

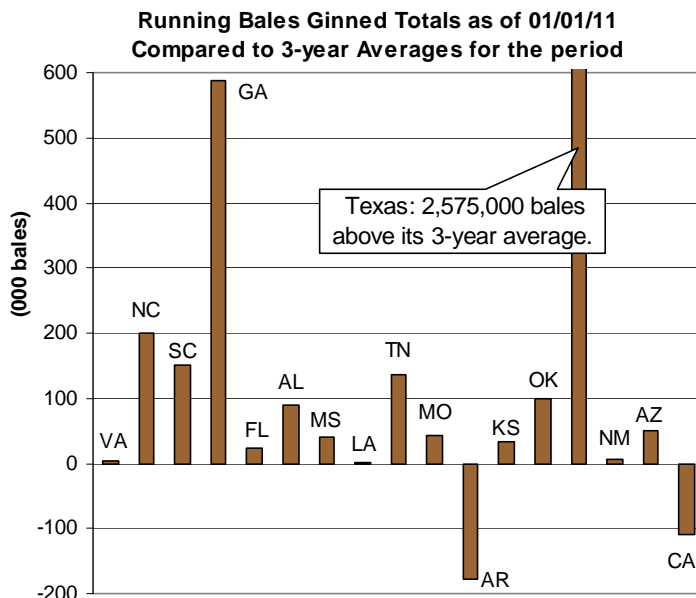
GINNING REPORT: The running-bales ginned total at the beginning of the year was 16.4 million bales. This is an increase of 1.3 million bales compared to the previous report accounting for the first half of December. The total is 29% higher than the 3-year average for this time of year, which will drift lower as ginning in the past couple years were late. This is the first report since October where the increase of bales ginned for Texas was below a million bales. During the last two weeks of December Texas had a running-bales ginned total of 842,750 bales. The pace of ginning will continue to slow, yet over a million bales of cotton have yet to be ginned.

COTTONSEED MARKET: Cottonseed prices had a modest reaction to the futures rally in Chicago following the release of USDA's production and ending stocks reports. Buying interest was slow coming around to higher price ideas. Meanwhile, those that have supplies to sell are willing to wait and see how high prices will rise before getting serious about selling.

In the California market prices climbed following the price strength in West Texas. Resellers were seen as the most serious buyers in the market following the report. By the end of the week there were some end users showing interest in booking forward supplies, which hasn't been the case for the past few months. It appears that some are trying to get on board with cottonseed before other ingredient prices climb higher.

Nearby West Texas offers climbed over \$30/ton since our last installment, and as in the past, local end users are not active buyers. Forward offers were raised as well but several dollars less than the spot market. There was some end user buying interest that came in and took on ownership through September. Compared to the strength in Chicago futures, forward quotes could be a reasonable price for end users.

In the Mid-South trading activity has been light, yet prices have firmed. Gins are not aggressive sellers for the nearby or forward positions. They are seeing the possibility for additional upward price momentum and are willing to ride things out in hopes of getting more for the seed they have yet to



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sell. Oil mills in the region continue to pay the going nearby price, which provides price support. It appears that crushing economics will continue to support cottonseed prices. Seed quality has been good thanks to dry harvest and ginning conditions and this will keep supplies in good condition for crushing or sale into the feed market later in the year. Such a situation should be favorable for oil mills that have a large cottonseed ownership position.

In the Southeast prices have climbed. Ginning activity in Georgia continues to wane, which is aiding the development of a bullish market. By the end of the month, ginning should be completed in Georgia. Recent winter storms have also limited the movement of supply. However, given the below average temperatures, it should drum up new demand. The only problem is that the demand is coming to the market slower than what traders have anticipated.

COTTONSEED BALANCE SHEET: USDA raised cottonseed production by 36,000 tons compared to their balance sheet last month. The increase is inline with an increase to their cotton production. Exports were lowered 100,000 tons. The Feed, Seed and Other category picked up the changes climbing 136,000 tons. Compared to last year, this has climbed over a million tons. At this point in the crop year, changes to the balance sheet are apt to be less dramatic.

