

Fats & Oils Outlook



David M. Bartholomew, Manager, Oilseeds Dept., Commodity Division, Merrill Lynch Pierce Fenner & Smith Inc., Chicago

Crop condition continues to improve. Midwest states have had beneficial moisture to keep the crop advancing. The South has had rain in some of the dry areas, though some regions are still very dry. August weather is extremely critical for the soybean plant. During this month, blossoms become seed pods in which beans develop. If moisture and temperature are reasonable, the yield will be good even if conditions were not so favorable earlier. Last year was a classic example of this phenomenon.

On August 10, USDA reported their first production estimate for 1978. This was based on condition observations on August 1. It is not — repeat not — an accurate assessment of yield calculation. Until pods are formed and seeds develop, it is impossible to make precise judgment on yield probabilities. All that can be done is to observe plant growth, density, infestation of weeds pests and diseases, etc. Then from this data, mathematical probabilities are determined based on trend line averages and econometric formulas.

There was a slight upward revision in the previous acreage estimate. This was a mild surprise, as most observers thought it would be reduced. The yield estimate of 27.9 was probably conservative and could be expected to be larger in the September report — probably to 28.5 bushels per acre.

But until then, current figures will have to stand, and the production estimate of 1,765 million bushels is not bearish. It appears likely that consumption will reach that level, so that nothing is added to carryover. Then, the possibility that something could keep the crop from being so large as the August estimate must be considered. That would be bullish indeed.

One factor is likely to produce speculative selling in the weeks ahead. There is increasing expectation that farmers will choose to sell soybeans and store corn if price relationships continue at present levels until harvest time. The reasoning is that corn is about at the government floor price or lower, while soybeans are considerably above it. This assumes that farmers will have to sell one or the other, either because of a need for cash, or because of storage space limitations.

It is our opinion, however, that farmer selling of soybeans will be light at current or lower prices for at least two reasons. First, we doubt that there will be a significant squeeze on storage space. During the nine months from October through June, farmers have taken advantage of government loan availability to construct 491 million bushels of storage space (see Table 1). No doubt additional space has been built with other funds. Second, there will not be the anticipated need for cash from sale of crops, because new legislation has been approved which will provide \$4,000 million to farmers in need of production financing and refinancing existing debt.

Also providing an undertone of support is apprehension about possible early frost on a late maturing crop in the Midwest. There have been numerous times in past weeks when new low temperatures were established, taking out records of over 100 years standing. Some frost has recently been experienced in the Dakotas and Canadian provinces to the north. It is too early to say the price trend is going up based on this potentially very bullish situation, but it definitely is a valid reason not to be too bearish. Our private weather forecaster and others have predicted frost

earlier than normal, and each time another abnormally cold front passes through, that forecast gains credibility.

Finally, looking into the long range future, it is important — in fact, extremely critical — to consider the implications of potential soybean production in Brazil. Government planning authorities project a normal increase of about one million tons (37 million bushels) for a total of 14 million tons (514 million bushels). The 1978 crop would have reached 13 million tons except for the drought.

Maybe it will not be possible to produce more than 9 million tons (330 million bushels), which is what was realized this year. Maybe much of the recently cleared land can no longer receive "normal" rainfall. A very real possibility exists that the clearing of many hundreds of thousands of acres of forest land has permanently distorted previous weather patterns. The area under question is mostly in Western Parana. That area has had two consecutive years of drought, with 1978 being more serious and widespread than 1977.

We have been charting rainfall data in all the principal soybean producing areas of Brazil and Argentina. During the critical pod-filling time of Jan./March 1978, an important segment of Brazil had only about 50% of normal moisture, while other areas of Brazil and Argentina received about the usual amounts. But for the latest four months — April through July — much of both Brazil and Argentina have had only 30-50% of normal, with some locations not over 20%.

