• *Fats and Oils Report*

Farm Sales Policy and Cotton Decline Should Soon Affect Soybean Crushing Volume

Acreage of Cotton Declines

The cotton industry has played an important role in the history and development of the USA ever since the discovery of the cotton gin in 1792. The cotton gin made available large quantities of cotton for the masses for both clothing and industrial purposes by cutting the expense and difficulty of separating the cottonseed from the cotton lint by hand. However, there was never a satisfactory machine discovered for picking cotton and with the rapid expansion of the rayon and other synthetic fiber industries the usage of cotton on a worldwide basis went into a downtrend. Whereas the animal consumption (domestic plus exports) during the 1920's and 1930's was 12 to 13 million bales per year the annual average is now only about 8.5 million bales per year. In addition, the carryover on August 1, was the highest on record at about 17 million bales. Thus, the US has about 2 years requirements of cotton even discounting the cotton grown last summer. For these reasons, the 1966 cotton program called for the reduction of 12.5 to 35% of each farms share of the 16.2 million acre allotment. Therefore the harvested acreage of only 9,595,000 acres this fall was the smallest since the 1870's. However, yields have boomed and the total cotton production in 1966 has been tentatively placed at slightly more than the 1945 and 1946 crops and was the third lowest crop on record since 1929.

The 1966 cottonseed production was estimated at only 3,964,000 short tons or 35.2% less than last year's outturn of 6,116,000 tons. Assuming oil and meal yields which are similar to last season's, this year's cottonseed crop would produce about 640 million pounds less cottonseed oil and about 908,000 fewer short tons of cottonseed meal.

Soybean Crush Could Compensate

The oil deficiency is the equivalent of the amount of oil obtained from about 58 million bushels of soybeans and the meal deficiency is the equivalent of the amount of meal obtained from about 38 million bushels of soybeans. Therefore, on an oil basis one could assume that the 1966–67 crush of soybeans must be in the area of 595 million bushels (537 plus 58) this season. This is particularly true when one considers that the probable increases in the production of other food fats and oils should be less than 200 million pounds or about what the average annual increment in domestic disappearance of food fats and oils is. However, there could be a further cutback in exports of food fats and oils this season and it is probably for this reason that the USDA is forecasting crushings at 585 million bushels for the season rather than 595 million. The further cutbacks in food fats and oils exports may not be too severe since early refined soybean oil sales are good and the government has its usual PL 480 and foreign donation commitments to meet. The sharpest cutback will be in cottonseed oil shipments but larger exports of lard are expected.

Finally, the total exports of food fats and oils (not including oil equivalent of soybean exports) last season fell by more than a billion pounds from the 1964–65 season to their lowest levels in more than a decade so that another sharp decline which could offset the cottonseed oil deficiency of 640 million pounds seems highly improbable. If we assume that exports of all food fats and oils decline by less than 250 million pounds this season the cottonseed oil deficiency becomes about 400 million pounds or more. At an average yield of 10.8 pounds per bushel this would require a 37 million bushel increase in the soybean crush. This would result in a crush of 575 million bushels but what is really disturbing about a projection like this is the fact that the crush for the first four months of this season has been a severe disappointment and is not only running behind a rate of 595 or 585 but the current rate doesn't even imply a 575 crush.

1965-66 Crush Compared

The Census Bureau September-October crush of 79.1 million bushels compares favorably with the September-October 1965 crush of 74.5 million but trade estimates of the November crush are running about 1 million bushels behind last year and early indications for December are also for a crush of about 1 million bushels less than last year. Thus, crushings for the first four months of the season will only be about 3 or 4 million bushels greater than last season although the USDA projection of a 585 crush implies an increase of 48 million for the season or 44 million for the next eight months.

The exact reasons for the slow start other than the lack of oil exports are hard to pinpoint. One of the reasons has been the strong holding policy of producers which has restricted crushers from building inventories and therefore encouraged them to be reluctant sellers of products. At the same time consumers of the products have been operating on a hand-to-mouth basis which has kept unusual strength from developing in the products. Thus, the crushers' profit margin has suffered from the strength in soybean prices while consumers resist higher product prices. Thus, the combination of slow farm sales and processor profit which is less than last year has restricted the early crushing rate. The average crushing profit for November, as published in the "Grain Market News" by the USDA was only 16 cents per bushel as compared to 41 cents for November 1965. The farmer selling has shown very little sign of picking up and if farmers should choose to continue to hold tight after January 1, the beginning of a new tax year, they will further restrict any expansion in crushings and will prevent consumption from taking place which otherwise would have taken place.

On the other hand, a sharp advance in cash meal prices during the first half of December while soybean and soybean oil prices held steady have resulted in a good improvement in crushing profits so that the incentive for an improved crush is gaining momentum if the soybeans are made available. This brings to light the question of whether or not the crush has ever been only fair during the first four months and still ended up the season with sharp gains over the previous season. In the 1954–55 crop year the September–December crush was 2 million bushels less than the previous year but the full season crush was 24 million bushels above the previous year. Similar situations existed in the 1957–58 and 1961–62 crop years when the first four months were 7 million ahead on January 1 but finally 37 million ahead and 1 million behind but finally 25 million ahead, respectively. The interesting factor in all three of these seasons was the fact that they were all years of a strong early season farmer holding movement. On Jan. 1, 1955 there was 43.5% of the previous falls crop remaining on farms. On Jan. 1, 1958 there was 39.3% and on Jan. 1, 1962 there was 38% of the previous crop remaining. These were the three largest percentages of the crop remaining on a January 1st in the past 14 years. It would appear that in each case the farmer holding restricted the first four months crush while the heavy farm sales after January 1, allowed the sharp expansion in crushing.

Conclusion

In conclusion, the rate of farm sales over the nearterm will play a very major role in determining this seasons soybean crushings. As pointed out the major statistics which are the result of the shortfall in cottonseed production this fall imply that the potential for a 30 to 40 million bushel increase in soybean crushings this season is present.

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