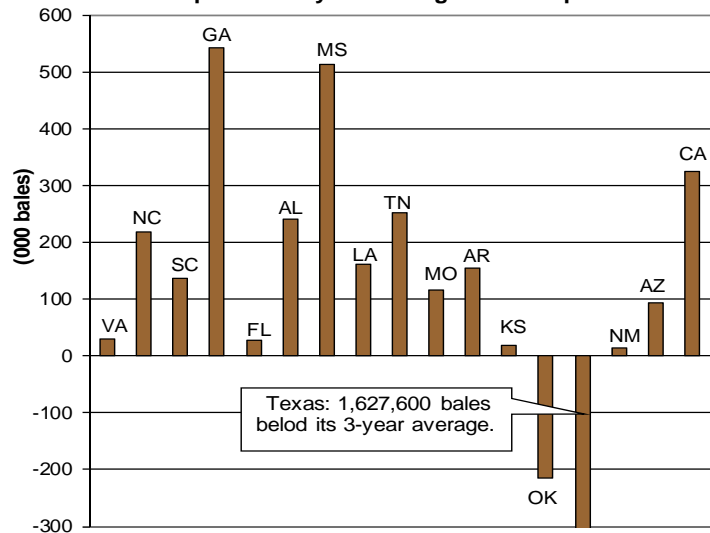


USDA REPORTS: Since the ginning report at the beginning of December roughly 2.25 million bales were ginned. Georgia was the state with the largest increase, up over 640,000 bales since our last installment. Texas ginned over 300,000 bales, but fell more than a million and a half bales behind its 3-year average for this time of year.

Cottonseed production was reported at 5.267 million tons, a reduction of 45,000 tons from last month. Most states had year-over-year increases, but overall production is projected 831,000 tons below last year's level. California had the largest increase, up 200,000 tons followed by Mississippi with 117,000 tons. Next in line, Georgia increased 75,000 tons. This year's increases in Alabama and the Carolinas have resulted in the longer ginning season and the abundant supply situation in the Southeast. Compared to last year, Texas production is down 1.46 million tons, followed by Oklahoma off 124,000 tons.

**Running Bales Ginned Totals as of 01/01/12
Compared to 3-year Averages for the period**



COTTONSEED MARKET: As of the middle of January, there seems to be less concern about tight supply given the small crop this year compared to a few months ago. Only the drought stricken Southwest was unable to surpass cottonseed production from a year-ago. The other regions managed to have greater production than last year. Compared to the 5-year average cottonseed production, only the Southeast and Far West markets were higher thanks to increased cotton acreage.

Far West markets have started to develop a softer tone following the holidays. Buying activity remains subdued in rail markets as there seems to be abundant supply. News of another ship of cottonseed to land in Stockton at the end of the month has added to the bearish tone. This will likely be the last ship of old crop Australian cottonseed. If there will be another shipments it will likely arrive in June, provided prices remain competitive. For the nearby, Pima supplies remain abundant and have traded through March between \$305-310/ton. Forward offers are not well defined, but at least there has been an increase in dairy inquiries even if not much has traded at this time.

West Texas nearby offers were shown in a wide range. Gins that have finished and are willing to take a break from the market and are hoping prices will firm up. The movement of seed into the

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market has slowed, but there is sufficient local supply. End users are not willing to buy very far forward at these price levels. Forward quotes are shown flat to the nearby, but nothing has traded. It appears that there will be more downward price risk in coming weeks.

Mid-South markets are quiet and offered prices have edged lower over the past few weeks. Spot offers continue to drift lower as some resellers are eager to keep supply moving. Gins are less active sellers and are holding on to inventories for higher prices. Serious concerns about new crop supply would need to develop for prices to start climbing. The focus of the market is on the nearby, oil mills are not interested in adding to their position.

Southeast markets have been holding steady. Once ginning is done, the market could firm some. Prices in the region have been the most competitive keeping spreads between neighboring markets wider than normal. Once ginning stops these price spread are apt to narrow. Once supply concerns develop, prices have limited upside. Summer offers are flat and neither gins nor dairies are trading.

