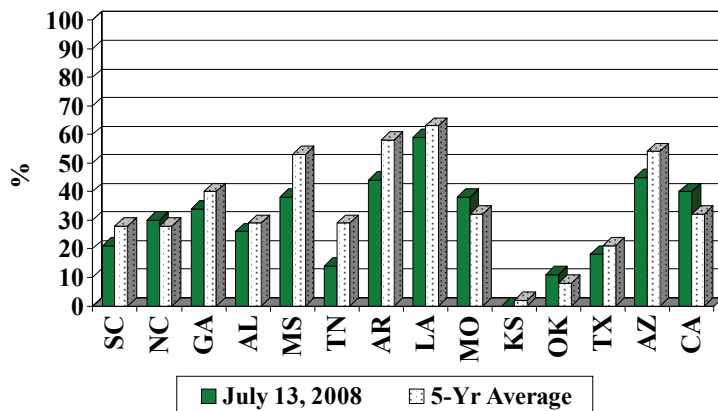


**COTTONSEED MARKET:** The recent retreat to CBOT prices has caused buyers to hold off on purchases and has resulted in a weaker tone to the market. Compared to prices a month ago, Southeast and Far West prices are higher, but have come off their highs. Mid-South prices are lower than a month ago, and West Texas prices are basically even. The lack of trading action and interest can be considered as typical post-holiday and mid-summer doldrums. The market continues to be thinly traded and this is only made worse with some market participants on vacation. The lack of demand from end users due to record high prices is another reason markets are quiet.

Offers in the Southeast are slim as the market remains quiet with supplies extremely tight and held in strong hands. Dairy demand remains lackluster. Delivered prices to the Northeast is unchanged, and merchants are concerned about the anticipated loss of new crop demand. Hikes in freight costs will also be a factor in making cottonseed pricier in delivered markets. This factor is expected to cause some dairies to find alternatives for cottonseed. The lack of new crop offers might limit trading opportunities to export markets. Gins are not comfortable yet with their supply situation and will want to make sure they get their seed houses full before selling.

The Mid-South market has been quiet. Less cotton acres along with hot and dry conditions are the main concerns related to supply. New crop offers are limited as gins are only offering small quantities at best and continue to keep a bullish attitude about prices come ginning season. The graph shows Tennessee and Mississippi are both 15 points behind their average for boll setting, while Arkansas trails by 14 points. Slow development is the result of late plantings and raises quality risks related to the possibility of a late harvest in the region. This is the reason the gins are not willing to offer new crop.

### U.S. Cotton, Percent Setting Bolls 14 Major States



Offers in California are widely varied and what is trading it is dominated by resellers. Those offering at the high side of the range likely have limited seed holdings and are not willing to lower offers. Lackluster demand has kept the market quiet. Pima prices between \$370-375, continue to be abnormally low compared to white fuzzy seed. Pima is the best buying opportunity for those who can use it. The recent announcement of higher rail rates on the UP effective October 1st, where not considered a surprise, but is seen as a bearish development. This will keep prices stout and likely have a negative impact on demand and the

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**For weekly cottonseed pricing and commentary contact:**

James Bueltel - Phone 651-925-1052, Fax 651-925-1061 e-mail: [james.bueltel@informaecon.com](mailto:james.bueltel@informaecon.com)

amount of supplies shipped.

West Texas prices have been holding firm with limited buying interest. Beneficial rains and the weakness in the CBOT bought more selling interest to market on new crop. But, more trading could have been done, provided there were more gins willing to sell. Crop conditions are varied and gins appear they will continue to be slow coming to market. It appears nearby prices will slowly edge lower as long as new crop development does not have serious setbacks.

**COTTONSEED BALANCE SHEET:** The old crop balance sheet from USDA was unchanged. The new crop balance sheet had a production decrease of 120,000 tons. The disappearance side had a 150,000 reduction to the Feed, Seed and Other category. This resulted in a 30,000 ton increase to ending stocks. This nudges the stocks-to-use ratio above the 5-year average by a tenth of a percent.

Due to the reported slow down in end user demand, Informa cut the old crop Feed, Seed and Other category, which raised ending stocks, by the same amount. Given stout new crop prices, it appears crushers will continue to hold on to old crop supplies and carry them over into new crop. If crushing results are stronger than anticipated, the ending stocks will be adjusted lower. At this time, ending stocks to use is just over 10%. This will be the highest amount carried over since the 1990/91 crop year.

