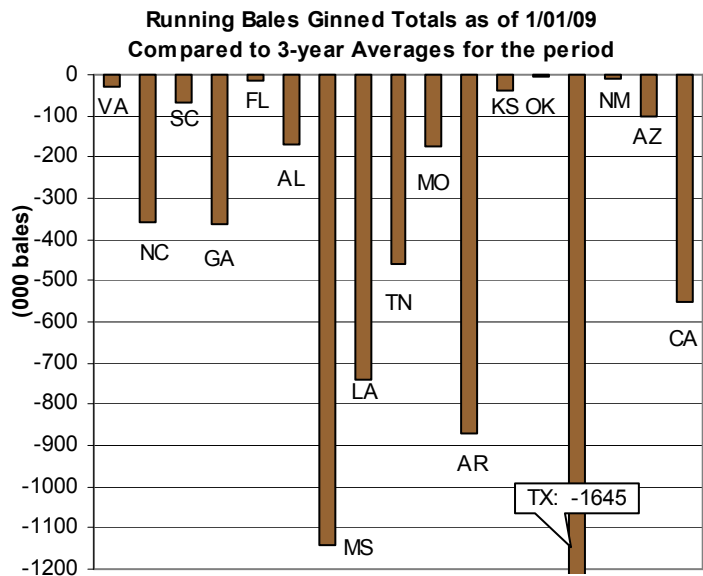


**USDA REPORTS:** The January Crop Production report had an all cotton total of 13.04 million bales, which was down 57,000 bales from the last report and was somewhat larger than trade expectations. Compared to a year ago, production is down 32%.

The running-ginned total as of January 1st was 11.6 million bales, which was an increase of over a million bales since the last report. Compared to the 3-year average, progress is behind by nearly 7 million bales. The state furthest behind the average is Texas and it will continue to be "off the chart". Compared to the last report, Texas slid 160,000 bales further behind the average, which was the most compared to all other states.



**COTTONSEED MARKET:** Compared to a month ago, most markets have nearby offers at higher levels, but only limited trading is taking place on small quantities. The recent slide in grain futures following the release of the USDA production report combined with negative economic news appears to be taking its toll on buyers. It is questionable if end users will be able to support current price levels, much less the typical seasonal increase in prices as the year progresses. A lackluster demand outlook from dairies and crushers is a concern for the market and this could prevent cottonseed from having the price strength it experienced a year ago. Meanwhile, sellers are voicing concerns about receivables.

The issue of lackluster dairy demand was mentioned by most merchants this week. Watching how low milk prices can go was a popular activity this week. Current cottonseed price levels are well above what dairies can afford and those that bought supplies early are pushing back on shipments. There are concerns that inevitably the slower shipping could change into slower payments and accounts receivable issues. If dairies continue to push back on shipments, it is possible that there will be a glut of supplies on the market this spring and this could result in a downward price correction in order to clean up the market.

Market conditions for crushers have worsened as cottonseed oil buying interest remains anemic and sellers are willing to trade below soybean oil levels. The net value for crushers has shifted

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lower as lint values have eroded due the lack of industrial demand related to the downturn in the economy. Processors are not foreseeing a light at the end of the tunnel anytime soon. At this point, the market is not providing incentives for crushers to buy any more seed than what they already own.

Southeast and Mid-South markets for the nearby are holding steady, but Mid-South forward offers developed a softer tone as the week progressed. Price levels remain above what resellers or end users would be willing to pay. Some veteran merchants are calling this the worse situation for dairy demand in the past 20-plus years. As far as oil mills are concerned, prices are well above their breakevens at this point and there doesn't seem to be reason to think they would be buyers.

West Texas and Far West markets are in a gridlock situation with sellers not willing to lower offers and only limited buyers willing to pay. In West Texas, resellers were anticipating a break in prices after the holidays, which has not yet developed. With some gins still running, end users are likely still pulling from contracted supplies, but eventually another round of buying is anticipated. In California, narrow to negative margins have kept dairies out of the market. Merchants have mentioned that typically January is a slow month for sales.

**COTTONSEED BALANCE SHEET:** USDA's balance sheet had production revised down by 199,000 tons, which was larger than anticipated. The main drop in production came from Texas due to larger than earlier anticipated abandonment. Nationwide, USDA's numbers suggest that this year's cottonseed yields are below recent averages. On the demand side, a 200,000-ton reduction was made to the crush.

