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COTTON ACREAGE: From

USDA's Acreage Report released June 30th, upland cotton acres are estimated at 8.91 million acres, down 392,000 acres compared to last year or -4%. This is the lowest acreage since 1983. Similar to last year, the Mid-South and Far West regions lost the most acres from the previous year. Pima acreage from last year are lower 149,400 acres, a reduction of 14%.

COTTONSEED MARKET: Prices

continue to soften following the downward trend of futures in Chicago. The fundamental supply situation hasn't drastically changed, but the lack of end user buying is keeping a bearish tone in the market. End users are slow at taking delivery of contracted cottonseed as they are including less in diets than anticipated and using lower cost feed ingredients. At the same time, merchants are concerned surrounding tardiness of payments from some dairies.

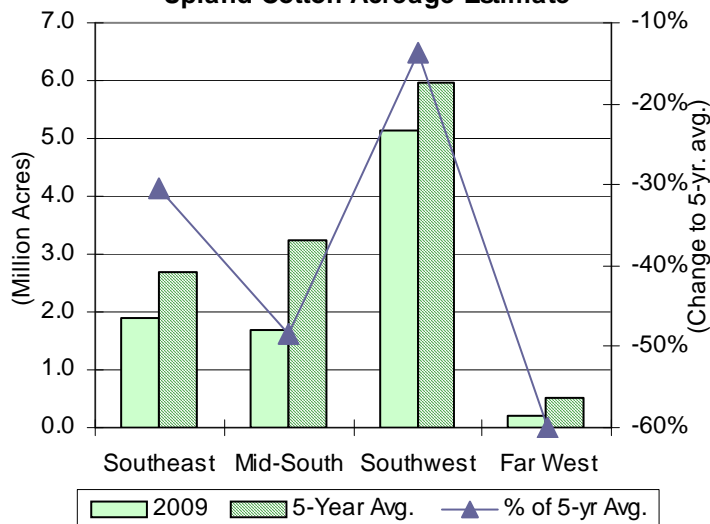
The net-value of cottonseed for Mid-South crushers dipped below the \$200-mark for the first time in 4 weeks. A year ago at this time, the net-valued topped \$400/ton which was a historical high. The net value will likely continue to edge lower as long as the soybean complex or crude oil doesn't rally radically higher. Oil mills haven't been active buyers in the market and until they are able to make some sales, they are not likely to show up on the market. The cottonseed oil supply is heavy and will likely continue to be a burden, keeping a negative basis to nearby soybean oil. Oil mills are not expected to become aggressive buyers of seed until oil economics improve.

The Southeast market has been quiet, due to the lack of buyers. Compared to the last installment, new crop offers have fallen the most with the Carolinas down \$30/ton. Gins are not willing to participate in new crop trade as price levels are below gins' expectations. This standoff between merchants and gins is expected to continue for the next few months.

Mid-South prices have drifted lower, similar to other markets. Since the last installment, Memphis North nearby offers fell \$30/ton, while the new crop offers were down \$25/ton. Gin selling remains minimal and oil mills have not been active. Expectations are for the downward trend to continue, but at a much slower pace.

West Texas and Mid-South prices for nearby and new crop are offered at nearly the same

Upland Cotton Acreage Estimate



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level. Nearby and July–September prices are one and the same in West Texas. Regardless of the recent drop in offers, sellers are not able to entice buyers. Heat in West Texas has raised concerns about the crop and without a timely rain, production will likely be greatly hampered.

Far West markets are quiet. It appears end user demand has been satisfied for the time being. A shipment of Australian cottonseed is expected before month's end. This it is not expected to result in drastically softer prices in the region. Dairy economics and lower grain future prices have a greater impact on cottonseed prices. It appears that availability of supply will be sufficient heading into new crop.

COTTONSEED BALANCE SHEET: USDA's old and new crop balance sheets were unchanged from last month. The Oil Crop Outlook report addressed the 240,000-acre projected increase to the cotton crop, but that estimated harvested area was left unchanged, which results in production being unchanged as well. This early in the crop year, production is difficult to forecast cottonseed as weather variability has such a great influence on production.

