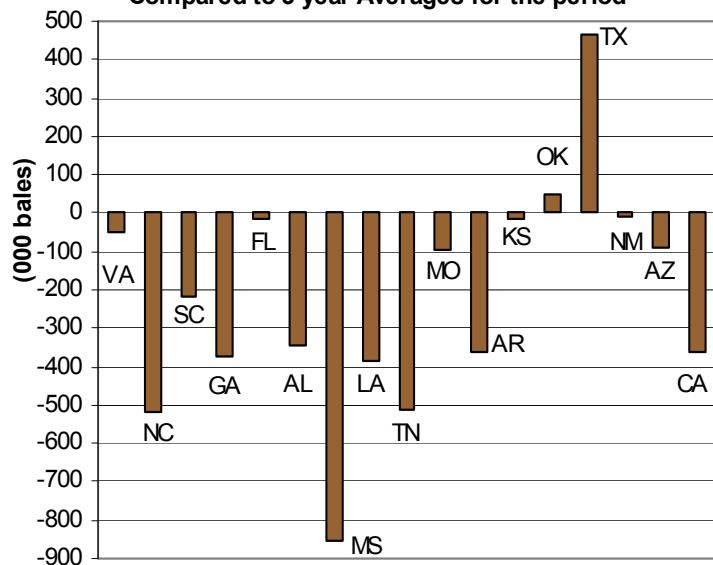


USDA'S PRODUCTION REPORT: USDA's 2007 Annual Crop Summary, raised all cotton production by a mere 46,500 bales to 19.033 million bales. This is 59,000 bales below Informa's estimate released last week. The most significant difference between the reports was a higher Pima production outlook by Informa. USDA raised cottonseed production to 6.596 million tons, which is an increase of 15,000 tons compared to last month. This still falls 18,000 tons short of Informa's cottonseed forecast.

It is interesting to note that with Texas production pegged at 2.889 million tons, which makes up over 40% of total US cottonseed production. This result is only 50,000 tons shy of the record large 2004 output, but still manages to exceed the 5-year average by over 600,000 tons. There is still potential for Texas production to grow as ginning will continue for the next several weeks.

The Cotton Ginning report as of January 1, released today totaled 15.715 million bales. This is an increase of over 1.2 million bales since the last report before the holidays, and over half of the increase came from Texas. Ginning progress compared to the 3-year average is off by over 19% due to fewer cotton acres planted. Except Texas, most states will remain below the 3-year average level.

Running Bales Ginned Totals as of 1/01/08
Compared to 3-year Averages for the period



COTTONSEED MARKET: Prices have surged higher, as buyers outnumber sellers and trade activity has been limited in all markets. The stand-off situation between buyers and sellers has intensified given the price strength. Price ranges have climbed \$40-50/ton higher compared to last month. Gins remain cautious about selling out as they may be leaving money on the table. The lack of trade is also tied to the limited amount of supply available to the market. These historically strong price levels are anticipated to keep dairy buyers only in the spot market and it appears prices will need to remain strong in order to limit demand.

There has been an increase in new crop trading driven by expectations of another reduction to cotton plantings this spring. Informa's early acreage estimate puts cotton area just over 9 million

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acres. Meanwhile, grain future prices have rallied making new contract highs and helping to fuel price increases. During the first half of January, as-ginned supplies have climbed over \$20/ton higher. Prices on cottonseed appear to have reached a new plateau and will likely result in shifts in usage as not all end users will be willing to pay the higher prices.

COTTONSEED BALANCE SHEET: The January USDA Oil Crops Report showed 2007/08 production up 15,000 tons, as noted in the Production report. The largest change from last month was the 250,000 ton increase to crush raising the total to 2.650 million tons, only 30,000 tons shy of last year's level. Compared to the 5-year average crush, it is only 100,000-tons under, while cottonseed production is more than 700,000 tons below the average. Making up the difference are below average totals in the export, and feed, seed and other category. The feed, seed and other category was lowered 235,000 tons. This makes the amount fed the lowest since the 2003/04 crop year when the category totaled 3.5 million tons.

This large crush appears to be a tall order for the industry to attain. According to US Census, accumulative crush from August-November is roughly 820,000 tons. If the same rate of crush continues for the balance of the crop year, the crush would fall short at 2.460 million tons. The crush activity will need to match the 5-year average for the next four months for the forecasted crush to be achieved. During the first four months of the season, the crush is behind the average by more than 16,000 tons. There appears to be enough seed for the industry to reach the lofty number. The net value of cottonseed for Mid-South crushers continues to make new historical highs. While this all looks favorable on paper, end user demand for cottonseed oil needs to start booking. Cottonseed oil export, for the first 4 months of the season, has been a bullish factor and likely cause for higher expectations as it is 70% above the year ago.

