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USDA'S GINNING REPORT: The 2007 Cotton Ginnings summary released May 9, showed cotton production at 19.198 million 480-pound bales. Compared to the previous ginning report in March, the total was upped by 206,300 bales. This increase is several times larger than in previous years because of the later harvest and larger crop in West Texas. There were 806 active gins reported during the 2007 season, this was a decrease of 29 gins compared to a year ago. Due to the expected decrease in cotton acres expectations are for a continuation of the long-term trend of fewer active gins. Output per gin was lower this year, as 45% of gins processed more than 20,000 running bales, whereas last year 53% gins reached that level.

COTTONSEED MARKET: Prices continue to climb as the supplies remain snug and periodically there is enough buying done to cause sellers to raise their offer. Planting progress continues, albeit at a slower than anticipated pace especially in the Mid-South and Southeast, which is seen as price supportive inasmuch as those holding supplies are not willing to sell in anticipation of higher prices. Informa's May Acreage report showed all cotton acreage at 9.095 million acres, 1.73 million lower than last season and 295,000 less than USDA's March estimate. If realized, this would be one of the lowest cotton plantings in the last 50 years. In 1983 (the Payment-in-Kind program year) cotton plantings totaled 7.9 million acres, with the next lowest year being 1975 when all cotton acreage totaled 9.5 million. USDA will release its next planted acreage report on June 30.

Supply tightness is seen as the main issue for price strength in the Southeast. Since the last installment, North Carolina nearby offers climbed more than \$30/ton. It looks like price levels have reached lofty enough levels to effectively limit demand. End users have only been inquiring about price levels, but have resisted buying. It appears dairies that source from this region will take contracted supply and will reformulate rations at lower inclusion rates or stop using cottonseed altogether. There appears to be more dairies limiting the amount of cottonseed and threatening to take it out of rations altogether.

News of oil mills in the Mid-South bidding \$300/ton on new crop supplies likely helped prop up price ideas. More trading activity was reported as of the middle of the month, while resellers appeared willing to add to their position. Merchants are confident that prices will continue to strengthen due to the tight supply situation and stout demand from oil mills. Gins appear to be playing hard to get on selling nearby or forward supplies. Compared to a month ago, the new crop bid gained \$30/ton. They have plenty of reason to hold back on selling seed, as most states in the region are getting the crop planted slower than the average pace.

The West Texas market has seen an increase in reseller buying interest, which has resulted in an increase in prices levels. Open offers dwindle and this fact is helping propel prices higher. Gins are spoon-feeding supplies to the market and as long as there are willing buyers and new crop production is sketchy, it appears this will remain a seller's market. Recent rains in West Texas have

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helped the outlook for new crop. However, timely rains will be needed during the summer to insure the crop will make average yields. Early weather concerns have helped elevate price levels and they will continue at similar levels until there is evidence that the crop will exceed expectations.

The California market is relatively quiet with most buyers showing interest in nearby supplies. Nonetheless, this hasn't prevented prices from climbing higher. Pima for spot has traded between \$330-340/ton, and is attempting to keep pace with regular fuzzy cottonseed. Dairies continue to inquire about prices, but are not following through with buying at these price levels. Inclusion rates of cottonseed in dairy rations will fall due to tight supplies and stout prices. Expectations are for more upward price moves as new crop offers have been raised.

COTTONSEED BALANCE SHEET: The supply side of USDA's old crop balance sheet remains unchanged, but is expected to edge lower next month. On the disappearance side, exports were raised 35,000 tons, while the Feed, Seed and Other category was lowered 30,000 tons. These changes resulted in ending stocks falling to 400,000 tons. The last time ending stocks were lower was with the 2002/03 crop year, when ending stocks were 347,000 tons. Changes were made to Informa's old crop balance sheet with production down 26,000 tons, and imports raised 1,000 tons. Exports were raised 27,000 tons, as buying interest continues to linger as Mexico and Japan continue to be the main destinations. The Feed, Seed and Other category was lowered 56,000 tons due to the lower production estimate and higher exports. Stout cottonseed prices are resulting in less demand from dairies as they are using lower priced feed ingredients.

