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COTTONSEED MARKET: At the middle of March, the market has a bit stronger feel as offers have moved higher over the past couple weeks being helped by bullish news and action on the CBOT, which is conveniently taking place while more gins are finishing up in West Texas. Merchants in the Southeast and Mid-South are complaining there is hardly enough trades done at these higher prices to legitimately call the market firmer. There are some signals that the recent strength is already faltering as some nearby offers back off a dollar, due to the lack of buying interest. It appears that higher quotes in West Texas, with fewer gins running, are the main catalyst for price strength.

Looking forward a couple weeks, the Easter/Passover holiday may bring in a flurry of nearby trading activity, so mid-month up moves can be expected and may be way of preparing buyers' expectations. The market still has plenty of unanswered questions to come to terms with, which are fundamentally bearish, like the record large cottonseed crop, and end users that behave as if they don't need more cottonseed. On the bullish side of the market, there is the likelihood of more buying to take place for the remaining months of the season, which may be enough to support current price levels. Sellers appear to be keeping their cool and holding price levels higher than many market contacts anticipated.

Nearby offers in the Southeast are having a hard time getting traction to move higher. There appears to be adequate supplies to satisfy demand requirements. On a optimistic point, one contact has noted that dairy buyers in the Northeast have been more active buyers of late following a much harsher winter. Offers on summer quotes have edged higher, but have neglected to win buyers. The strength in the summer timeframe is likely in anticipation of more buyers moving into the market. Across the region, merchants are mentioning it is really quiet. Price spreads to the Mid-South are another issue that is keeping a lid on prices. New crop prices are reported a couple dollars lower with fewer interested buyers. The North Carolina OND offer at \$95/ton looks like an attractive value for buyers considering the five-year annual average is roughly \$25/ton higher.

The Mid-South market is quieter this week. According to one contract, the Memphis North market doesn't have many sellers. Gins are holding offers steady and are not willing to make many trades. However, the nearby trade reported is closer to the bid side of the market. There has been more trading on supplies for the summer. This is leading some contacts to suggest that the supply situation in the Mid-South may not be quite as heavy as it is in the rest of the country. These competitive prices have helped Mid-South supplies beat out Texas in supplying the Far West. There are traders thinking this disappearance will help strengthen pricing in the region later this season. The barge offer for the summer is up \$2 over last week's trade level. Considering Memphis North bids dropped \$2 for all timeframes, it appears the market is lacking buyers.

West Texas is reporting higher trading levels this week, as only a few gins are still running in the region. As one merchant put it, these ginners are just about burned out after such a long, late, and up and down ginning season. This fact may keep some of them out of the market for a while until

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they catch their breath. The lack of sellers in the market and what appears to be a steady stream of buyers will keep prices steady to firmer through the upcoming holidays. Seed moisture and quality concerns continue to be a popular topic for contacts to discuss, and base their arguments on for prices to go lower. Most are expecting price will have to move lower to sell the record large crop.

The strength in West Texas is adding a bit more upside potential for the California market. There is very little buying interest mentioned for the nearby as most dairies are thought to be well bought for the near term. Contacts had anticipated lower nearby prices, and demand should remain steady on old crop. New crop has more trading opportunities, as dairies haven't booked supplies. Recent strength in futures may draw more dairies to market to book current offers, which are quite attractive being below historical averages for California.

COTTONSEED CRUSH REPORT: The US Census crush report for January shows 283,092 tons of cottonseed crushed. This is one of the highest monthly crushes achieved in recent years. The last time there was a monthly total larger was in January of 2001, following the previous record large cottonseed crop. So far this season, four out of the six months of reported monthly total crush totals were above the 5-year average.

The running total of cottonseed crushed this season is 1.396 million tons. If this rate is maintained for the last half of the year, our forecasted crush will need to be raised. Recent firming of basis and healthy crush economics suggests oil mills will maximize production and profits. Compared to a week ago, the net value of cottonseed for Mid-South crushers shot up over \$10/ton. Cottonseed oil merchants are suggesting they would be able to make more sales, if they only had the extra supply.

The set backs in harvest and ginning drastically slowed net receipts of cottonseed at oil mills this year. To date over 3 million tons of cottonseed has been received by oil mills. While this is enough to meet the needs of crushers, next month strong receipts at oil mills will continue above levels of past years.

COTTONSEED BALANCESHEET: USDA's March balance sheet is unchanged. The feed, seed and other category remains record large. Many contacts are wondering how much of this disappearance is destined to trade in the form of salvage seed, because of moisture and quality issues mentioned in the West Texas market. Reported exports to Mexico are moving at a better pace than last year, and exports may need to be ratcheted higher in coming months.

