re-sold the beans. Once the oil is purchased and donated, funds are not recoverable.) Low priced meal will be politically popular with farmers.

B. Allow oil demand to set the crush level. This will keep beans on the weakish side and meal fairly high. This will result in attractive conversion for the processor but less attractive feeding rations for the farmer. Oil prices should be weak early, steady late, with no dynamic action.

The latter course appears to be the more logical and the more likely. Possible holes in the argument are:

A. Bigger Netherlands/Germany buying of cottonseed oil than expected. There are some signs of this already. The reason is uncertain but possibly significant.

B. East Europe has lately been buying African groundnuts and oil. This might mean that the Chinese groundnut crop was down more than the soybean crop was up. This in turn might mean lower China sales of beans than expected. Sales to Europe/Japan so far by China however indicate that in accord with U.S.D.A. guesses the crop is up a little.

C. Impoundings tremendous. This could happen. It would give U.S.D.A. enough control of the whole situation so that bearish oil factors might come into play. However, it would mean decidedly that the crush would not make U.S.D.A. goals.

D. Drought in the Philippines appears to be increasing in severity all the time. This could mean reduced shipments copra/coconut oil and sharp price increases in the spring/summer. This could make U.S.A. oils more attractive to free dollar buyers.

E. Much poorer than expected olive crops in Spain and Italy. This could result in bigger than expected Spanish buying of U.S.A. soybean oil.

F. Further buying for overseas donations.

The CCC resale price downstate Illinois is about \$2.50, plus about 15¢ for margin, indicates a probable needed total product value of about \$2.65.

There are a number of combinations which could yield roughly that; basis 11 pounds oil and 48 pounds meal.

Decatur: Oil 12¢ + meal \$55 (unrestricted)
Oil 11¾¢ + meal \$57
Oil 11½¢ + meal \$58
Oil 11¼¢ + meal \$59
Oil 11¢ + meal \$60
Oil 10¾¢ + meal \$61
Oil 10½¢ + meal \$62
Oil 10¼¢ + meal \$64
Oil 10¢ + meal \$65
Oil 9¾¢ + meal \$66
Oil 9½¢ + meal \$67

Pay your money and take your choice.

Note that for oil to be very weak meal has to be very strong or the combination is no good. Therefore, the bearish oil factors are not likely to come fully into play except through lower bean prices. If this happens sufficiently early, then impoundings will be very large and weakness will not maintain. If it happens after the end of the impounding period, and impoundings are light, then the market could be in for a little trouble. So impoundings potentially are very important for the market and so is the timing of any weakness. As the season progresses we will see who wins the tug-of-war.

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