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# Cottonseed Intelligence Monthly

# CIM

**COTTONSEED MARKET:** Since the last installment, old crop prices have soared roughly \$20 -30/ton higher. Recently, the price strength has not been as dynamic as it was since Easter. The upward momentum may be easing some. However, until there are improvements to the outlook for rain in West Texas and there is more clarity about the Mid-South crop following the flood along the Mississippi, market participants are willing to stay on the sidelines. This uncertainty surrounding new crop production has only entrenched the standoff situation between buyers and sellers.

Southeast nearby offers continue to climb and have been the main focus of reseller buyers. The export buying interest that was lingering in the market over the past couple months, has disappeared suggesting that price levels have reached a level that may keep this demand out of the market for the balance of the crop year. Compared to other regions, gins appear to be more willing sellers, as the cotton crop is starting off without major concerns. The main issue in the region is the lack of rain in southern Georgia, but growers in the Carolinas are not concerned about their crop.

The Mid-South market has been quiet over the past few weeks. Flooding in the region did threaten some storage along the Mississippi, which pressured spot prices lower and a buyer that had trucks readily available to move supplies was able to buy a couple dollars below the market. The amount of cotton acres lost to flooding in the Mid-South is unclear, but certainly the delayed start to planting is anticipated to limit this crop's production potential. For this reason, gins are not willing to trade new crop. End users in delivered markets are dealing with sticker shock and not willing to buy at these levels. If the value of corn or other grain byproduct ingredients rebound, prices will edge higher. There is a heavier tone in the market at mid-month due to the lack of trading, but prices will likely remain firm. It is still early in the summer and sellers appear to be optimistic that there is more upside price potential. New crop trading is limited, as ginners are concerned about lower than average yields.

Nearby West Texas offers were raised a few dollars compared to last week with only small trades being made. Local dairies have threatened to stop using cottonseed and switch to other ingredients because of such high prices. The ongoing drought conditions in West Texas continue to be the main feature of the market. Those that have old crop supply yet to sell are willing to wait for higher prices. Regarding new crop supply, gins and resellers are not willing to participate in the market, as they are not willing to take on the risk. This standoff situation is expected to continue until the new crop outlook shows signs of improving. For this to happen, West Texas will need to have beneficial rains. The weather outlook for the last half of May is for continued dry conditions, which suggests that this year's dryland abandonment rate will be higher than average.

In the Far West, prices have been steadily climbing higher, as there appears to be a short position in the market continuing to support prices and paying higher prices with each subsequent trade. There have been some locations in California that have run out of seed, which suggests that rail turn-around times are not as quick as anticipated. Higher replacement costs are being cited as reason for

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the higher offers each week. It appears that with the higher prices some demand has been lost. There has been limited new crop sales being done, but volumes are well below average levels for this time of year. It appears that there is still risk for prices to continue to climb higher on concerns about the production outlook for the West Texas crop.

**COTTONSEED BALANCE SHEET:** USDA's May Crop Production Report lowered old crop cottonseed output by 93,000 tons. This amount had an offsetting reduction in the Feed, Seed and Other category. The old crop stocks/use ratio is 1.4% below the 5-year average; meanwhile the crush/supply ratio is within a percentage point of the 5-year average.

New crop production from USDA was 122,000 tons above old crop, yet they acknowledged that due to various crop issues the amount could be lower if planted acres is lower or abandonment in Texas is higher than average. Compared to last year, the Crush category was raised the highest, up 150,000 tons. The last time the crush was larger than the posted level was in the 2007/08-crop year when more oil mills were in production.

As old crop production typically does not change after the May report, we are adopting USDA's number. Thus old crop production has been lowered by 112,000 tons. There was a corresponding reduction made to the Feed, Seed and Other category. Higher prices and the lack of offers in the market suggest there is less supply available and less is being used by dairies. Exports are left unchanged, but might need to be raised. Oil mill holdings remain large and due to concerns related to new crop it appears that oil mills will carry a larger amount of seed into new crop. The last time the carryover was above 600,000-ton level was in the 2007/08-crop year.