TABLE I

Storage Capacity in Soybean States

April 1, 1978
(million bushels)

	On farm	Off farm	Total
AL	49.0	38.1	87.2
AK	56.0	225.9	281.9
DE	3.7	17.9	21.5
FL	17.9	7.9	25.8
GA	105.0	59.6	164.8
IL	1,153.8	787.2	1,941.0
IN	506.9	283.0	789.6
IA	1,492.5	635.0	2,127.4
KS	370.1	830.6	1,200.7
KY	75.2	48.7	123.9
LA	41.3	133.0	174.3
MD	25.5	42.2	67.7
MI	188.4	96.7	285.1
MN	1,191.8	367.9	1,559.7
MS	50.2	72.2	122.4
MO	346.5	210.4	556.8
NE	832.8	487.9	1,320.7
NJ	8.2	2.2	10.4
NY	63.4	72.1	135.4
NC	126.1	70.2	196.3
ND	691.3	141.8	833.1
OH	291.7	244.5	536.3
OK	80.8	205.0	285.8
PA	135.2	30.1	165.2
SC	39.5	33.8	73.3
SD	442.6	85.0	527.7
TN	65.9	48.0	113.9
TX	263.8	837.8	1,101.7
VA	51.2	30.0	81.2
WI	437.5	129.7	567.1
U.S. total	9,923.6	6,967.1	16,910.6

That's not too important if conditions improve for the planting and growing season of October through February. But time is running out. October is not far away, so concern begins to mount. There were some good rains in the last half of July which raised hopes that the drought had finally been broken. Now, however, that encouragement has been dashed by a return to dry weather in the past two weeks. Maybe moisture will return in time to make a good crop. But until it does, there must be apprehension that Brazil can do no better in 1979, and perhaps Argentina will not be able to help make up part of the difference as it did in 1978.

August 15, 1978

U.S. soy oil production up 18%

Production of crude soybean oil in the United States during the first half of 1978 was 18% higher than the same period the previous year, according to seasonally adjusted figures from the U.S. Department of Commerce.

Production for the first six months of 1978 was 5,182.5 million pounds, compared to 4,405.7 million pounds in 1977. Cottonseed oil products rose 16% to 679.7 million pounds from 585.7 million pounds; peanut oil production fell by more than 50% to 80.4 million pounds from 170.6 million pounds; and corn oil production rose 8% to 350.8 million pounds from 324.1 million pounds.

Nonseasonally adjusted production statistics for the first half of 1978 (with 1977 figures in parentheses) were: soy, 5,239.5 million pounds (4,462.4); cottonseed, 755.6 million pounds (662.5); peanut, 84.4 million pounds (178.5); and corn, 355.6 million pounds (327.9).

NSPA, ASA develop new policies

The National Soybean Processors Association (NSPA) has approved six proposals designed to improve and increase U.S. soybean meal exports. The American Soybean Association has adopted a resolution calling for mandatory source labeling on food products in decreasing order of predominance.

The NSPA plan calls for new NSPA export meal trading rules to establish minimum standards for blending and sampling at domestic ports; amending present trading rules to permit buyers of barge meal to reject inferior quality and to improve sampling; improving sampling and permitting composite sampling at foreign ports; permitting tendering of pellets in standard contracts; encouraging further research into meal quality; providing more information about soybean meal export trade; and working to eliminate Brazilian export subsidy programs.

The ASA resolution was approved during that group's 58th National Convention, which attracted approximately 2,000 persons to Chicago during mid-August. Basically, it opposes optional listing of oils that may or may not be in a foodstuff and asks that labels "list in descending order the types of vegetable oils contained" in the product.

John Read, chairman of NSPA, spoke at the ASA meeting on "Marketing and Private Industry," urging soybean farmers to produce enough soybeans to meet market demands and to encourage government policy that would enhance trade, noting that Brazilian soybean meal exports are exceeding those of the United States.

Brian Rutherford, chief buyer of BOCM Silcock, a major British feed manufacturer, also appeared on the ASA program, stressing the importance of the quality of imports. South American pellet exports are attractive to Europeans because of the uniform quality, he said. Too often American meal gets settled, and, under present sampling methods, a buyer gets lower quality meal than he needs. The NSPA proposals to permit pellet trading as a standard

option and to allow composite sampling in each hold of meal would meet some of Rutherford's criticisms.

Rutherford also stressed the importance of the European market to American soybean farmers, noting the European Economic Community produced 64.5 million tons of compound animal feed in 1976 compared to 56.7 million tons in the United States.

