

# Flax Equals Linoil Equals Pesos Equals Problems

SEEMINGLY every time a particular market analysis problem becomes simplified, some extraneous force enters the picture to confuse the issue more than before. This seems to have happened in analysis of Winnipeg flax futures. The forced retirement of the U.S.A. as an export country this season turned out to be of no noticeable analytical help. Not only was weather erratic, but it was erratic in the worst of all possible places—Argentina. Added to this was the great problems that Argentina was, and is, experiencing in stabilizing the peso plus uncertainties over the status of the price support system there. Buenos Aires may be only 12 hours from New York by jet but for quick informational purposes it might as well be on the moon.

The Argentine flax crop was seeded late and went in under dry conditions. For a considerable time it appeared that the flax area there would suffer the same unrelieved drought that had plagued North American flax areas. Thus any estimate of Western Hemisphere flax availability had to assume a very bullish cast. Winnipeg futures responded to this possibility. Fortunately or unfortunately (depending on your position in the market) the rains came to Argentina at just about the absolute crucial last minute and the crop recovered. Total hemisphere export availability is down but not as much as it could have been.

Flax Production  
(Millions of bushels)

	Canada	U. S.	Argentina	Total
1959-60.....	17.7	21.9	32.8	72.4
1960-61.....	25.1	30.4	22.1	77.6
1961-62.....	15.3	21.8	30.3*	67.4

\* Second official estimate.

With drought removed as a price propping factor flax futures broke rather sharply. The Winnipeg weakness was aggravated by the fact that on the runup Winnipeg flax had advanced much faster than Rotterdam linoil. (See chart) This overpricing of Winnipeg has been partly, but not fully, corrected. For instance, Argentine flaxseed recently was quoted equal to \$130/metric ton CIF Rotterdam while Winnipeg flax was quoted equal to \$152. In terms of linseed oil this Canadian price was in excess of \$300/metric ton ex-tank Rotterdam compared to \$260/metric ton for Argentine origin oil. To some extent the flax-linoil disparity does not necessarily have to close all the way since the Dutch crushing subsidy can make up part of the difference. It seems likely, however, that the

flax-flax disparity will have to close somewhat, at least until Argentina exhausts its probable initial flax export quota of 50,000 metric tons. (The apparent exportable surplus is probably closer to 90,000 tons based on production of 770,000 tons and needs, including crushing, of only 680,000 tons.)

If the peso can manage some real stability over time, confidence may return to it, and this could also help close the flax-linoil gap. For instance, the spot peso is 82.75/dollar while the 180 day peso is 89.35/dollar or an 8% spread and peso spread strength would contribute considerably to closure of the flax-linoil gap. Currency confidence would probably cause considerable short covering in all positions of CIF oil.

Another factor that might help to close all the gaps is that the above mentioned North American soil moisture problems are still with us. Generally speaking, snow cover in western Canada and the northwest U.S.A. is heavier than normal. Given a slow melt rate and reasonable spring rains, the new flax crop may go in under satisfactory conditions. If proper conditions do not prevail, then there could be considerable tightening in the statistical position in the second half of the calendar year. New crop flax from Argentina will not be available until after the first of next year.

I would be inclined to feel that this drought possibility is responsible for part of the overpricing of Canadian flax, and if the drought does not materialize longs will lose confidence. If the drought does materialize Argentine linoil and flax will rally. There also has been support for old crop Canadian because of small stocks at the lakehead that appear to be tightly held. This might hurt shorts in May. However, the high prices appear to have "rationed" Canadian flax. Exports season-to-date of 8.4 million bushels are the same as last year and sales on the books for the opening of navigation appear to be pretty light. Argentina has a great deal of oil selling to do. Clearances ex-Argentina for Jan.-Feb. were only 21,981 metric tons versus 54,761 for the same period last year.

Recently there have been rumbles from Argentina that crushers will ask for an increase in the government purchase price for linoil and the farmers as usual are also agitating for higher prices. Inflation in Argentina continues. For a thermometer of the inflation fever, see below.