Informa's balance sheet had a 10,000 ton drop in imports and production was lowered by 169,000 tons based off of lower USDA yield data. Production still exceeds USDA's estimate, as there is still potential for some upward adjustments. The crush was lowered 55,000 tons on confirmation that the Greenwood Mississippi plant will crush out in March. Buyers from Asia and south of the boarder are not taking as much as anticipated. Exports through November for this crop year are less than half compared to the pace a year ago, and it appears demand will continue to be weak. Total disappearance dropped 75,000 tons, to a level not seen since the 1986/87 crop year. The Feed, Seed and Other category is unchanged for now, but if economic conditions don't improve for dairies, then this category will need to be adjusted lowers. Even with ending stocks lowered 99,000 tons, merchants are not seeing strong fundamentals to support a price rally. Total disappearance was lowered 81,000 tons. Ending stocks were raised 4,000 tons making the stocks to use ratio over 11%, a level not seen since the 1990-91 crop year.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	USDA	Jan. /	Jan. /	Jan. /
	2005/06	2006/07	USDA	USDA	Informa
			2007/08E	2008/09F	2008/09F
Beg. Stocks	592	602	489	643	643
Imports	0	0	3	50	5
Production	8172	7348	6589	4429	4486
<b>Total Supply</b>	<b>8764</b>	<b>7950</b>	<b>7080</b>	<b>5122</b>	<b>5134</b>
Crush	3010	2680	2706	2400	2420
Exports	523	616	599	350	200
Feed, Seed, & "Other"	4630	4165	3132	2043	2080
<b>Total Disappearance</b>	<b>8163</b>	<b>7461</b>	<b>6437</b>	<b>4793</b>	<b>4700</b>
End Stocks	602	489	643	329	434

<b>COTTONSEED fob points</b>					
<b><u>PRICES 01-16-09</u></b>		<b><u>Bid</u></b>	<b><u>Offer</u></b>	<b><u>Trade</u></b>	<b><u>Yr Ago</u></b>
<b>SOUTHEAST</b>		<b>(\$/ton)</b>			
No. Carolina	Spot	195b / 204o			268o
So. Carolina	Spot	195b / 203o			266o
Georgia So.	Spot	185-200b / 208o			265o
Alabama No.	Spot	220o			n/a
<b>MID-SOUTH</b>		<b>(\$/ton)</b>			
Memphis No.	Spot	230-232o / 230t			275t
	JFM	230o			273b
	Ja-Ag	226o			270t
MO Bootheel	Spot	230o			n/a
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
West Texas	Spot	245-250o			250-255o
	JFM	253o			253t
	Ja-Sp	253b / 258-260o			n/a
<b>FAR WEST</b>		<b>(\$/ton)</b>			
Arizona	Spot	250o / 250t			277t
Cal Corc. N & Stockton	Spot	305-o / 300-305t			340t
	JFM	305o			340t
	Ja-Sp	320o			340o
<b>SPECIALLY PROCESSED PRODUCTS (\$/TON)</b>					
<i>Easi Flo<sup>tm</sup></i>	Courtland, AL	Ja-Ag	265o		327o
<i>FuzZpellets<sup>tm</sup></i>	Weldon, NC	Spot	255o		298o
<i>Cotton Flo<sup>tm</sup></i>	Weldon, NC	Spot	255o		298o
b = bid    o = offer    t = trade    n/a = not available					

<b>COTTONSEED dlvd. points</b>					
<b><u>PRICES 01-16-09</u></b>		<b><u>Dump</u></b>	<b><u>Hopper</u></b>	<b><u>Live Floor</u></b>	<b><u>Rail</u></b>
<b>NORTHEAST</b>		<b>(\$/ton)</b>			
<b>W. New York</b>	Spot	252o			
	Ja-Ag	262			
<b>SE Pennsylvania</b>	Spot	238o			
	Ja-Ag	248o			
<b>NE Ohio</b>	Spot	252o			
	Ja-Ag	262o			
<b>MIDWEST</b>		<b>(\$/ton)</b>			
<b>MI (Grand Rpsds.)</b>	Spot	262o			
	Ja-Ag	272o			
<b>MN (Rochester)</b>	Spot		275-279o	283-286o	
	Ja-Ag		285-290o	293-297o	
<b>WI (Madison)</b>	Spot		272-274o	280-282o	
	Ja-Ag		280-284o	290-292o	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
<b>Texas / Dublin- Stephenville</b>	Spot		265o		
	Ja-Ag		290o		
<b>RAIL - FOB TRACK POINTS</b>		<b>(\$/ton)</b>			
<b>Laredo TX (Mid-Bridge)</b>	Spot				278t
	Fb-Mr				280o
<b>California</b>	Spot				n/a
<b>Idaho (UP)</b>	Spot				305t
	Ja-Sp				315o
<b>WA/OR (BN)</b>	Spot				315o
	Ja-Sp				325o
<b>b = bid   o = offer   t = trade</b>					

**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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