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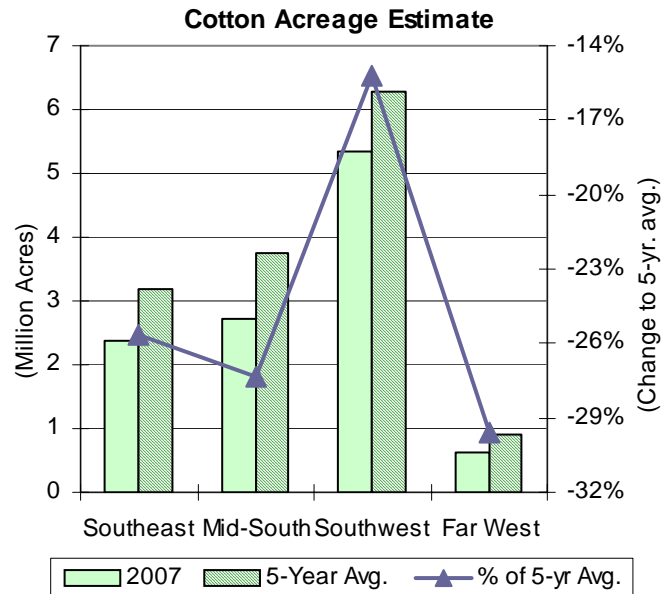
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COTTON ACREAGE: USDA's acreage report number was 700,000 acres below average trade guesses. The number is perceived as bullish although improved crop ratings offer the possibility for better yield and will mitigate some of the lost acreage. The market expectations were reported at 11.7 million acres and received 11.058 million acres. The report was down 1.089 million acres from the March *Planting Intentions* report and down 459,000 acres from Informa's estimate for the June report.

The area reductions in specific states were anticipated, but the magnitude was clearly missed by most cotton traders. When compared with the *Planting Intentions* report, the Southeast region was down 185,000 acres with drought-stricken Georgia lowered 100,000 and Alabama was off 50,000 acres. The Central Belt was down 180,000 acres with Tennessee less 80,000 and Mississippi reduced 60,000 acres. Texas dropped 700,000 acres due to planting problems because of too much rain. California was 25,000 lower and New Mexico provided the only state increase with 10,000 acres. American Pima was increased 6,000 acres. These numbers now show an acreage reduction of 28% from last year.

COTTONSEED MARKET: Prices continue to edge higher regardless of the mid-month downward price movement in corn and soybean futures. Some merchants were anticipating a better buying opportunity with softer corn and bean prices. The price strength is related to tighter supplies and steady demand coming from rail markets in the Far West. Additionally, concerns about the size of the crop in the fields are also playing a role in supporting stronger new crop price ideas.

In the Southeast, the North Carolina and North Alabama markets are several dollars higher for the nearby. New crop offers were raised to a levels over \$50/ton above the 5-year average. Merchants are mentioning that some of the export buying interest in the market has backed out. Gins are not eager sellers on new crop even though recent rains in the region have greatly improved the production prospects. Georgia's offers are a couple dollars higher, but without ginner selling, the market is difficult to call. Considering the price in the Carolinas, based on historical relationships, Georgia's price is undervalued.



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In the Mid-South, there was more trading activity in Arkansas and at locations close to rail trans loading points. Some of the larger trading entities became more aggressive buyers. End user interest in rail markets in the Far West was noted as support for the trading. New crop trading took place as well with resellers buying from gins. The downward moves early in the week helped bring some selling interest to market from gins. Buyers were interested in repeating sales, but the market lacked sellers. The reported January-August trade took place over \$40 above the 5-year average price for that time-frame, reflecting expectations for sustained strength.

Trading and pricing in West Texas is spotty and dependent on the location of supplies to end users. Seminole prices are quoted at a couple-dollar discount, as demand at these points is lackluster. Compared to other regions new crop offers in West Texas are closest to the 5-year average, at \$33/ton higher. The crop conditions are above average, but delayed by the wet and cool start to the season.

The California market is quiet with offers holding steady and continued buying on the bid side. The crop looks good, yet due to flat pricing for the entire next season, end users are not buying. Currently supplies are adequate, but on forward quotes sellers are using high prices to ration supply.

COTTONSEED BALANCE SHEET: USDA's old crop balance sheet was unchanged, but the new crop balance sheet had significant changes. Production dropped 530,000 tons to 6.09 million tons. On the demand side of the balance sheet there were only reductions. The largest decrease was a 300,000-ton loss to the feed, seed and other category. Crush was lowered 100,000 tons and exports were backed off 75,000 tons. Total disappearance dropped 475,000 tons, which is at the lowest since the 1998/99 season when disappearance and production were under 6-million tons.