JULY 1978

Tall Oil Fatty Acids & Statistics

	2% & OVER ROSIN CONTENT		LESS THAN 2% ROSIN CONTENT	
	JULY	Percent change from JUNE 1978	JULY	Percent change from JUNE 1978
Stock on Hand July 1, 1978	8,872	- 28.8	10,630	- 6.6
Production	17,889	+ 11.1	11,991	- 32.7
Purchases & Receipts	0		0	-
Disposition				
Domestic	13,517	- 17.7	10,861	- 34.8
Export	1,552	- 52.4	2,021	- 15.5
Total Disposition	15,069	- 23.5	12,882	- 32.3
Total Stock July 31, 1978	11,892	+ 31.8	9,339	- 6.5

* Net - Less purchases & receipts.
 Definition: Fatty acids fractionated from crude tall oil having a minimum of 90% fatty acids, not including rosin acids. Primary fractions containing less than 90% fatty acids are classified as distilled tall oils.

Acids in thousand pounds

Month	Issued	NUMBER OF MANUFACTURERS REPORTING	FINISHED GOODS INVENTORIES (F) ON 6/30	PRODUCTION (A)	RECEIPTS (B)	DISPOSITION:			TOTAL DISPOSITION	FINISHED GOODS INVENTORIES (F) ON 7/31
						Native Consumption (C)	Domestic Shipments (D)	Shipments to Export (E)		
July 1978	Sept. 8, 1978	16								

Saturated

SP - Single Pressed; DP - Double Pressed; TP - Triple Pressed

FRACTION	DESCRIPTION	7/78	6/78	5/78	4/78	DISPOSITION			TOTAL DISPOSITION	7/78
						Native Consumption (C)	Domestic Shipments (D)	Shipments to Export (E)		
HYDROGENATED VEGETABLE ACIDS	STEARIC ACID (40-50% Stearic Content) (1)	7,016	9,406	1,022	2,648	SP 499 DP 2,884 TP 2,352	75	8,061	9,383	
	60 C maximum liter & minimum I.V. 5 (2a)	6,251	6,807	---	42	6,951	141	7,134	5,924	
	57 C minimum liter & maximum I.V. under 5 (2b)	5,654	11,908	1,722	5,419	8,030	81	13,530	5,764	
	Minimum Stearic Content of 70% (2c)	1,765	2,276	216	250	1,613	2	1,865	2,392	
HYDROGENATED FISH & MARINE MAMMAL fatty acids (4)	HIGH PALMITIC (Over 60% palmitic I.V. maximum 12) (3)	1,754	2,010	---	600	468	183	1,251	2,513	
		609	864	---	282	517	---	799	674	
FRACTION: SATURATED FATTY ACIDS	LAURIC-TYPE ACIDS (I.V. minimum 5-Sapon val. minimum 245- including coconut, palm kernel, babassu) (5)	5,655	5,901	---	2,304	3,186	25	5,515	6,041	
	C ₁₂ or lower, including capric (6a)	536	1,034	---	6	940	1	947	623	
	Lauric and/or myristic content of 95% or more (6b)	2,863	394	---	845	802	47	1,494	1,763	
TOTAL SATURATED FATTY ACIDS		32,113	40,600	2,960	12,396	27,645	555	40,596	35,077	

Unsaturated

ND - Not distilled; SD - Single distilled; MD - Multiple distilled

FRACTION	DESCRIPTION	7/78	6/78	5/78	4/78	DISPOSITION			TOTAL DISPOSITION	7/78
						Native Consumption (C)	Domestic Shipments (D)	Shipments to Export (E)		
FRACTION: UNSATURATED FATTY ACIDS	OLEIC ACID (rad oil) (7)	12,843	11,407	572	6,335	ND 583 SD 4,620 MD 1,301	500	13,139	11,883	
	ANIMAL FATTY ACIDS other than oleic (I.V. 38 to 80) (8)	6,040	8,768	146	2,416	7,565	---	9,981	4,973	
FRACTION: UNSATURATED FATTY ACIDS	VEGETABLE OR MARINE FATTY ACIDS (I.V. maximum 115) (9)	29	3	---	---	3	---	3	29	
	UNSATURATED FATTY ACIDS (I.V. 116 to 130) (10)	2,213	4,152	---	502	2,908	821	4,231	2,134	
FRACTION: UNSATURATED FATTY ACIDS	UNSATURATED FATTY ACIDS (I.V. over 130) (11)	2,224	1,235	---	33	1,148	42	1,223	2,236	
	TOTAL UNSATURATED FATTY ACIDS	23,349	25,565	718	9,286	17,928	1,363	28,577	21,055	
TOTAL ALL FATTY ACIDS SATURATED & UNSATURATED		55,462	66,165	3,678	21,682	45,573	1,918	69,173	56,132	