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# Cottonseed Intelligence Monthly

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**COTTONSEED MARKET:** Prices continue to edge higher since our last installment while only limited trading has been accomplished. There have been only a few open offers in the market, which is seen as supportive for prices. The strength of the nearby has even provided support for new crop price ideas. The outlook of a larger crop than a year ago and a bearish long term outlook haven't seemed to stop merchants from calling prices higher. Meanwhile, gins haven't been participating much in old or new crop trade. Gins are not willing to come to market until they are sure about how much supply they will have to sell. This situation can be supportive for prices nearby, but could magnify downward price pressure in coming months.

Gin sellers are content waiting to evaluate their supply situation before returning to the market to sell more cottonseed. They want to be sure that they are not going to sell more than what they have in storage. There are concerns about seed quality that could become problematic for commerce. High moisture levels last fall could result in lower quality seed now when it is taken out of storage. With the smaller crop, presumably gins have less of a stockpile left to sell and are waiting on a typical seasonal run up in prices. Seasonality this year may be less of an issue considering cottonseed values started the season at a higher than average level, which may have limited demand early on. Dairy economics have improved some, but are still not close to being robust. The recent increase in milk production doesn't bode well for a recovery for Class III milk prices. Financial constraints on dairies persist and will prevent them from being aggressive buyers for the near future. Without dairies buying forward and taking supply out of the market, seasonal variability will likely be less. The general market outlook of abundant grain and feed ingredients in the coming months will keep prices restrained and the market bearish.

The West Texas market has been the driving force and had prices climb roughly \$25/ton since our last installment. This is the biggest increase compared to other markets. Local merchants are not seeing a dramatic increase in demand from dairies in their backyard. The movement of supplies from the Eastern markets is not as convenient or price competitive. Sellers continue to test the resolve of buyers' willingness to pay higher prices for cottonseed. It appears that demand will continue to hold out at these levels unless sellers in other markets start selling at a more competitive level. The other factor is that there are only a small number of participants in the market, supplies are held in firm hands and they will continue to defend their position.

California markets are relatively quiet, but nearby prices have edged higher. Reseller buying continues to be the main feature supporting price strength. If prices are able to stay stout with only minimal demand, it appears that downside risk for price is limited. The market hasn't been tested for the balance of the summer, but given the upward momentum, it seems that if something forward would trade it would have to be with a couple-dollar premium. Availability of supply hasn't been an issue, but it has the potential to drive prices even higher.

Southeast markets are benefiting from the strength in the West as offers have climbed. There

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have been more buyers looking at taking on ownership. Buying interest within the region from end users remains weak. For this reason local merchants are skeptical about the long-term sustainability of the price strength, as they have noticed that only a small amount of cottonseed has actually been traded. New crop price ideas are only general approximations, as bids are sketchy and offers are not firm and no significant trades have been reported.

Mid-South sellers have enjoyed a steady stream of end user buying. Prices were ratcheted up in recent weeks and buying continued at higher price levels. It appears that there are short positions that need to continue buying. Gins are apt to stay on the sidelines for the next 60 days or so and buyers will likely need to pay up to cover their needs. With new crop, gins are on the side lines in hopes of higher prices. However, the long-term outlook appears to be bearish if new crop is as large as projected.

**COTTONSEED BALANCE SHEET:** USDA lowered old crop cottonseed production by 29,000 tons. On the demand side of the balance sheet, USDA raised exports 20,000 tons. Meanwhile the Feed, Seed and Other category was lowered 49,000 tons. These offsetting changes kept the ending stocks number unchanged. The stocks to use ratio is unchanged at 10%, a percentage point above the 5-year average.

With the publishing of the USDA May crop production report cottonseed production typically doesn't change. Therefore, Informa has adopted this number as the total for the 2009/10 crop year. This represents a 25,000 ton reduction from last month. Exports were raised 12,000 tons as the results for March were greater than projected. In coming months, exports are projected to drop off below average levels. The recent strength in the US dollar and availability of new crop supply from the Southern hemisphere will limit exports. The Feed, Seed and Other category was lowered 30,000 tons. These changes resulted in ending stocks dropping 7,000 tons. This reduction results in the stocks to usage ratio of 9.1%, which is close to the average.

This is the first look at new crop balance sheets. The larger acreage and plentiful subsoil moisture results in production up over 30% compared to last year. This is based on average abandonment and yields. The crush is projected to rebound, and this is based on improved economics for consumers. The increase in supply should result in favorable pricing for crushers, while vegetable oil demand in general is apt to improve.