May is the first release of the 2008/09 crop balance sheet. USDA anticipates imports will provide a larger contribution to supply. Exports haven't been above the 250,000-ton mark since the 2001/02 crop year. Favorable growing conditions in Australia will be necessary for such a level to be attained. The other factor will be favorable shipping opportunities and exchange rates, and at this time the imports may not happen. US production is significantly lower, just over the 5 million ton mark, on a smaller planted acreage outlook and plenty of uncertainty with a slow start to planting. Regarding the crush, USDA has a modest decrease from the previous year, while Informa's estimated is lower by 125,000 tons. The drop in the crush is related to tighter seed supply and higher prices. It is still too early in the year to get a good feel for new crop cottonseed oil buying interest. The Feed, Seed and Other category was lowered as expectations for tighter supplies and higher prices will further reduce the amount of supply going to dairies and the possibility for feed users to afford cottonseed. New crop's balance sheet suggests tighter supply and that the bullish sentiment in the market will continue.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	May / USDA	May / Informa	May / USDA	May / Informa
	2006/07	2007/08E	2007/08E	2008/09F	2008/09F
	Beg. Stocks	602	489	489	400
Imports	0	5	3	250	25
Production	7348	6596	6588	5210	5017
Total Supply	7950	7090	7081	5860	5457
Crush	2680	2750	2700	2700	2575
Exports	616	635	633	350	225
Feed, Seed, & "Other"	4165	3305	3333	2490	2345
Total Disappearance	7461	6690	6666	5540	5145
End Stocks	489	400	415	320	312

COTTONSEED fob points					
<u>PRICES 05-16-08</u>		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Yr Ago</u>
SOUTHEAST		(\$/ton)			
No. Carolina	Spot	320b / 330o			153o
	OND	270b / 290o			130o
So. Carolina	Spot	310b / 320o			149p
	OND	285b / 290o			n/a
Georgia So.	Spot	305b / 310o			135-140o
	OND	270b / 280o			n/a
MID-SOUTH		(\$/ton)			
Memphis No.	Spot	321-324t			150o
	May	327o / 325t			n/a
	Jn-Jly	331o			n/a
(as ginned)	OND	300b / 310o / 306t			145o
MO Bootheel	Spot	325o			150o
SOUTHWEST		(\$/ton)			
West Texas	Spot	310b / 315o			165o
	Jly-Sp	325o			172o
(as ginned)	OND	305o			155o
FAR WEST		(\$/ton)			
Arizona	Spot	330o / 330t			215o
	OND	330o / 330t			n/a
Cal Corc. N & Stockton	Spot	380o / 375t			228o
	My-Sp	385o			228o
	OND	380o			226o
	Clock	395o			235o
SPECIALY PROCESSED PRODUCTS (\$/TON)					
Easi Flotm	Courtland, AL	Spot	367o	186o	
FuzPelletstm	Weldon, NC	Spot	347o	184o	
Cotton Flotm	Weldon, NC	Spot	347o	184o	
b = bid o = offer t = trade n/a = not available					

COTTONSEED dlvd. points					
<u>PRICES 05-16-08</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	386o			
	OND	351o			
SE Pennsylvania	Spot	370o			
	OND	335o			
NE Ohio	Spot	380o			
	OND	346o			
MIDWEST		(\$/ton)			
MI (Grand Rpds.)	Spot	389o			
	OND	354o			
MN (Rochester)	Spot		375-377o	385-387o	
	OND		368o	375o	
WI (Madison)	Spot		377o	383-385o	
	OND		362-368o	370-374o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot		338o		
	My-Sp		No quote		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	Spot				370o
	Spot				No quote
California Idaho (UP)	Spot				380o
	My-Sp				390o
(new crop)	OND				378t 380o
	Spot				394t 395o
WA/OR (BN) (new crop)	Spot				390o
	OND				
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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