Informa Economics balance sheet compared to last month had a 26,000-ton production increase due to higher than earlier anticipated yields. The crush was raised 50,000 tons, as vegetable oil markets are strong and economic conditions are the best they have been for oil mills in the past several years. Crush rates for the next couple months and the willingness of end users to pay the higher prices will be necessary for the crush to be achieved. Exports are unchanged, but may have to be adjusted lower if prices continue to climb, which may cause foreign interest to leave the market. This year's export results August through November is only 2% below last year's pace. A larger reduction in export demand is anticipated for the remaining months of the year as prices have shot higher. The feed, seed, and other category was lowered 20,000 tons. The paring back of demand is based on a bearish outlook for dairy usage appears due to lower class III milk prices.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	USDA	Jan /	Jan /	Jan /
	2004/05	2005/06	USDA	USDA	Informa
			2006/07E	2007/08F	2007/08F
Beg. Stocks	421	592	602	489	489
Imports	1	0	0	0	0
Production	8242	8172	7348	6596	6614
Total Supply	8664	8764	7950	7085	7103
Crush	2923	3011	2680	2650	2525
Exports	379	523	616	300	350
Feed, Seed, & "Other"	4770	4629	4165	3735	3820
Total Disappearance	8072	8163	7461	6685	6695
End Stocks	592	602	489	400	408

COTTONSEED fob points				
<u>PRICES 1-18-08</u>		<u>Trade</u>		<u>Yr Ago</u>
SOUTHEAST		(\$/ton)		
No. Carolina	Spot	268o		126o
	JFM	265o		129o
So. Carolina	Spot	266o		129o
Georgia So.	Spot	255b / 265o		105t
	JFM	265o		133
MID-SOUTH		(\$/ton)		
Memphis No.	Spot	275o		130t
	Fb-Mr	273b		135o
	Fb-Ag	270t		140o
(as ginned)	2008	221t		n/a
MO Bootheel	Fb-Mr	270t		132t
	Ja-Ag	280o		138t
(as ginned)	2008	223t		n/a
SOUTHWEST		(\$/ton)		
West Texas	Spot	250-255o		155o
	JFM	253t		157-160o
(as ginned)	OND	232.50o / 230t		n/a
FAR WEST		(\$/ton)		
Arizona	Spot	275b / 280o / 277t		205t
(as ginned)	OND	252t		n/a
Cal Corc. N & Stockton	Spot	340t		208-210o
	JFM	340t		215-222o
	Fb-Jn	345o / 340t		n/a
SPECIALY PROCESSED PRODUCTS (\$/TON)				
Easi Flo[™]	Courtland, AL	Spot	327o	166o
FuzZpellets[™]	Weldon, NC	Spot	298o	170o
Cotton Flo[™]	Weldon, NC	Spot	298o	170o
b = bid o = offer t = trade n/a = not available				

COTTONSEED dlvd. points					
<u>PRICES 1-18-08</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	334o			
	Ja-Ag	339o			
SE Pennsylvania	Spot	317o			
	Ja-Ag	322o			
NE Ohio	Spot	328o			
	Ja-Ag	333o			
MIDWEST		(\$/ton)			
MI (Grand Rpds.)	Spot	330o			
	Ja-Ag	335o			
MN (Rochester)	Spot		319-322o	324-329o	
	JFM		327o	332o	
WI (Madison)	Spot		317o	322-325o	
	JFM		322o	324-327o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot		245o		
	Fb-Ag		270o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	JFM				No quote
	Spot				No quote
California	JFM				350b 355o
	Ja-Sp				360o
Idaho (UP)	OND				310o
	JFM				358o
WA/OR (BN)	Ja-Sp				366t
b = bid o = offer t = trade					

COTTONSEED DAIRY BUYER PROFILES

GROUP 1: Base demand group that will formulate cottonseed in at a 4-6 lb. inclusion rate regardless of price.

GROUP 2: Formulates at a 2-3 lb. inclusion rate regardless of price, and would like to feed at the 4-6 lb. level. However, the last 2-4 lb. is price sensitive.

GROUP 3: This is the major swing factor for cottonseed demand. They enter the market when the price is right or other factors prevail (i.e. short hay supplies), and will subsequently exit when other opportunities exist.

GROUP 4: This group does not have access to, or the ability to incorporate whole cottonseed into their rations. However over time, dairymen in this group will migrate up into Groups 1, 2 or 3.

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