

• Report on Fats and Oils

Jump a Jet

THE WORLD OILSEED product markets for the past several years have displayed two distinct tendencies, a strong bear market for oils and a strong bull market for meals. See Charts No. 1 and 2. The U.S.A. soybean season now drawing to a close has generally seen the two products influenced by these world trends—or causing the world trends to continue—it depends on your point of view. U.S.A. oil exports are going to fall widely short of early hopes,

U.S.A. meal exports are going to be widely above early guesses. Soybean oil thus continues increasingly harder to sell or give away at ever lower prices; soybean meal continues increasingly easy to sell at ever advancing prices. The combination of the two drive home an uncomfortable fact, that the greatly advertised latent world oil demand in response to higher real incomes was largely a mirage. The real latent world demand was for protein. Even when charitable agencies would give away the oil in undeveloped countries to anyone in dire enough straits to waste time standing in line for it, part of the oil appeared to drift into barter channels in exchange for other more desired goods.

Nowhere was the latent meat demand and consequently the fish meal and oilseed meal demand so close to the surface as in Western Europe. In that area high quality protein crops can not be grown because of climatic conditions. Imports into Western Europe of meal as meal, and meal as oilseeds, have shown a long term growth trend that in the last several years has been replaced by a huge upsurge in imports. Since three out of the last four winters in Western Europe have been much more severe than normal, and the following springs slow in arriving, there is probably an added weather influence. Separating the influence of weather from other factors is nearly impossible. However, we also know that livestock numbers have risen, that there has been a marked shift to non ruminant livestock which means more protein consumed per pound of meat produced and also means more rapidly and cheaply produced meat, that there have been strong tendencies both toward better feeding practices and more automatic feeding. That the non ruminant demand which is more level over the year than ruminant demand has come largely to meal and not beans is implied by the recent change in the meal export seasonal as compared to past years. (See charts.) A similar change has not been noted in the bean seasonal. In the U.S.A., all of the same shifts occurred some years ago and each caused substantial, rapid and continuing increases in protein utilization.

Currently most traders are trying desperately to assess European meal demand for the upcoming season. This increased emphasis on Europe is the result of the prospect of a fairly close balance between bean supply and demand. Even after a considerable break from the highs, beans are not exactly cheap. A considerable portion of the current premium over the loan is predicated on a continuation of the past history of expanding bean utilization in virtually every season when the beans were available, or alternatively a strong rally when bean supplies were higher but not enough to allow "normal" expansion. If prospects are that European meal demand, at least that portion that comes to the U.S., is not going to be much if any higher, then one wonders why the crush should expand. Certainly not because of oil. Carryovers of cottonseed oil plus soybean oil compared to consumption prospects and "normal" stocks will allow, as far as I can see, for no expansion of crush for oil purposes and really should call a reduction. Expansion this season seemed to be supported by general misconceptions of oil export potential plus the accumulation of a huge semi-speculative concentrated long position in both oils. A substantial portion of this position appears to be as yet unliquidated and

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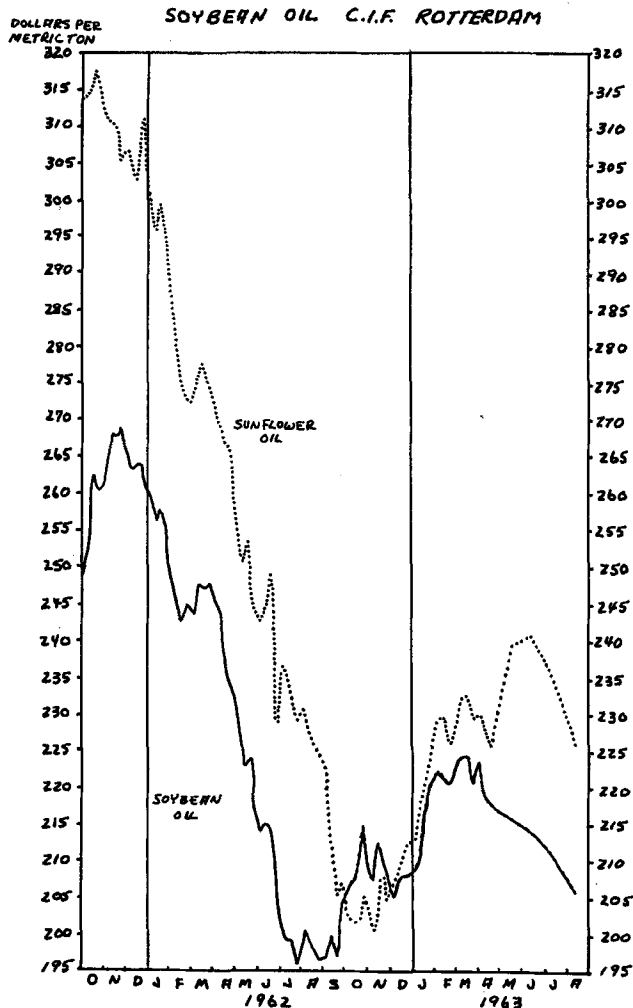
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ARGENTINE SUNFLOWER OIL AND U.S.