COTTONSEED BALANCE SHEET: Production was lowered 45,000 tons on USDA's balance sheet. All other categories were left unchanged. Exports appear to be kept at a lofty level given strong cottonseed prices which are not able to compete with abundant Australian supply this year. A third of the crop year has already passed, and only a fifth of the forecasted amount has shipped. In coming months, the USDA will likely lower this projection or export buying interest will need to dramatically rebound.

The Cottonseed Digest had a variety of changes. Production was lowered 51,000 tons, as results in the Southwest are lower than expected. The crush was lowered 50,000 tons, due to crushers' net-value of cottonseed falling more than \$100/ton since early September. Lower vegetable oil, cottonseed meal and hull prices are behind the lower net-value. It is unlikely that crushers were able to lock in forward sales this fall when meal and hull prices were strong. This means that margins are likely razor thin or are in negative territory. This could mean that in coming months, some oil mills could be looking to sell a portion of their position.

The Feed, Seed and Other category was lowered 60,000 tons. High prices seem to have successfully limited demand. Dairy economics have been difficult and in this environment, dairy buyers have been more price-sensitive. Many have lowered cottonseed usage in their ration to lower their costs. Dairies have been more willing to change their rations due to ingredient price changes compared to past years. Ending stocks were raised 59,000 tons, but remain below last year. This raises the stocks-to-use ratio to 11%, a point above the year-ago.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Year begins Aug 1	USDA	USDA	Jan. /	Jan. /	Jan. /
	2008/09	2009/10	USDA	USDA	CSD
			2010/11E	2011/12F	2011/12F
Beg. Stocks	643	514	342	618	618
Imports	0	24	0	100	150
Production	4300	4149	6098	5312	5329
Total Supply	4943	4687	6440	6030	6097
Crush	2240	1900	2563	2400	2425
Exports	190	291	275	225	180
Feed, Seed, & "Other"	1999	2154	3984	2975	2941
Total Disappearance	4429	4305	5822	5600	5546
End Stocks	514	342	618	430	551

COTTONSEED fob points				
<u>PRICES 01-20-12</u>		<u>Trade</u>		<u>Yr Ago</u>
<i>Southeast</i>		(\$/ton)		
No. Carolina	Spot	230b / 235o		209-210o
	JFM	235o		n/a
	Ja-Ag	235o		220o
So. Carolina	Spot	225o		210o
Georgia So.	Spot	220b / 225-230o / 225t		202o
	JFM	231-235t		207o
No. Alabama	Spot	250o		n/a
<i>Mid-South</i>		(\$/ton)		
Memphis No.	Spot	245b / 252o / 250t		225-230o
	Fb-Mr	252o		228t
	Ja-Ag	255o		235o
(as ginned)	OND	220b		n/a
MO Bootheel	Spot	250-255o		232o
	JFM	250o		228o
<i>Southwest</i>		(\$/ton)		
West Texas	Spot	325-330o		235o/t
	JFM	320b / 330-335o		240o
	Ja-Ag	335o		245t
<i>Far West</i>		(\$/ton)		
Arizona	Spot	330o		275t
Cal. Corc. N	Spot	355o / 350t		310-313o
& Stockton	JFM	355o		315o
<i>Specially Processed Products (\$/ton)</i>				
<i>Easi Flo™</i>	Courtland, AL	Spot	285o	265o
b = bid o = offer t = trade n/a = not available				

COTTONSEED dlvd. points				
<u>PRICES 01-20-12</u>		<u>Dump/ Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
Northeast		(\$/ton)		
W. New York	Spot	287o		
	Ja-Ag	289o		
SE Pennsylvania	Spot	270o		
	Ja-Ag	272o		
NE Ohio	Spot	287o		
	Ja-Ag	289o		
Midwest		(\$/ton)		
MI (Grand Rpd.)	Spot	297o		
	Ja-Ag	300o		
MN (Rochester)	Spot	300-310o	310-320o	
	Ja-Ag	310o	320o	
WI (Madison)	Spot	295-300o	305-310o	
	Ja-Ag	300o	300o	
Southwest		(\$/ton)		
Texas / Dublin- Stephenville	Ja-Ag		365o	
Rail - fob track points		(\$/ton)		
Laredo TX				335o
California	Spot			345o
Idaho (UP)	Spot			340t
	JFM			340o
	Ja-Ag			340o
WA/OR (BN)	Spot			350o
	JFM			350o
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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