Keep Your Eyes on Washington

DURING RECENT WEEKS, cottonseed oil has been plagued by the price weakness that usually accompanies big production. Up to now, exporter stopping of December Produce Exchange deliveries and dealer-exporter buying of cash cottonseed oil has prevented the weakness from carrying as far as it might have otherwise. How much more of this dealer demand there might be is conjectural. Excessive stopping of futures deliveries can be a bolstering factor for the short-to-intermediate term. It probably is not helpful since it does not truly represent a demand for consumption for the long term. It may be harmful since it can prevent some cottonseed oil from pricing itself into consumption at a critical time. The structure of comparative price competition between cottonseed oil and soybean oil has changed radically in recent years in the direction of making cottonseed oil less absolutely sought after. However, the principle still holds that when the two oils are fairly closely priced, independent weakness in cottonseed oil can create a fair amount of irreversible cottonseed oil demand. Later in the season when cottonseed oil is likely to be fairly high priced versus soybean oil, the weakness needed to create more cottonseed oil consumption may be much greater. It appears that cottonseed oil is going to be in need of that extra "hump" in domestic consumption this season. At present, it appears that the "Food For Peace" buying that we had last year will not be with us again. The U.S.D.A. is hoping that a major amount of butter can be moved under "Food for Peace" as butter oil. So far, this looks to be a vain hope. Butter oil has not been well received by the charitable agencies. This might mean some edible oil buying late in the season. If we do not get this, then we are liable to see another year of heavy stock accumulation. It is questionable whether the free market will carry much of an increase without considerable widening of carrying charges or some other compelling reason.

Stocks 10/1/61 170 million lb	Stocks 295– 295
Production 1950	Production 1900–1950
Available 2120	Available 2195–2245
Domestic 1300	Domestic ..1325–1350
"F.F.P." 135	"F.F.P." .. 0– 25
Exports 390	Exports 400– 425
Consumption .....—1825	Consumption .....—1800–1725
Carryout 295*	Carryout 395– 520*
* thereof C.C.C. owns 9	* thereof C.C.C. 59?–159?

For instance, one reason I can think of for carrying very large cottonseed oil stocks is the possible prospect of very small lint cotton production in the 1963–64 season and consequently very small production of cottonseed. So far, the only program in prospect is a stop-gap high loan minimum acreage plan. This would result in a huge cut in cottonseed oil production. Under these circumstances, the trade would likely carry a very large amount of oil. Hearings are now taking place in Washington, however, to replace the above cotton program with one of several alternatives. All the alternatives would provide much larger cotton acreage and consequently allow larger cottonseed oil production. The favorite, at the moment, appears to be a "last handler" subsidy. The grower could stay within base allotment and get roughly the current support, or increase acreage 20% and take an 8½ cent support cut. Under these circumstances, the trade would not be disposed to carry a large end-season cottonseed oil inventory and this responsibility would then fall to C.C.C. Every alternative cotton program proposed so far has encountered strong objections from one farm or trade group or another. Whether a suitable substitute program can be hammered out in time is unknown. The U.S.D.A. is hopeful. At the moment, I would guess offhand that the chances for a high acreage program are at least even. Whatever the new program is, it will be known by February–March. If it is one of big acreage, cottonseed oil might be in some trouble. One's definition of "trouble," however, depends largely on one's assessment of what the point is at which C.C.C. will buy cottonseed oil. This, in turn, depends not only on the price of the oil but also on the price of all the other cottonseed products.

Without getting into the wilderness of product yields, prices, and mills margins, some observation can be made. Linters have shown considerable softness. Several big linter buyers are out of the market and the talk is that they may be out for good. A ½ cent a pound weakness in linters would force up the government's cottonseed oil buying price (whatever it is) by slightly more than ¼ cent a pound.

