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COTTONSEED MARKET: Prices are lower compared to last month's installment. The combination of improved outlooks for next year's crop and availability of nearby supply are beginning to have a larger influence on price levels. Most regions remain thinly traded with fewer offers and buying continues to be only covering immediate needs to see them through the end of the month.

Southeastern markets are just holding their own with limited trading taking place. Early in the month offers drifted lower due to end users backing away from the market. Supply is not a concern for buyers and it looks like gins still have ample supply for the remaining months of summer. Steady rains in the region eliminated drought concerns. New crop offers have drifted lower, and buyers are not willing to take on much ownership as there is still the possibility that prices could drift lower.

At the middle of June, Mid-South nearby prices firmed a few dollars. Gins have been more active and with each passing week there is less availability. As gins become comfortable with the amount they have sold they are leaving the market. Bootheel and Northeast Arkansas supply continues to be keenly sought after because of its logistical advantage and this is apt to continue for the next few months. New crop trading continues, but volumes are small and gins are not very active participants. The likelihood of supply arriving to market earlier than normal has buyers sitting back in anticipation of lower prices once ginning is underway.

There has been a change in West Texas from last month because those holding seed are more interested in selling nearby supply and willing to accept bids. A couple rounds of wide spread rains over the past weeks has taken some of the uncertainty regarding new crop yields. There are still plenty of unknowns and negative factors that could lower production. Nonetheless, this year the current cotton crop situation is already well ahead and moving toward greater production compared to a year ago. New crop offers vary and reseller trading has slowed as they are not interested in paying too much for new crop seed, as it looks like there is more downside price risk. Meanwhile, gins are more optimistic about the crop yet they are not willing to start selling. It may take several more weeks of positive crop development before gins start selling.

The Far West was basically unchanged. Nearby rail supplies to Idaho and PNW continue to trade, albeit, a few dollars below quoted levels last month. Certainly the recent strength in milk prices is seen as beneficial, yet this is not expected to result in a sudden increase in cottonseed price. California prices have drifted lower and end user forward bookings continue to be light. Nearby supply remains the most active because end users and resellers continue buying to cover their immediate needs. Pima prices are holding firm suggesting that supply has tightened and prices could stay firm for the next few months. Interest in new crop and forward positions remains light. The market is waiting to see imported supply from Australia before the end of summer. Rail buying interest has been light but has traded this week and supply tightness isn't a concern for the next several weeks.

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COTTONSEED BALANCE SHEET: The USDA balance sheet had a 25,000-ton reduction to exports, which was offset by an increase to the Feed, Seed and Other category. Ending stocks were left unchanged. The market's weak undertone suggests that inventories are a burden, so some downward price pressure is possible absent an improvement in end user demand. The new crop balance sheet was unchanged.

The Cottonseed Digest supply side of the old crop balance sheet remains unchanged. One more vessel of Australian cottonseed is expected to land in California before the end of July. Supply is on the dock in Australia, and is expected to be loaded during the last half of June. If the vessel is delayed and comes under new crop, imports would need to be lowered to 72,000 tons as that is the current import total. There is still the possibility that China could buy more cottonseed and lower our imports.

On the demand side, exports were lowered 9,000 tons. Demand from Mexico remains soft. For the past several years, Mexico was our largest export buyer. With three months of the crop year yet to be reported, South Korea has imported the most. In the final months of the crop year Mexico usually increases purchases while South Korea's trend is lower. So, Mexico could still be our largest export destination.

The crush was lowered 65,000 tons, as demand for cottonseed oil remains soft. Not all crushers are expected to be running hard during the remaining months of the season, as oil inventories are adequate. The lighter crush has the potential for oil mills to turn sellers in coming months which will weigh on prices and increase dairy demand. The Feed, Seed and Other category was raised 100,000 tons and ending stocks were lowered 26,000 tons. Regardless of tighter supply, the nearby outlook is bearish on weaker feed ingredient prices.

