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Cottonseed Intelligence Monthly

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USDA REPORTS: In May's *Crop Production Report*, cottonseed production was 5.666 million tons. It was lowered 93,000 tons compared to the January *Crop Production Report*. Texas had the largest reduction in cottonseed production down 67,000 tons followed by California off 46,000 tons. Georgia was up 43,000 tons having the largest individual state production increase since the last report.

Compared to last year, cottonseed production was up 5.5%. The largest year-over-year change in production by any state came from Texas up 441,000 tons followed by Georgia up nearly 120,000 tons. Notable state reductions compared to last were from California down 96,000 tons and Arizona down 94,000 tons. Regionally, Southwest production was above last year's level by roughly 450,000 tons, while the Southeast followed with a 236,000-ton increase over last year. Output was down for the Mid-South 199,000 tons and 190,000 tons for the Far West.

Oil mills purchased about 53% of the crop for an increase of 290,000 tons compared to the previous year. Meanwhile, the remaining 47% went to planting seed, exports and the feed industry, which was a modest increase of 6,000 tons compared to the year ago total. The larger seed position by oil mills helps explain the stronger than average crush pace so far this year. This season's imports from Australia have added to the availability of supply for feed usage.

COTTONSEED MARKET: Prices continue to climb higher as supply has tightened and there are fewer open offers. Over the past few months price spreads between the Southeast and Western markets have been wider than normal causing steady movement of supply to the West. Recently, less supply has been offered in the Southeast. At the same time, the California market has been working through its large crop and large inventories of imported seed. Until another ship of Australian seed lands in California or more rail cars arrive, prices are expected to stay strong. Cottonseed inventories have been drawn down to the extent that the remaining supply to sell is held in firm hands.

Slow planting progress with cotton, corn, and soybeans has been cause for concern about availability of new crop supply. At mid-May, cotton plantings are 15% behind the 5-year average due to cool temperatures and wet conditions in the Eastern half of the Cotton Belt and dry conditions in the West Texas. California and Arizona were the only states ahead of their 5-year average. Corn and soybeans are also behind their 5-year averages. Strong basis on corn and soybean meal should lend support to whole cottonseed prices until new crop harvest, or there is more confidence in supply. If crop production prospects are setback in coming weeks that will increase upward price risk. The outlook of less cottonseed supply than last year suggests that prices will need to hold firm relative to other competing feed ingredients in order to ration remaining supply. Those dairies that need to buy cottonseed will likely need to lower their cottonseed inclusion rate.

Prices for the balance of the month are expected to hold firm even if trading is light. Those holding supply are reluctant to sell as there are bullish concerns related to supply tightness. The cur-

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rent price relationship of whole cottonseed to cash corn and distillers still remains below average levels. This suggests that end user will continue to use cottonseed and that will continue to support higher cottonseed prices.

COTTONSEED BALANCE SHEET: USDA old crop production was lowered 93,000 tons. Exports for 2012/13 were lowered 50,000 tons, as exports lag below average levels. The Feed, Seed and Other category was lowered 43,000 tons. Ending stocks were left unchanged, which results in the stocks-to-use ratio being 8.6%, below the 5-year average of 9.5%.

This is the first month of a balance sheet for the 2013/14 crop year. Production is projected to be 4.87 million tons, which is 14% below last year's results. The decline in production is based on reduced cotton acres. USDA has imports unchanged at 100,000 tons. For the demand side of the balance sheet, all of the categories were lowered. The largest year-over-year change was made to the Feed, Seed and Other category, down 367,000 tons.

Because cottonseed production typically doesn't change after the May report, the Cottonseed Digest is adopting USDA's results. This is a reduction of 3% compared to last month. The crush was lowered 25,000 tons. Given the recent increase in whole cottonseed prices, there is the possibility of oil mills selling some of their seed into the feed market. The current Mid-South nearby trading price is more than \$30/ton above the net value of whole cottonseed for crushers.