will probably have to be carried into the new crop. I think that we must assume that additional new concentrated buying of this size is unlikely in the new season. If correct, then who is going to step into the breach and absorb the oil from the expanded crush? Or an even more striking thought is, who will absorb the oil from the expanded crush plus the resale of the old long positions should they be liquidated. Surely not the U.S.D.A.—not at these prices. The only way the U.S.D.A. absorbs soybean oil in any quantity is by inventorying beans under loan, thus insulating the oil content from the market—but new crop beans are currently 20–25¢ a bushel over the loan. U.S.D.A. “take” prices for cottonseed oil are confused by lack of trade agreement as to the circumstances and prices required for U.S.D.A. action. I’m not even sure that the U.S.D.A. knows how the cottonseed oil program is really supposed to work.

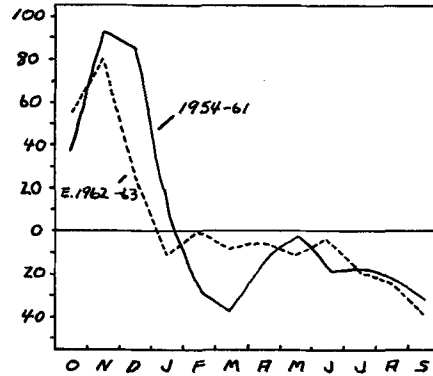
If oil then, shows little if any prospect of being able to carry the load of these bean prices, increasing share of the burden will fall to meal. Whether meal can accomplish this task depends in considerable measure on the European meal market and prospects for Peruvian fish meal. Argentine meal shipments to Europe are certain to be smaller.

Therefore, I feel than anyone with a really big stake in oil price analysis should convince his company superiors to send him to Europe on the first jet to make a personal survey of meal prospects there.

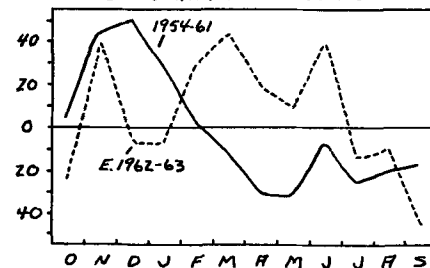
JAMES McHALE
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INDICES OF SEASONAL VARIATIONS 1953-1954 THROUGH 1960-1961 COMPARED WITH ESTIMATES FOR 1961-1962 AND 1962-1963

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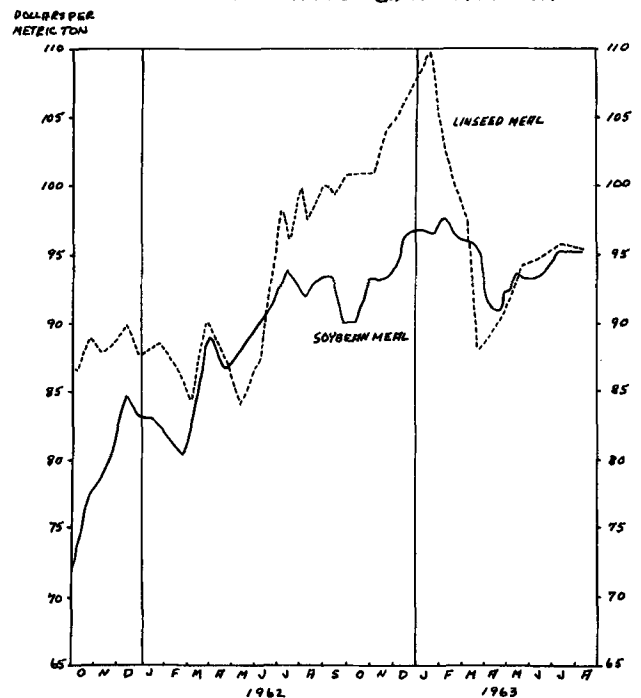


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