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COTTONSEED MARKET: The combination of fewer buyers at current price levels and weakness in grain futures at the middle of March set the tone for a modest price rollback. Demand is not as strong as the value of corn and soybean meal have softened. By the end of February, the Mid-South cottonseed price surpassed its historical high from June of 2008 when grain and soybean meal futures shot to historical highs that time. The recent lack of trading suggests some pushback from end users. The upward price momentum has been taken out of the market without the nearby end user demand.

The downside price risk appears less than other years, due to the limited availability of cottonseed. The influence of other competing feed ingredients will ultimately have an effect on cottonseed prices. If cash grain prices and competing feed ingredients like distiller dried grain prices move lower, then cottonseed prices should modestly drift lower.

The nearby Class III Milk contract continues to stay above \$23/cwt and this has kept dairy margins robust. The strong margins suggests that dairies will be less likely to change their current feed rations unless cottonseed is grossly overvalued compared to competing feed ingredients. Current cottonseed prices compared to cash corn and distiller dried grains are more expensive compared to the 5-year average, but that has been the case for the past couple months and dairy demand hasn't radically changed.

The value of protein is the reason that cottonseed continues to be used in rations. The Mid-South relative price to cash soybean meal for March is 91% on average, but this is not a historical high. During 2008 at the height of soybean meal's rally the relative price was 92%, and as cottonseed prices held a few months' later, cottonseed prices were at the same price as soybean meal futures. In 1999 Mid-South cottonseed prices held above soybean meal prices for the first half of the year.

There are a number of similarities between the 1998/99 crop year and this crop year. There was over a million ton reduction in cottonseed production compared to the previous year. The percentage of crush was below average. Supply was tighter than normal even with more than 200,000 tons of cottonseed imported from Australia. If this crop year is like 1998/99, it would suggest that there is little downside risk. In that year there was a \$10 up move through May from the March average price and then July's average prices ended the crop year \$10 below March's level. The change in value was roughly 8%. Applying that to current prices would suggest a price swing of roughly \$30 between now and the end of the crop year are likely.

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For weekly cottonseed pricing and commentary contact:

James Bueltel - Phone 651-925-1052, Fax 651-925-1061 e-mail: james.bueltel@informaecon.com

COTTONSEED BALANCE SHEET: The USDA's March balance sheet had 200,000 tons shifted from the crush to the Feed, Seed and Other category. Their crush to supply ratio is 40% which is more than a percentage point below the 5-year average. Ending stocks are unchanged and 46,000 tons smaller than the 5-year average. The stocks to use ratio at 9.5% is above the 5-year average of 9.3%.

The Cottonseed Digest's balance sheet had supply same as last month. Production is unchanged which is over 20% less than a year ago. There is the possibility of increased Australian imports given stout prices. The balance sheet is factoring additional imports this crop year.

Exports were raised 15,000 tons as January results were stronger than anticipated at 25,339 tons. It was the second largest monthly export total this year. Total exports for the first half of the crop year were 130,000 tons and are more than 20,000 tons above the 5-year average pace. While exports during the second half of the crop year will likely be less, final total results will be greater than the 5-year average.

The Feed, Seed and Other category was modestly lowered 20,000 tons due to rallying cottonseed prices over the past few weeks. Current price levels will likely result in less demand. Given tight supply, downside price risk appears to be limited.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Year begins Aug 1	USDA	USDA	Mar / USDA	Mar / USDA	Mar / CSD
	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13E</u>	<u>2013/14F</u>	<u>2013/14F</u>
Beg. Stocks	342	618	430	492	507
Imports	0	72	0	100	128
Production	6098	5370	5666	4367	4429
Total Supply	6440	6059	6096	4959	5064
Crush	2563	2400	2500	2200	1950
Exports	275	133	191	150	230
Feed, Seed, & "Other"	2984	3096	2913	2175	2428
Total Disappearance	5822	5629	5604	4525	4608
End Stocks	618	430	492	434	456

COTTONSEED fob points				
<u>PRICES 03-14-14</u>		<u>Trade</u>		<u>Yr Ago</u>
<i>Southeast</i>		(\$/ton)		
North Carolina	Spot	355b / 360o / 355t		2500
	Ap-My	360t		n/a
	Ap-Ag	360o		n/a
	OND	2600		2280
South Carolina	Spot	3600		2490
	OND	250b / 260o		n/a
Georgia So.	Spot	350-355b / 360o		244t
	Ap-Ag	360b		n/a
	OND	250b / 260o / 250t		220t
<i>Mid-South</i>		(\$/ton)		
Memphis No.	Spot	395-400o		2750
	OND	285b / 296o		260t
MO Bootheel	Spot	405o		2850
	Mr-Ap	410t		285t
NE Arkansas	Spot	405o		n/a
	OND	285b / 296o		n/a
<i>Southwest</i>		(\$/ton)		
West Texas: LN	Spot	395o		337t
	Ap-Sp	410o		355o
	OND	325o		295o
<i>Far West</i>		(\$/ton)		
Arizona	Spot	440b		3650
Cal. Corc. No.	Spot	475-480o / 470t		3800
	Ap-Sp	480o / 475t		3850
	OND	410o		3550
Pima California	Spot	450-455b / 460o		3550
<i>Specially Processed Products (\$/ton)</i>				
<i>Easi Flotm</i>	Courtland, AL	Spot	440o	3200
		Ap-Ag	445o	3250
b = bid o = offer t = trade n/a = not available West Texas: LN=Lubbock North, PN= Plainview North, SN= Seminole North				

COTTONSEED dlvd. points					
<u>PRICES 03-14-14</u>		<u>Truck</u>	<u>Rail</u>	<u>Δ +/-</u>	<u>Yr Ago</u>
Northeast		(\$/ton)			
W. New York	Spot	4220		unc	3070
SE Pennsylvania	Spot	4030		unc	2900
NE Ohio	Spot	4220		unc	3070
Midwest		(\$/ton)			
MI (Grand Rpd.)	Spot	4330		unc	3170
MN (Rochester)	Spot	465-4700		unc	355t
	Ap-Ag	4750		unc	n/a
WI (Madison)	Spot	4600		2o	3430
	Ap-Ag	4700		2o	n/a
Southwest		(\$/ton)			
Texas / Dublin- Stephenville	Spot	4350		25o	3500
Rail - job track points		(\$/ton)			
California	Spot		4790	n/a	3740
Idaho (UP)	Spot		4650	unc	3550
	OND		3800	n/a	3450
WA/OR (BN)	Spot		4800	unc	367t
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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