Exports were lowered 40,000 tons, as shipments continue to lag the 5-year average of 82,000 tons. Results through March are 36,000 tons above last year's pace. Monthly shipments will need to average 14,000 tons for the remaining months of the crop year for exports to make the projected total. This is in comparison to the 17,500-ton monthly average during the first half of the crop year.

The Feed, Seed and Other category was lowered 50,000 tons. Dairy demand will likely drift lower since prices have strengthened and are apt to stay stout. If prices continue to climb, dairy usage will need to be adjusted lower in coming months. Ending stocks were lowered 75,000 tons.

New crop production is estimated at 4.93 million tons based on average yields with reduced acres from last year. This is over 180,000 tons below the 5-year average. Lower production relates to usage reduced in all categories. The outlook for abundant vegetable oil and protein meal supply is behind the lower crush. Projected increases in corn supply will also be a drag on price and limit demand from dairy and export buyers next year. Ending stocks will be tight and support prices. However, in the market environment of lower grain prices, cottonseed prices will be hard pressed to climb above levels made during this crop year.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Year begins Aug 1	USDA	May / USDA	May / CSD	May / USDA	May / CSD
	<u>2011/12</u>	<u>2012/13E</u>	<u>2012/13E</u>	<u>2013/14F</u>	<u>2013/14F</u>
Beg. Stocks	618	430	430	492	536
Imports	72	100	125	100	100
Production	5370	5666	5666	4870	4930
Total Supply	6059	6196	6221	5462	5566
Crush	2400	2500	2450	2250	2350
Exports	133	175	185	150	140
Feed, Seed, & "Other"	3097	3029	3050	2662	2600
Total Disappearance	5629	5704	5685	5062	5090
End Stocks	430	492	536	400	476

COTTONSEED fob points				
<u>PRICES 05-17-13</u>		<u>Trade</u>		<u>Yr Ago</u>
Southeast		(\$/ton)		
North Carolina	Spot	280b / 285o		242t
	June	285b		n/a
	JJA	296t		n/a
	OND	230b / 235o / 233t		203o
Georgia So.	Spot	290b / 300o		n/a
	OND	230b / 235o		200o
Mid-South		(\$/ton)		
Memphis No.	Spot	301-305t		251t
	May	305o		n/a
	June	310o		n/a
	JJA	310t		n/a
MO Bootheel	June	310t		n/a
NE Arkansas	OND	285t		n/a
Southwest		(\$/ton)		
West Texas: LN	Spot	365-370o / 360t		325o
	My-Jn	370t		n/a
Far West		(\$/ton)		
Arizona	Spot	370b / 380o / 375t		335o
Cal. Corc. No. & Stockton	Spot	395b / 400o / 395-400t		362o
	JJA	405o		n/a
	OND	360b / 365o		330o
Pima California	Spot	365t		n/a
	JJA	368-370t		n/a
	Nv-Dc	335o		n/a
Specially Processed Products (\$/ton)				
Easi Flo [™]	Courtland, AL	Spot	345o	305o
		My-Ag	350o	n/a
		OND	315o	n/a
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 05-17-13</u>		<u>Truck</u>	<u>Rail</u>	<u>Yr Ago</u>
Northeast		(\$/ton)		
W. New York	Spot	347o		302o
	My-Ag	352o		n/a
SE Pennsylvania	Spot	330o		285o
	My-Ag	335o		n/a
NE Ohio	Spot	347o		302o
	My-Ag	352o		n/a
Midwest		(\$/ton)		
MI (Grand Rpds.)	Spot	357o		312o
	My-Ag	362o		n/a
MN (Rochester)	Spot	374-375o		325o
	My-Ag	379-380o		325o
	OND	342o		n/a
WI (Madison)	Spot	369-370o		322o
	My-Ag	374-375o		315o
	OND	337o		n/a
Southwest		(\$/ton)		
Texas / Dublin- Stephenville	Spot	395o		350o
	JJA	395o		n/a
Rail - fob track points		(\$/ton)		
Laredo TX	MJJ		415o	n/a
California	My-Jn		387t	n/a
Idaho (UP)	Spot		375t	350o
	My-Sp		385o	n/a
WA/OR (BN)	Spot		390o	360o
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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