Exports are expected to rise, but more supply in other parts of the world and less availability of containers will likely limit the amount of supply being exported compared to a couple years ago. Dairy demand will rebound, and the Feed, Seed and Other category is projected up over 25%. Lower cottonseed pricing is expected to help increase demand for the next crop year.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	May / USDA	May / Informa	May / USDA	May / Informa
	2008/09	2009/10E	2009/10E	2010/11F	2010/11F
	Beg. Stocks	643	514	514	425
Imports	0	0	24	0	0
Production	4300	4149	4149	5610	5500
<b>Total Supply</b>	<b>4943</b>	<b>4663</b>	<b>4687</b>	<b>6035</b>	<b>5892</b>
Crush	2250	1800	1820	2150	2250
Exports	191	270	260	400	320
Feed, Seed, & "Other"	1989	2168	2215	2910	2800
<b>Total Disappearance</b>	<b>4429</b>	<b>4238</b>	<b>4295</b>	<b>5460</b>	<b>5370</b>
End Stocks	514	425	392	575	522

<b>COTTONSEED fob points</b>					
<b><u>PRICES 5-14-10</u></b>		<b><u>Bid</u></b>	<b><u>Offer</u></b>	<b><u>Trade</u></b>	<b><u>Yr Ago</u></b>
<b>SOUTHEAST</b>		<b>(\$/ton)</b>			
<b>No. Carolina</b>	Spot	195b / 200o		200o	
	My-Ag	205o		n/a	
<b>(as ginned)</b>	OND	135b / 140o		165o	
	<b>So. Carolina</b>	My-Ag	205o		n/a
<b>(as ginned)</b>	OND	135b / 140o		165o	
	<b>Georgia So.</b>	Spot	197-200o		206-210o
My-Jn		202o		n/a	
<b>(as ginned)</b>	OND	135b / 140o		165o	
	<b>No. Alabama</b>	Spot	215o		n/a
<b>MID-SOUTH</b>		<b>(\$/ton)</b>			
<b>Memphis No.</b>	Spot	217-220o / 215-218t		225o	
	JJA	225o		230o	
<b>(as ginned)</b>	OND	160-165o		195-198t	
	<b>MO Bootheel</b>	Spot	220o / 218t		223t
<b>(as ginned)</b>		OND	165o		n/a
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
<b>West Texas</b>	Spot	230-235o / 230t		253t	
	My-Sp	235o		260o	
<b>(as ginned)</b>	OND	163b / 165o / 163t		200-205o	
	<b>FAR WEST</b>		<b>(\$/ton)</b>		
<b>Arizona</b>	Spot	270b / 275o		265t	
<b>Cal. Corc. N &amp; Stockton</b>	Spot	305o / 300t		326o	
	My-Sp	308o		n/a	
<b>(New Crop)</b>	OND	250o		n/a	
	Clock	260o		n/a	
<b>SPECIALLY PROCESSED PRODUCTS (\$/TON)</b>					
<b>Easi Flo™</b>	<b>Courtland, AL</b>	Spot	250o	250o	
<b>FuzZpellets™</b>	<b>Weldon, NC</b>	Spot	n/a	n/a	
<b>Cotton Flo™</b>	<b>Weldon, NC</b>	Spot	n/a	n/a	
<b>b = bid   o = offer   t = trade   n/a = not available</b>					

<b>COTTONSEED dlvd. points</b>					
<b><u>PRICES 5-14-10</u></b>		<b><u>Dump</u></b>	<b><u>Hopper</u></b>	<b><u>Live Floor</u></b>	<b><u>Rail</u></b>
<b>NORTHEAST</b>		<b>(\$/ton)</b>			
<b>W. New York</b>	Spot	253o			
		193o			
<b>SE Pennsylvania</b>	Spot	235o			
		175o			
<b>NE Ohio</b>	Spot	253o			
		193o			
<b>MIDWEST</b>		<b>(\$/ton)</b>			
<b>MI (Grand Rps.)</b>	Spot	260o			
		202o			
<b>MN (Rochester)</b>	My-Ag		268o	272-278o	
	OND		210-213o	230-233o	
<b>WI (Madison)</b>	My-Ag		259o	268-269o	
	OND		205-209o	223-229o	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
<b>Texas / Dublin-</b>	Spot.		275o		
<b>Stephenville</b>	My-Sp		280o		
<b>RAIL - FOB TRACK POINTS</b>		<b>(\$/ton)</b>			
<b>Laredo TX (Mid-Bridge)</b>	Spot				280o
	OND				225o
<b>California</b>	Spot				295o
<b>Idaho (UP)</b>	Spot				305o
	JAS				308o
	OND				239o
<b>WA/OR (BN)</b>	May				305o
	OND				258o
<b>b = bid   o = offer   t = trade</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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