

**COTTONSEED MARKET:**

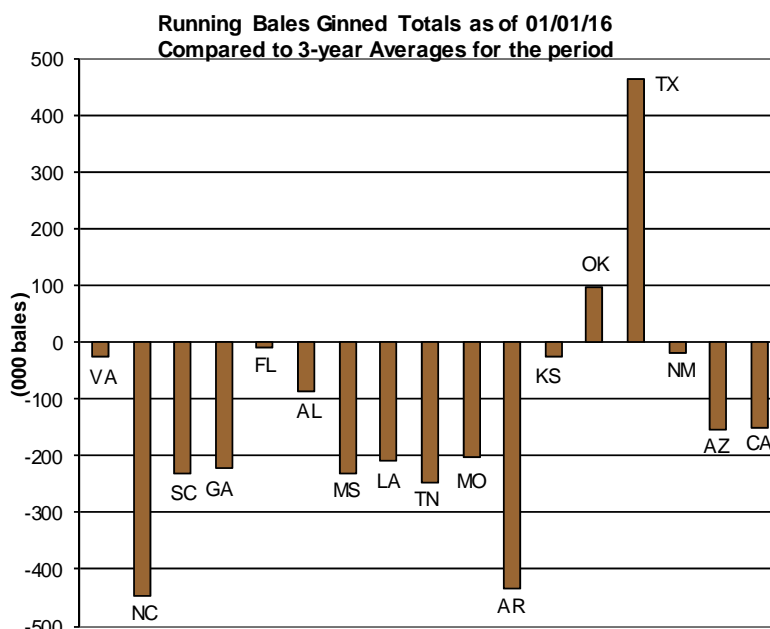
Trading has been light and prices have drifted lower due to lackluster dairy demand. Less cottonseed supply and stout prices over the past couple months have prevented end users from including as much cottonseed in rations. Meanwhile, dairy producer margins are worse in January than a couple months ago, which is also limiting cottonseed usage. Abundance of other price competitive feed ingredients like distillers dried grains is a bearish factor for cottonseed.

The graph of the Cotton Ginnings report as of January 1 shows that most states are behind their 3-year average. All cotton states had harvested acres below their 3-year average. Oklahoma and Texas have a running bales ginned totals above their average thanks to above average rains and much less abandonment than in past years.

Southeast and Mid-South markets are biddable as of mid-January. Some merchants are not able to put on more sales because they do not have storage capacity nor do they have end users needing a spot load. Given full pipelines and limited nearby end user demand, expectations are for prices to continue drifting lower to attract more demand. From our Cottonseed User Profile, this year has more dairies falling into the swing factor group 3 which is limiting cottonseed demand.

The West Texas market has become quiet during January without the week-to-week dairy buyers in the market to the extent they have been the past few months. The slowdown in buying interest and ample supply on the market suggests there will be potentially more downward price momentum in coming weeks as there are still a few gins running. Bids and offers for the summer months are difficult to find as buyers are anticipating more downward price risk and are willing to wait on making purchases.

California truck prices have moved lower as the arrival of rail supplies has elevated supply pipelines. Regardless of the lower prices, there hasn't been that much of an increase in demand.



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Summer offers are apt to have a modest inverse to nearby prices, yet buying interest remains light. The abnormally heavy rains raise the possibility of logistical problems, which could cause supply to tighten and prices to climb, but that has yet to happen.

**COTTONSEED BALANCES SHEET:** USDA lowered 2015/16 production 30,000 tons. Exports were lowered 100,000 tons, while the Feed, Seed and Other category was raised 70,000 tons. This lowered total disappearance by 30,000 tons and kept the end stocks total unchanged compared to a month ago.

The Cottonseed Digest balance sheet adopted the beginning stocks used by USDA, which was 49,000 tons lower than a month ago. Imports were raised 5,000 tons as the supply of South American cottonseed is expected to continue arriving in the Pacific Northwest. Production was lowered 7,000 tons as yield projections were lowered modestly. These changes resulted in total supply dropping 51,000 tons from a month ago.

The cottonseed crush was unchanged from last month and remains more than 30% below the 5-year average due to fewer oil mills running this year related to less cottonseed supply and rain damaged cottonseed in the Southeast. If the accumulative crush does not climb above 800,000 tons by the end of January, the crush may need to be scaled back. Exports were lowered 50,000 tons as exports for the 2015/16 season through November are over 58,000 tons below last year's pace. The strong dollar, abundant protein and grain sources in the world market, few exports to Mexico early in the crop year, and quality concerns in the Southeast are reasons for the lack of exports. The Feed, Seed and Other category was raised 30,000 tons as some of the supply earmarked for exports will likely find its way into feed rations. These changes resulted in ending stocks dropping 31,000 tons. This is the lowest ending stocks number since the 2009/10 crop year.