The Cottonseed Digest balance sheet had a 20,000-ton offsetting change from exports to the Feed, Seed and Other category. Merchants have mentioned that export buying interest, especially off the East Coast, has been lighter this year compared to last year. There have been some recent improvements in milk prices, which provide hope that there will be a turn around in the demand situation from the dairy sector. If grain prices continue their rally, certainly cottonseed at current prices would appear to be priced competitively and will win its way back in to dairy rations. The most recent export data through November was larger than the year ago by over 5,000 tons, yet the accumulative total for the year is down roughly 7,000 tons. A wildcard for exports is the flooding in Australia that could limit their availability of cottonseed for the world market and bring some buyers back to the US.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	USDA	Jan. / CSD	Jan. / USDA	Jan. / CSD
	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10E</u>	<u>2010/11F</u>	<u>2010/11F</u>
Beg. Stocks	489	643	514	342	342
Imports	3	0	24	0	0
Production	6589	4300	4149	6191	6210
Total Supply	7080	4943	4687	6533	6552
Crush	2706	2240	1900	2500	2520
Exports	599	191	291	350	370
Feed, Seed, & "Other"	3132	1999	2154	3204	3225
Total Disappearance	6437	4429	4305	6090	6115
End Stocks	643	514	342	443	437

COTTONSEED fob points					
<u>PRICES 1-14-11</u>		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Yr Ago</u>
SOUTHEAST		(\$/ton)			
No. Carolina	Spot	207-208o / 208t		207o	
	Fb-Ag	210b / 216o		n/a	
So. Carolina	Spot	208o		211o	
	Ja-Ag	216o		n/a	
Georgia So.	Spot	195b / 200o / 195t		207o	
	Fb-Mr	195b / 202o		n/a	
	Fb-Ag	200b / 207o		n/a	
MID-SOUTH		(\$/ton)			
Memphis No.	Spot	230o / 225t		220-225t	
	JFM	227b / 230o		n/a	
	Ja-Ag	230b / 235o		235o	
MO Bootheel	Spot	232o		225o	
	Fb-Mr	228o		235t	
SOUTHWEST		(\$/ton)			
West Texas	Spot	230-235o		228-230o	
	Fb-Mr	235o		235o	
	Ap-Sp	240-245b / 250o		240-242o	
FAR WEST		(\$/ton)			
Arizona	Spot.	270t		260o	
	Fb-Mr	280o		n/a	
Cal. Corc. N & Stockton	Spot	308-310t		295-300o	
	Ja-Sp	310b / 325o		n/a	
SPECIALLY PROCESSED PRODUCTS (\$/TON)					
Easi Flo™	Courtland, AL	Spot	260o	263o	
FuzZpellets™	Weldon, NC	Spot	n/a	265o	
Cotton Flo™	Weldon, NC	Spot	n/a	265o	
b = bid o = offer t = trade n/a = not available					

COTTONSEED dlvd. points					
<u>PRICES 1-14-11</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	258o			
	Fb-Ag	268o			
SE Pennsylvania	Spot	258o			
	Fb-Ag	268o			
NE Ohio	Spot	258o			
	Fb-Ag	268o			
MIDWEST		(\$/ton)			
MI (Grand Rps.)	Spot	268o			
	Fb-Ag	278o			
MN (Rochester)	Spot		279-280o	281-285o	
	Ja-Ag		283-290o	290-295o	
WI (Madison)	Spot		271-274o	276-279o	
	Ja-Ag		273-279o	282-285o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot		245o		
	Ja-Sp		268o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	JFM				295o
	Spot				n/a
California Idaho (UP)	Spot				305t
	Fb-Mr				310t
WA/OR (BN)	Ap-Sp				320o
	Spot				315o
	Fb-Sp				317t
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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