Informa's production was lowered 385,000 tons. The loss of production is related to lower planted acres and impacted by varying conditions early on in the growing season. Weather will still play a significant roll in final production. The feed, seed and other category dropped 200,000 tons, while the crush was lowered 30,000 tons. The crush to feed ratio is just slightly below the 5-year average. Vegetable oil prices are stout which usually results in a stronger crush. However, the demand side of the market has yet to show a willingness to buy cottonseed oil at an average couple-cent premium over soybean oil prices. Unless oil demand shows up in the market, an even larger proportion of cottonseed will be used in the feed, seed and other category.

Exports were adjusted down 150,000 tons, to a level that is on par with the 5-year average.

Higher cottonseed prices are anticipated to hinder the movement of supply to export markets. The net effect of the changes result in ending stocks being lowered 25,000 tons. This brings stocks to the lowest level since the 2002/03 crop year. The use to stocks ratio is at 5.9% which is only marginally higher than the 2002/03 season when prices hovered around the \$170-level from April through July. The outlook for tighter supplies will support strong pricing.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	July / USDA	July / Informa	July / USDA	July / Informa
	<u>2005/06</u>	<u>2006/07F</u>	<u>2006/07F</u>	<u>2007/08F</u>	<u>2007/08F</u>
Beg. Stocks	592	602	602	560	609
Imports	0	0	0	0	0
Production	8172	7348	7348	6090	6165
Total Supply	8764	7949	7950	6650	6774
Crush	3011	2675	2650	2400	2420
Exports	523	625	620	300	350
Feed, Seed, & "Other"	4629	4089	4071	3555	3625
Total Disappearance	8163	7389	7341	6255	6395
End Stocks	602	560	609	395	379

COTTONSEED fob points				
<u>PRICES 07-20-07</u>		<u>Trade</u>		<u>Yr Ago</u>
SOUTHEAST		(\$/ton)		
No. Carolina	July	164b / 169o		114t
	Ag-Sp	164b / 171o		n/a
	OND	152b / 158o		93o
So. Carolina	July	162b / 165o		120o
	OND	148b / 155o / 148t		95o
Georgia So.	Spot	150b / 158o		125-127o
	OND	140b / 148o		98o
Alabama No.	Spot	160b / 168o		133o
	OND	150b		110o
MID-SOUTH		(\$/ton)		
Memphis No. (as-ginned)	Spot	160b / 165o / 165t		127t
	SON	155t		n/a
	Ja-Ag	170b / 175o / 171t		128b
MO Bootheel (as-ginned)	Spot	165o		130o
	OND	155b / 158o		108o
SOUTHWEST		(\$/ton)		
West Texas (as-ginned)	Spot	170b / 175o / 170-174t		150t
	Ag-Sp	178o		n/a
	OND	160b / 165o		135o
	Ja-Ag	182b / 185o		n/a
FAR WEST		(\$/ton)		
Arizona	Spot	210b / 220o		210o
	OND	215o		186o
Cal Corc. N & Stockton	Spot	240b / 243-245o / 240t		210o
	JAS	245o		n/a
	OND	236o		193o
	Clock	240o		202o
SPECIALLY PROCESSED PRODUCTS (\$/TON)				
Easi Flo™	Centre, AL	Spot	201o	170o
FuzZpellets™	Weldon, NC	Spot	204o	142o
Cotton Flo™	Weldon, NC	Spot	204o	147o
b = bid o = offer t = trade n/a = not available				

COTTONSEED dlvd. points					
<u>PRICES 07-20-07</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	222o			
	OND	211o			
SE Pennsylvania	Spot	204o			
	OND	194o			
NE Ohio	Spot	217o			
	OND	207o			
MIDWEST		(\$/ton)			
MI (Grand Rpd.)	Spot	227o			
	OND	217o			
MN (Rochester)	Spot		208-213o	215-220o	
	OND		206	217o	
WI (Madison)	Spot.		204-209o	210-216o	
	OND		202	210o	
SOUTHWEST		(\$/ton)			
Texas / Dublin-	Spot		210o		
Stephenville	OND		185o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	July				221o
California	Spot				235o
Idaho (UP)	Spot				242b 245t
	Ag-Sp				244b 247o
	OND				228b 232o
WA/OR (BN)	Spot				250o
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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