Informa's old crop balance sheet had production unchanged, but imports of 24,000 tons were shifted from new crop to old crop, as the estimated time of arrival of the vessel from Australia to California is for the last week of July. This appears likely to be the only shipment of the year. It doesn't seem that there will be any more trade on the horizon, as the US dollar is weak and dairy demand remains soft. However, if milk prices manage to rally and end users increase usage driving cottonseed prices higher, then there is some potential for additional Australian supplies to find their way into our market. On the demand side, exports were elevated 8,000 tons as results for May exceed projected levels. The Feed, Seed and Other category was lowered 20,000 tons, as merchants have mentioned end users have been dragging their feet on taking contracted supplies, because dairies are attempting to lower feed costs which suggests cottonseed inclusion rates have been lowered. Ending stocks were raised by 37,000 tons. The stocks-to-use ratio rose to just over 10%, and is similar to the 07/08 crop year, while USDA's balance sheet is pegged at 7%.

For new crop, total supply was lowered 24,000 tons from the exports being shifted to old crop. Production remains unchanged, which is an admittedly conservative amount considering it is early in the crop year and it is more than 280,000 tons below USDA's estimate. The crush was lowered 50,000 tons, based on cottonseed oil inventories remaining high, end user demand being lethargic for oil and meal, and it doesn't appear there will be a strong crush this year. The Feed, Seed and Other category was adjusted down 17,000 tons. Poor dairy economics are anticipated to linger for the first few months of the crop year and this will likely keep inclusion rates below average levels. Ending stocks were raised 79,000 tons creating a more comfortable supply cushion, albeit roughly 100,000 tons below 5-year average ending stocks. The stocks-to-use ratio climbed to just under 10%.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	July / USDA	July / Informa	July / USDA	July / Informa
	<u>2007/08</u>	<u>2008/09E</u>	<u>2008/09E</u>	<u>2009/10E</u>	<u>2009/10E</u>
	Beg. Stocks	489	643	643	330
Imports	3	0	24	0	0
Production	6589	4300	4300	4730	4447
Total Supply	7080	4943	4967	5060	4919
Crush	2706	2350	2270	2675	2325
Exports	599	180	175	350	170
Feed, Seed, & "Other"	3132	2083	2070	1700	1980
Total Disappearance	6437	4613	4495	4725	4475
End Stocks	643	330	472	335	444

COTTONSEED fob points					
<u>PRICES 07-17-09</u>		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Yr Ago</u>
SOUTHEAST		(\$/ton)			
No. Carolina	Spot	202b / 205o		415o/t	
(as-ginned)	OND	150b / 155o		n/a	
So. Carolina	Spot	210o		400o	
(as-ginned)	OND	150b / 155o		n/a	
Georgia So.	Spot	205b / 212-215o		400o	
(as-ginned)	OND	150b / 155/160o / 150-160t		310o	
MID-SOUTH		(\$/ton)			
Memphis No.	Spot	215-220o		385t	
(as ginned)	Oc-Nv	171b / 175/178o / 172-175t		348-350t	
MO Bootheel	Spot	218t		385t	
SOUTHWEST		(\$/ton)			
West Texas	Spot	220-225 / 220t		390o	
	JAS	225o		390o	
(as-ginned)	OND	175-185o / 180t		355o	
FAR WEST		(\$/ton)			
Arizona	Spot	285		395t	
	OND	260o		393o	
Cal Corc. N	Spot	300o		450-455o	
& Stockton	JAS	300o		n/a	
	OND	270b / 275o		435o	
SPECIALLY PROCESSED PRODUCTS (\$/TON)					
<i>Easi Flotm</i>	Courtland, AL	Spot	240o	453o	
<i>FuzZpelletstm</i>	Weldon, NC	Spot	265o	n/a	
<i>Cotton Flotm</i>	Weldon, NC	Spot	265o	n/a	
b = bid o = offer t = trade n/a = not available					

COTTONSEED dlvd. points					
<u>PRICES 07-17-09</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	251o			
	OND	201o			
SE Pennsylvania	Spot	239o			
	OND	190o			
NE Ohio	Spot	251o			
	OND	201o			
MIDWEST		(\$/ton)			
MI (Grand Rpd.)	Spot	260o			
	OND	210o			
MN (Rochester)	Spot		267-269o	276-278o	
	OND		226-228o	235-238o	
WI (Madison)	Spot		258-260o	268-273o	
	OND		215-217o	225-227o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot		270o/t		
	OND		210o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	Spot				300o
	Spot				n/a
California Idaho (UP)	Spot				285o
	OND				260-265o
WA/OR (BN)	Spot				295o
	OND				270-275o
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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