Cottonseed Supply/Demand Balance Sheet (ooo tons)					
Year begins Aug 1	USDA	USDA	Jan. / USDA	Jan. / USDA	Jan. / CSD
	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15E</u>	<u>2015/16F</u>	<u>2015/16F</u>
Beg. Stocks	430	492	425	437	486
Imports	182	198	59	0	20
Production	5666	4203	5125	4183	4152
<b>Total Supply</b>	<b>6278</b>	<b>4893</b>	<b>5609</b>	<b>4620</b>	<b>4658</b>
Crush	2500	2000	1900	1650	1500
Exports	191	219	228	200	140
Feed, Seed, & "Other"	3094	2250	3044	2378	2585
<b>Total Disappearance</b>	<b>5786</b>	<b>4468</b>	<b>5172</b>	<b>4228</b>	<b>4225</b>
End Stocks	492	425	437	392	433

<b>COTTONSEED fob points</b>					
<u>PRICES 01-15-16</u>		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Yr Ago</u>
<b>Southeast</b>		<b>(\$/ton)</b>			
North Carolina	Spot	245b / 250-255o / 250t		234t	
	JFM	255-260o		250t	
	Ja-Ag	260o		n/a	
Georgia So.	Spot	247-250o		232t	
	JFM	250o		n/a	
<b>Mid-South</b>		<b>(\$/ton)</b>			
Memphis No.	Spot	275-280o		275o	
	Ja-Ag	275-280o		280o	
	OND	255b / 260-276o		n/a	
MO Bootheel	Spot	280o		n/a	
NE Arkansas	Spot	275-280o		n/a	
	JFM	276o		270t	
<b>Southwest</b>		<b>(\$/ton)</b>			
West Texas: LN	Spot	270-271o		290o	
	JFM	272o		290t	
	Ja-Sp	272-275t		n/a	
West Texas: SN	Spot	270o		n/a	
	JFM	272o		n/a	
Oklahoma	Spot	245o		n/a	
<b>Far West</b>		<b>(\$/ton)</b>			
Arizona	Spot	335-340o / 335t		355t	
	JFM	335b		n/a	
Cal. Corc. No.	Spot	368-370o		375t	
	JFM	368-370o		375o	
	Ja-Sp	368-370o		n/a	
Pima California	Spot	300-305o		345o	
<b>Specially Processed Products (\$/ton)</b>					
<i>Easi Flo</i> <sup>tm</sup>	Courtland, AL	Spot	317o	315o	
		Ja-Ag	322o	323o	
<b>b = bid   o = offer   t = trade   n/a = not available</b> <b>West Texas: LN=Lubbock North, PN= Plainview North, SN= Seminole North</b>					

<b>COTTONSEED dlvd. points</b>				
<u>PRICES 01-15-16</u>		<u>Truck</u>	<u>Rail</u>	<u>Yr Ago</u>
<b>Northeast</b>		<b>(\$/ton)</b>		
<b>W. New York</b>	Spot	3190		3050
	Ja-Ag	3290		3170
<b>SE Pennsylvania</b>	Spot	3000		2880
	Ja-Ag	3100		3100
<b>NE Ohio</b>	Spot	3190		3060
	Ja-Ag	3290		3200
<b>Midwest</b>		<b>(\$/ton)</b>		
<b>MI (Grand Rps.)</b>	Spot	3290		3160
	Ja-Ag	3390		3350
<b>MN (Rochester)</b>	Spot	345-3500		3420
	Ja-Ag	3500		3470
<b>WI (Madison)</b>	Spot	3400		3350
	Ja-Ag	3450		3400
<b>Southwest</b>		<b>(\$/ton)</b>		
<b>Texas / Dublin- Stephenville</b>	Spot	2900		2900
<b>Rail - fob track points</b>		<b>(\$/ton)</b>		
<b>California</b>	Spot		3600	n/a
	JFM		3600	3650
	Ja-Sp		3600	n/a
<b>Idaho (UP)</b>	Spot		3550	n/a
	Ja-Sp		3550	n/a
<b>WA/OR (BN)</b>	Spot		3650	n/a
	JFM		3650	n/a
<b>b = bid o = offer t = trade n/a = not available</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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