New crop imports were raised 20,000 tons based on the later-than-expected arrival of Australian supply. Ending stocks fell 6,000 tons on lower beginning stocks. Next year's ample supply suggests there is a strong probability for cottonseed prices to be below levels of the past couple years.

| Cottonseed Supply/Demand Balance Sheet (000 tons) | | | | | |
|---|----------------|-----------------|-----------------|-----------------|-----------------|
| Year begins Aug 1 | USDA | June / USDA | June / CSD | June / USDA | June / CSD |
| | <u>2009/10</u> | <u>2010/11E</u> | <u>2010/11E</u> | <u>2011/12F</u> | <u>2011/12F</u> |
| Beg. Stocks | 514 | 618 | 618 | 430 | 614 |
| Imports | 24 | 100 | 90 | 0 | 45 |
| Production | 4149 | 5370 | 5370 | 5985 | 6210 |
| Total Supply | 4687 | 6088 | 6078 | 6415 | 6869 |
| Crush | 1900 | 2400 | 2350 | 2500 | 2550 |
| Exports | 291 | 135 | 114 | 300 | 200 |
| Feed, Seed, & "Other" | 2154 | 3123 | 3000 | 3115 | 3250 |
| Total Disappearance | 4305 | 5658 | 5464 | 5915 | 6000 |
| End Stocks | 342 | 430 | 614 | 500 | 869 |

| COTTONSEED fob points | | | | | |
|---|---------------|------------------------|---------------------|---------------------|----------------------|
| <u>PRICES 05-15-12</u> | | <u>Bid</u> | <u>Offer</u> | <u>Trade</u> | <u>Yr Ago</u> |
| <i>Southeast</i> | | (\$/ton) | | | |
| No. Carolina | Spot | 218-220b / 223o | | 350t | |
| | July | 220t | | n/a | |
| (as ginned) | OND | 190-195b / 200o / 200t | | 243t | |
| So. Carolina | Spot | 220-223o | | 355o | |
| | (as ginned) | OND | 197-200o | | 255o |
| Georgia So. | Spot | 215b / 218o | | 3550 | |
| | July | 220o | | n/a | |
| (as ginned) | OND | 195o / 192t | | 250o | |
| No. Alabama | Spot | 242t | | n/a | |
| <i>Mid-South</i> | | (\$/ton) | | | |
| Memphis No. | Spot | 250o / 245-250t | | 370t | |
| | (as ginned) | OND | 235o | | 285o |
| MO Bootheel | Spot | 255o | | 378o | |
| | Jly-Ag | 256o / 255t | | n/a | |
| (as ginned) | OND | 240o / 235t | | 287o | |
| NE Arkansas | Spot | 255o / 250t | | n/a | |
| <i>Southwest</i> | | (\$/ton) | | | |
| West Texas | Spot | 295b / 307o / 300t | | 392o | |
| | (as ginned) | OND | 240b / 250o / 245t | | 332o |
| Seminole | Ja-Sp | 255b / 265o | | n/a | |
| | Spot | 300o | | n/a | |
| <i>Far West</i> | | (\$/ton) | | | |
| Arizona | Spot | 315b / 320-330o | | 410-420o | |
| Cal. Corc. No. & Stockton | Spot | 350-353o / 350t | | 460t | |
| | JAS | 350-355o | | 465o | |
| | OND | 325b / 335o | | 360o | |
| | Clock | 345o | | n/a | |
| <i>Specially Processed Products (\$/ton)</i> | | | | | |
| <i>Easi Flotm</i> | Courtland, AL | Spot | 300o | 410o | |
| b = bid o = offer t = trade n/a = not available | | | | | |

| COTTONSEED dlvd. points | | | | |
|---|-------|--------------------------------|--------------------------|--------------------|
| <u>PRICES 05-15-12</u> | | <u>Dump/ Hopper</u> | <u>Live Floor</u> | <u>Rail</u> |
| Northeast | | (\$/ton) | | |
| W. New York | Jn-Ag | 278o | | |
| | OND | 255o | | |
| SE Pennsylvania | Jn-Ag | 261o | | |
| | OND | 238o | | |
| NE Ohio | Jn-Ag | 278o | | |
| | OND | 255o | | |
| Midwest | | (\$/ton) | | |
| MI (Grand Rpds.) | Jn-Ag | 288o | | |
| | OND | 265o | | |
| MN (Rochester) | Spot | 315o | 325o | |
| | OND | 295o | 305o | |
| WI (Madison) | Spot | 205-307o | 315-317o | |
| | OND | 285-290o | 290-297o | |
| Southwest | | (\$/ton) | | |
| Texas / Dublin- Stephenville | Spot | | 335o | |
| | Jn-Ag | | 335o | |
| Rail - job track points | | (\$/ton) | | |
| Laredo TX | Spot | | | 325o |
| California | Spot | | | 342t |
| Idaho (UP) | Spot | | | 327b 331o |
| | JAS | | | 333o |
| | OND | | | 315o |
| WA/OR (BN) | Spot | | | 342o |
| | Jn-Sp | | | 348o |
| | OND | | | 325o |
| 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.