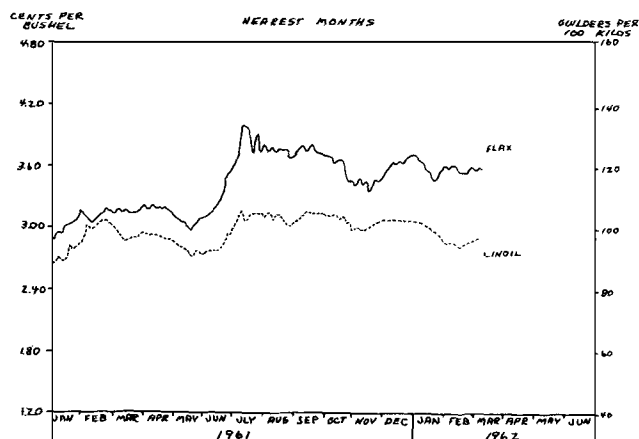
ARGENTINA FLAX SUPPORT PRICES  
(Pesos per Quintal)

1954	1955	1956	1957	1958-1959			1959	1960	1961	
-55	-56	-57	-58	Apr.	June	Nov.	Jan. -60	-61	-62	
75	140	165	165	185	200	240	400	500	600	690

Until only recently the Junta had to suspend payments on linoil accepted under the purchase program. Argentine currency is still under some pressure. The last official figures I can find are for the first six months of 1961 when imports of 674 million dollars and exports of 541 million created a deficit on commercial account of 133 million dollars vs 26 million the year before. This would imply that Argentina is in no position to expend considerable amounts of money to support prices and carrying inventories. However, inability to carry inventory is far short of the drastic step of peso devaluation. In recent weeks Argentina has increased sharply import duties on some luxury items and banned some other imports. Substantial dollar loans and grants have been made by international agencies and the U. S. "Alliance for Progress." Some of these dollars have been earmarked for Junta support operations.

At any rate, the prospects for a considerable rally in Winnipeg flax values appears difficult to forecast although peso stability would create flax price stability. Drought possibilities appear to be the best, perhaps only, possibility of forcing a major rally. Other than that, flax has to stand on its own merits. It must compete. The fact of the matter is that flax equals linoil. Since Argentina exports both flax and oil then flax ends up equaling the Argentina peso and this means problems for the market.

JAMES E. McHALE, Merrill Lynch, Pierce, Fenner & Smith, Inc.



Winnipeg flax futures and Rotterdam linoil futures

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### Technical Safety Committee Will Meet in New Orleans

On March 9, in Chicago, Harvey Marxhausen and his special committee met with Paul Sheffer, chairman of the T.S.C. The purpose of this special committee is to write safety rules for solvent extraction plants. The ideas developed to date for such safety rules were discussed. Each committee member will review certain areas of solvent extraction and will report to the spring meeting of the T.S.C. in New Orleans.

Mr. Sheffer urges all members to T.S.C. to attend that meeting if they possibly can, so that all questions can be discussed and everyone can contribute to the development of complete and practical rules.

Chairman Sheffer also extends a cordial invitation to all Society members interested in safety to attend the T.S.C. meeting. It will be held on Monday, May 7th, 1:30 p.m., at the Roosevelt Hotel.

### • *Industry Items*

American Mineral Spirits Company has opened a sales office at 3505 Turtle Creek Boulevard, Dallas, Texas. Peter C. Thompson, who has been a sales representative in the Southwestern Area for Amseo since late 1960, has been appointed Manager of the new Dallas office. James A. Sellers now represents Amseo in Virginia with headquarters in Richmond.

Schaar Scientific Company is the new name adopted by Schaar and Company. SCHAAR, established in 1909 with headquarters in Chicago, distributes scientific equipment to research and control laboratories. The address is: 7300 W. Montrose Ave., Chicago 34, Ill.

### • *Names in the News*

Ralph H. Potts (1931) has retired from Armour Industrial Chemical Company. He is one of the pioneers in the fatty acid and fatty acid derivatives industry.

In 1933, Armour built the first fatty acid fractionating unit, which was designed by Mr. Potts. He also designed the first commercial unit for the production of fatty nitriles and amines which was built in 1940. Mr. Potts has been retained as a consultant for Armour.

Harland E. Tiefenthal has been appointed assistant research director for Armour Industrial Chemical Company with responsibility for new product research and development. He was formerly manager of the fine chemicals group for Koppers, Inc., at the Monroeville Research Center.

The R. J. Brown Company, St. Louis, Mo., recently announced that Zenon Stephen Losin has joined the sales staff of Brown's Chicago office under the supervision of Division Manager J. T. Dailey.

Victor Conquest (1934), vice president of Armour and Company and founder of the Company's research division in 1929, retired March 9. His connection with Armour dates back to 1926 when he was employed as an analytical chemist. At that time the Company did not engage in organized research as it is known today.

In 1929 Mr. Conquest organized Armour's first research department. The original division group of 12 workers expanded to 425 people working in the fields of fats and fatty derivatives; meat, dairy and poultry products; pharmaceuticals; adhesives; soaps and detergents; fertilizers and leather. For the past several years he was European Representative with an office in Paris.

In 1953, he received the Nicholas Appert Award from the Institute of Food Technologists, and in 1956, he was awarded the Industrial Research Institute Medal.