Hull prices have been extraordinarily firm for the season to date. Expectations are that hull prices will be weaker later in the season although this seems to be a feeling rather than a conviction. If hulls should fall from the current value of around $16 a ton to say $12 a ton, this would also have the effect of forcing the oil buying price up about ¼ cent a pound. Cottonseed meal prices have been very firm, stimulated among other factors, by soybean meal prices and excellent export demand for all meals. Exports of new crop cottonseed meal in September and October were very large. Many mills are heavily sold up on cottonseed meal through February. Thus, there does not appear to be a prospect of major meal weakness until late winter or early spring. Export soybean meal demand has always been heavily concentrated in the October–March period. Last year demand extended contra-normally into April–June. If the same thing happens again this year then soybeean meal and cottonseed meal prices are likely to stay high. This would have the influence of keeping the C.C.C. cottonseed oil buying price down. If export soybean meal demand fades in the late winter or early spring then cottonseed meal could weaken. Each dollar a ton drop in cottonseed meal is equal to roughly an ⅛ cent a pound in cottonseed oil. $\left(\frac{940 \text{ meal}}{340 \text{ oil}} = 2.75\right.$ times as much oil as meal. Therefore, \$1/ton $\times \frac{275}{20} = 1.38$ cents per dollar a ton move either way). So if we have a spring time dip in meal of perhaps $5 to $6 a ton, this would force up the buying price considerably from *whatever it is basis current product price levels.*

We really have only a moderate clue as to what that buying is. In late July–early August, the C.C.C. bought 9 million pounds of cottonseed oil under last season's program. The price was 10.85 cents a pound Lubbock or about 1½ cents *higher* than current Lubbock values. Presumably, the price included some carrying charges—perhaps ½ cent per pound.

Meal is $3 to $7 a ton higher than it was at that time and hulls are also higher. Seed prices have been above the C.C.C. target price all season. However, since they were above target price most of last season apparently this is not an influence in U.S.D.A. calculations or at least not an important influence. Product yields from cottonseed crushing vary so greatly due to both area and processing method that it is extremely difficult to calculate mill margin in precisely the same way that the U.S.D.A. will. Unfortunately, it is necessary to do just what they do if one is going to pinpoint timing and price of C.C.C. purchases.

(Continued on page 16)

Eyes on Washington

(Continued from page 7)

About all one can do is make a stab at the price. Using solvent plant yields, a guess at what an allowable mill margin might be, and a guess at linters value; I calculate their buying level now at somewhere around 8⅞ Lubbock basis. Presumably, this (or the real price whatever it is) will advance slowly as the season progresses and some carrying charges are added. Also, it will advance somewhat if meal breaks and dip somewhat if meal strengthens further. There is, of course, the possibility that either exports or domestic consumption will greatly exceed expectations and C.C.C. will not have to buy. Otherwise, the key to the cottonseed oil buying price lies in considerable measure in cottonseed meal action. It seems unlikely that domestic consumption will exceed estimates greatly since (1) soybean oil production will be larger; (2) any major cottonseed oil increase would be at the expense of soybean oil; (3) this would probably require more weakness in cottonseed oil than C.C.C. will allow. There is not a lot of room for export improvement either with the possible exception of shipments to Northern Europe. In that area, the three apparently acceptable oils for top-line margarines are sunflower, groundnut, and cottonseed oil—not necessarily in any specific order. Both sunflower and groundnut prices have been under pressure due to speculation against the Argentine peso. Also, there appears to be large supplies of unsold old crop sunoil in Argentina with a new crop not many months away. Russia apparently has harvested another good sunflower crop (4¾ million metric tons?). Although some U.S.A. cottonseed oil will likely always be taken, the stage does not seem to be set this year for a very big movement. Northern European buying so far does not appear to have been better than just fair.

So we are back to C.C.C. again as the likely outlet for an indeterminate amount of oil at an undeterminable price. Unless I have grossly miscalculated the agency's buying price, I would think it possible that we might get some buying fairly soon and that this will support cottonseed oil prices. Keep your eyes on Washington.

James E. McHale
Merrill Lynch, Pierce, Fenner & Smith, Incorporated

Special Grant Research Program Instituted by Dairy Industry Board

The dairy industry has announced the establishment of a special grant research program pertaining to nutritional factors in the development of cardiovascular disease. Special attention will be directed toward the metabolic behavior of different dairy products or interactions among dairy product components with regard to lipid metabolism, atherosclerosis development, or thrombus formation in suitable experimental animals or in man. Studies concerning the nutritional value of milk fat or the factors modifying the proportions of the major or minor components of dairy foods influencing dairy fat metabolism may also be considered. Investigations which simultaneously provide fundamental information about dietary factors in cardiovascular disease and also provide guidance for the dairy industry are particularly encouraged. This program is to be administered by a Special Dairy Industry Board representing all segments of the dairy industry; scientific guidance will be provided by a committee of outstanding scientists from academic, government, and food industry laboratories. Interested investigators should apply to:

Dr. Merrill S. Read, Secretary
Scientific Advisory Committee
Special Dairy Industry Board
111 North Canal Street
Chicago 6, Illinois