New crop total supplies were raised 274,000 tons thanks to the larger carry over and raised production expectations. Recent improvements in crop ratings and rains in Texas are behind the increase. The crush is unchanged, as new crop oil bookings have not been robust thus far. Exports were raised 95,000 tons, on reports of continued buying interest in new crop supply. But at this point, matching last year's level does not seem likely given high prices. The Feed, Seed and Other category was raised 50,000 tons, as new crop prices have edged lower and likely will win additional demand. Slow bookings from the feed sector, suggests that for new crop there will be more month-to-month buying compared to previous years. Ending stocks were raised 129,000 tons, as crushers are expected to be the main users of cottonseed and the holders of inventories.

<b>Cottonseed Supply/Demand Balance Sheet (000 tons)</b>					
Yrs beg Aug 1	USDA	July / USDA	July / Informa	July / USDA	July / Informa
	2006/07	2007/08E	2007/08E	2008/09F	2008/09F
	Beg. Stocks	602	489	489	400
Imports	0	5	4	50	25
Production	7348	6589	6588	5090	5111
<b>Total Supply</b>	<b>7950</b>	<b>70832</b>	<b>7081</b>	<b>5540</b>	<b>5786</b>
Crush	2680	2750	2650	2700	2675
Exports	616	635	628	350	320
Feed, Seed, & "Other"	4165	3298	3153	2140	2295
<b>Total Disappearance</b>	<b>7461</b>	<b>6683</b>	<b>6431</b>	<b>5190</b>	<b>5290</b>
End Stocks	489	400	650	350	496

<b>COTTONSEED fob points</b>				
<b><u>PRICES 07-18-08</u></b>		<b><u>Trade</u></b>		<b><u>Yr Ago</u></b>
<b>SOUTHEAST</b>		<b>(\$/ton)</b>		
No. Carolina	Spot	415o / 415t		169o
So. Carolina	Spot	390b / 400o		165o
Georgia So.	Spot	385b / 400o		155o
Alabama No.	Spot	385b / 395o		168o
<b>MID-SOUTH</b>		<b>(\$/ton)</b>		
Memphis No.	June	380b / 385o / 385t		165t
	Jly-Aug	385o		n/a
(as ginned)	OND	350o / 348-350t		155o
MO Bootheel	Spot	385o / 385t		165o
<b>SOUTHWEST</b>		<b>(\$/ton)</b>		
West Texas	Spot	385b / 390o		170-174t
	JAS	390o		n/a
(as ginned)	OND	355o		165o
<b>FAR WEST</b>		<b>(\$/ton)</b>		
Arizona	Spot	385b / 400o / 395t		220o
	OND	385b / 393o		215o
Cal Corc. N & Stockton	Spot	450-455o		240t
	OND	435o		236o
	Clock	465o		240o
<b>SPECIALY PROCESSED PRODUCTS (\$/TON)</b>				
<i>Easi Flo</i> <sup>tm</sup>	Courtland, AL	Spot	453o	201o
<i>FuzZpellets</i> <sup>tm</sup>	Weldon, NC	Spot	No quote	204o
<i>Cotton Flo</i> <sup>tm</sup>	Weldon, NC	Spot	No quote	204o
b = bid   o = offer   t = trade   n/a = not available				

<b>COTTONSEED dlvd. points</b>					
<b><u>PRICES 07-18-08</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>			
W. New York	Spot	476o			
SE Pennsylvania	Spot	465o			
NE Ohio	Spot	472o			
<b>MIDWEST</b>		<b>(\$/ton)</b>			
MI (Grand Rpds.)	Spot	482o			
MN (Rochester)	Spot		450-455o	463-465o	
	OND		393o	405o	
WI (Madison)	Spot		447o	455-460o	
	OND		388o	403o	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
Texas / Dublin-	Spot		440o		
Stephenville	JAS		No quote		
<b>RAIL - FOB TRACK POINTS</b>		<b>(\$/ton)</b>			
Laredo TX (Mid-Bridge)	Spot				440b 455o
	OND				405b 412o
California	Spot				No quote
Idaho (UP) (new crop)	Spot				460b 475o
	OND				440b 445o
WA/OR (BN)	Spot				490o
	OND				455o
<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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