Regarding new crop production, the initial outlook is dire and there is a bias for results to be below average levels. The drought in Texas will likely mean higher than average abandonment and lower than average yields for what is harvested. In the Mid-South there is flooding along the Mississippi which has the potential to cause delays in planting or growers will switch to planting soybeans. The crush was raised 100,000 tons as economics for crushers are expected to remain favorable due to increased demand for vegetable oils aided by increases in biodiesel production. The Feed, Seed and Other category was raised as dairy demand is projected to improve.

<b>Cottonseed Supply/Demand Balance Sheet (000 tons)</b>					
Yrs beg Aug 1	USDA	May/ USDA	May / CSD	May / USDA	May / CSD
	<u>2009/10</u>	<u>2010/11E</u>	<u>2010/11E</u>	<u>2011/12F</u>	<u>2011/12F</u>
	Beg. Stocks	514	342	342	443
Imports	24	0	0	0	0
Production	4149	6098	6098	6220	6164
<b>Total Supply</b>	<b>4687</b>	<b>6440</b>	<b>6440</b>	<b>6663</b>	<b>6769</b>
Crush	1900	2500	2450	2650	2550
Exports	291	300	310	300	290
Feed, Seed, & "Other"	2154	3197	3075	3280	3273
<b>Total Disappearance</b>	<b>4305</b>	<b>5997</b>	<b>5835</b>	<b>6230</b>	<b>6113</b>
End Stocks	342	443	605	433	656

<b>COTTONSEED fob points</b>					
<b><u>PRICES 5-13-11</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>			
No. Carolina (as ginned)	Spot	295b / 300o		200o	
	OND	195b / 200o		140o	
So. Carolina (as ginned)	Spot	295b / 300o		205o	
	OND	195b / 200o		140o	
Georgia So. (as ginned)	Spot	295b / 300o		197-200o	
	OND	195-200o		140o	
<b>MID-SOUTH</b>		<b>(\$/ton)</b>			
Memphis No. (as ginned)	Spot	300b / 308o / 305-307t		215-218t	
	My-Ag	315o		225o	
	OND	230b / 235o		160-165o	
MO Bootheel (as ginned)	Spot	310o		218t	
	June	310t		n/a	
	OND	230-235o		165o	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
West Texas (as ginned)	Spot	345o / 342.50t		230t	
	Jn-Sp	350o		235o	
	OND	265-268o / 265-268t		163t	
<b>FAR WEST</b>		<b>(\$/ton)</b>			
Arizona	Spot.	375b / 385o / 375t		275o	
Cal. Corc. N & Stockton	Spot	405o		300t	
	My-Sp	403-405o / 400t		308o	
	OND	325-330o		250o	
<b>SPECIALLY PROCESSED PRODUCTS (\$/TON)</b>					
<i>Easi Flo</i> <sup>™</sup>	Courtland, AL	Spot	347o	250o	
b = bid   o = offer   t = trade   n/a = not available					

<b>COTTONSEED dlvd. points</b>					
<b><u>PRICES 5-13-11</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	352o			
	OND	252o			
<b>SE Pennsylvania</b>	Spot	335o			
	OND	235o			
<b>NE Ohio</b>	Spot	352o			
	OND	252o			
<b>MIDWEST</b>		<b>(\$/ton)</b>			
<b>MI (Grand Rpd.)</b>	Spot	362o			
	OND	262o			
<b>MN (Rochester)</b>	Spot		369-371o	379-381o	
	My-Ag		373-376o	380-385o	
<b>WI (Madison)</b>	Spot		358-360o	369-370o	
	My-Ag		368-370o	373-375o	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
<b>Texas / Dublin- Stephenville</b>	Spot		375o		
	My-Sp		380o		
<b>RAIL - FOB TRACK POINTS</b>		<b>(\$/ton)</b>			
<b>Laredo TX (Mid-Bridge)</b>	Spot				No quote
	Spot				395o
<b>California</b>	Spot				395o
	JAS				405o
<b>Idaho (UP)</b>	OND				320o
	Spot				395o
<b>WA/OR (BN)</b>	OND				320o
<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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