Informa's crush figure was upped 40,000 tons. Stronger crushing economics and brisk demand from oil users are behind the anticipated increase. Ending stocks are reduced by the same amount, but still remain much higher than levels reported for the past few years.

| Cottonseed Supply/Demand Balance Sheet (000 tons) | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| Yrs beg Aug 1 | USDA | USDA | Mar. / | Mar. / | Mar. / |
| | 2001/02 | 2002/03 | USDA | USDA | Informa |
| | | | 2003/04E | 2004/05F | 2004/05F |
| Beg. Stocks | 427 | 400 | 347 | 421 | 421 |
| Imports | 327 | 104 | 2 | 25 | 35 |
| Production | 7452 | 6184 | 6665 | 8411 | 8390 |
| Total Supply | 8206 | 6688 | 7013 | 8857 | 8846 |
| Crush | 2791 | 2495 | 2639 | 2900 | 2790 |
| Exports | 274 | 371 | 355 | 410 | 415 |
| Feed, Seed, & "Other" | 4742 | 3475 | 3598 | 5050 | 4875 |
| Total Disappearance | 7807 | 6341 | 6592 | 8360 | 8080 |
| End Stocks | 400 | 347 | 421 | 497 | 766 |

| COTTONSEED fob points | | | | |
|--|----------------------|----------------------------|------|----------------------|
| <u>PRICES 3-11-05</u> | | <u>Trade</u> | | <u>Yr Ago</u> |
| SOUTHEAST | | (\$/ton) | | |
| No. Carolina | Mar. | 93b / 97o / 94t | | 155o |
| | Mr-Ag | 95b / 101o | | 162o |
| (as ginned) | OND | 92b / 95o | | 125o |
| So. Carolina | Spot | 100b / 104o | | n/a |
| | Mr-Ag | 104b / 108o | | n/a |
| Georgia So. | Mar. | 101-103b / 105o | | 160o |
| | Ap-Ag | 101b / 110o | | n/a |
| (as ginned) | OND | 95b / 103o | | n/a |
| Alabama No. | Mar. | 98b / 100-101o | | 162t |
| | Ap-Ag | 98b / 105o | | 167o |
| (as ginned) | OND | 96b / 104o | | 132.50t |
| MID-SOUTH | | (\$/ton) | | |
| Memphis No. | Spot | 95b / 100o / 96t | | 161t |
| | Ap-Ag | 95b / 100-102o / 98-100t | | 165t |
| (as ginned) | SON | 99b / 102o | | 135o |
| MO Bootheel | Spot | 95b / 98-99t | | 161t |
| | Ap-Ag | 102o | | n/a |
| Louisiana | Ap-Jly | 102o | | n/a |
| SOUTHWEST | | (\$/ton) | | |
| Texas | Mar. | 110-112b / 114-115o / 113t | | 180o |
| | Ap-Sp | 115-116b / 117-121t | | 190o |
| FAR WEST | | (\$/ton) | | |
| Arizona | Spot | 135b / 140o | | 210o |
| | MAM | 135b / 145o | | n/a |
| Cal Corc. N | Spot | 160b / 162-165o | | 224t |
| & Stockton | Ap-Sp | 164-165o | | 235o |
| | Clock | 178b / 180o | | 200o |
| SPECIALLY PROCESSED PRODUCTS (\$/TON) | | | | |
| <i>Easi Flotm</i> | Courtland, AL | Mar. | 132o | 190o |
| <i>Easi Flotm</i> | Windsor, VA | Mar. | 143o | 188o |
| <i>fuzZpelletstm</i> | Weldon, NC | Spot | 124o | 195o |
| <i>CottonFlotm</i> | Weldon, NC | Spot | 126o | 195o |
| b = bid o = offer t = trade n/a = not available | | | | |

| COTTONSEED dlvd. points | | | | | |
|---|--------|-----------------|---------------|-------------------|-------------|
| PRICES 3-11-05 | | Dump | Hopper | Live Floor | Rail |
| NORTHEAST | | (\$/ton) | | | |
| W. New York | Mar. | 141o | | | |
| | Ap-Ag | 143o | | | |
| SE Pennsylvania | Mar. | 128o | | | |
| | Ap-Ag | 132o | | | |
| NE Ohio | Mar. | 140o | | | |
| | Ap-Ag | 142o | | | |
| MIDWEST | | (\$/ton) | | | |
| MI (Grand Rpds.) | Mar. | 150o | | | |
| | Ap-Ag | 154o | | | |
| MN (Rochester) | Mar | | 140o | 147-150o | |
| | Ap-Ag | | 142-145o | 153-159o | |
| WI (Madison) | Ap-Ag | | 139o | 146-149o | |
| | | | | | |
| SOUTHWEST | | (\$/ton) | | | |
| Texas / Dublin- Stephenville | Spot | | 125o | | |
| | Mr-Jly | | 135o | | |
| RAIL - FOB TRACK POINTS | | (\$/ton) | | | |
| California | Mr-Ag | | | | 163o |
| | Clock | | | | 178b 180 |
| Idaho (UP) | Spot | | | | 160-162o |
| | Ap-Ag | | | | 158b 163o |
| WA/OR (BN) | Clock | | | | 165o |
| | Spot | | | | 164o |
| | Ap-Ag | | | | 165o |
| 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.