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COTTONSEED MARKET: Nearby prices continue to drift lower on lackluster end user buying interest as competing feed ingredient prices moved lower. The steady decline of grain futures since the end of June has kept a bearish tone in feed ingredient markets. End user buying interest has turned quiet for feed ingredients in general as buyers are waiting for prices to establish a bottom before coming back into the market to cover needs.

By mid-July, the Mid-South relative price to cash corn has drifted lower while the relative price to distiller dried grains held steady. In coming months, cottonseed's relative price to these ingredients is apt to drift lower and move closer to the average level. Robust dairy producer profits are projected for the next several months which should help keep the relative price above average level. However, cottonseed's relative price to corn or distiller dried grains is not expected to stay at levels reached during June and July.

The price spread between nearby and new crop in most markets continues to be more than a \$100/ton, and compares with the 5-year average price spreads between \$35 - \$50/ton. The historically tight supply and high prices the past few months combined with a favorable crop outlook and lower prices suggest more downside risk for old crop prices rather than upside for new crop prices for the price spread to converge. Before the end of the summer, shorts may provide a chance for spot prices to muster a short-lived rebound. The downward price momentum may slow for the next couple weeks, but then drop quickly once ginning starts.

It is reasonable to think there is less downward price risk for new crop prices given current price levels are from \$15 - \$20/ton below the 5-year average for the October-December timeframe. Dairy demand should increase due to these attractive prices and a larger dairy herd supported by favorable dairy margins. New crop prices are apt to hold steady during July. If weather conditions remain favorable for the crop, it is possible for modest downward price moves ahead of harvest and the ginning season which will likely take place during August and September.

The net-value of cottonseed for Mid-South crushers dropped over \$100/ton since the beginning of July. The drop in the net-value is based on a much lower cottonseed oil basis along with weaker soybean oil futures. Meanwhile, cottonseed meal and hull prices have drifted lower as well on competition from other feed ingredients which softened demand. The drop in the net-value for crushers is keeping pace with the declines in cottonseed prices. Currently, crushers are not expected to suddenly become buyers and increase their crush this or next month. For this to happen, the price spread between the net-value and cottonseed would have to be more than \$20/ton. Additionally, crushers would have to put on cottonseed oil sales which seems unlikely given the bearish tone in vegetable oil markets. Buyers are willing to wait on making any purchases because abundant new crop supplies are expected to pressure prices lower.

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COTTONSEED BALANCE SHEET: USDA's old crop balance sheet had a 10,000-ton reduction to exports. Export results for May at 13,000 tons were the second lowest monthly total for the year and 3,000 tons below the 5-year average for the month. As a result of the lowered exports, ending stocks were raised 10,000 tons.

USDA raised 2014/15 production over a half million tons to 5.535 million tons. USDA's June Acreage Report raised cotton plantings by 268,000 acres compared to their March report. This production forecast is 438,000 tons above the 5-year average.

USDA's largest new crop increase on the demand side of the balance sheet was the Feed, Seed and Other category, while crush was raised by 200,000 tons. Exports were lowered by a modest 10,000 tons. The net effect of the changes was ending stocks being raised by 65,000 tons. The stocks to use ratio was raised less than a percent to 8.2% and just 2 tenths of a percent below the 5-year average.

The Cottonseed Digest's old crop balance sheet had a minor 5,000-ton shift from exports to ending stocks due to smaller than projected May exports. New crop cottonseed production was raised 223,000 tons based on favorable growing conditions and timely rains in the Southwest which suggests yields will be larger and dryland abandonment will be much lower than a year ago.

The Feed, Seed and Other category was raised 118,000 tons which was over half of the production increase. The crush was raised 100,000 tons, as the larger supply suggests that cottonseed prices should be below last year's level and potentially more attractive for crusher profitability. Exports were raised 5,000 tons as new crop prices will be below year ago levels and attract additional demand. Ending stocks were raised 5,000 tons compared to last month. The stocks to use ratio was lowered, but is within a tenth of a percent of the 5-year average.

| Cottonseed Supply/Demand Balance Sheet (000 tons) | | | | | | |
|---------------------------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Year begins Aug 1 | USDA | USDA | July / USDA | July / CSD | July / USDA | July / CSD |
| | <u>2011/12</u> | <u>2012/13E</u> | <u>2013/14E</u> | <u>2013/14E</u> | <u>2014/15F</u> | <u>2014/15F</u> |
| Beg. Stocks | 618 | 430 | 492 | 507 | 353 | 322 |
| Imports | 72 | 0 | 110 | 162 | 0 | 62 |
| Production | 5370 | 5666 | 4203 | 4203 | 5535 | 5323 |
| Total Supply | 6059 | 6096 | 4805 | 4872 | 5888 | 5707 |
| Crush | 2400 | 2500 | 2000 | 2010 | 2400 | 2300 |
| Exports | 133 | 191 | 240 | 240 | 290 | 290 |
| Feed, Seed, & "Other" | 3096 | 2913 | 2212 | 2300 | 2750 | 2668 |
| Total Disappearance | 5629 | 5604 | 4452 | 4550 | 5440 | 5258 |
| End Stocks | 430 | 492 | 353 | 322 | 448 | 449 |

| COTTONSEED fob points | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------|------|----------------------|
| <u>PRICES 07-18-14</u> | | <u>Trade</u> | | <u>Yr Ago</u> |
| <i>Southeast</i> | | (\$/ton) | | |
| North Carolina | Spot | 330t | 305t | |
| | Aug | 330t | n/a | |
| | OND | 210b / 220o / 215t | 230o | |
| South Carolina | OND | 210b / 220o | n/a | |
| Georgia So. | Spot | 335o | 327t | |
| | OND | 210b / 220o / 215t | 230o | |
| <i>Mid-South</i> | | (\$/ton) | | |
| Memphis No. | Spot | 360t | 335o | |
| | OND | 248t | 280o | |
| MO Bootheel | Spot | 360t | 337o | |
| | OND | 260o | n/a | |
| NE Arkansas | OND | 250t | n/a | |
| <i>Southwest</i> | | (\$/ton) | | |
| West Texas: LN | Spot | 375-400o | 375t | |
| | OND | 255b / 265o | 305t | |
| West Texas: SN | Spot | 275o / 270t | 377t | |
| <i>Far West</i> | | (\$/ton) | | |
| Arizona | Spot | 450o / 440t | 397o | |
| | OND | 360o | 335o | |
| Cal. Corc. No. | Spot | 470-475o | 440o | |
| | OND | 360o | 375o | |
| | Clock | 370o | n/a | |
| Pima California | Spot | 465o | 393t | |
| <i>Specially Processed Products (\$/ton)</i> | | | | |
| <i>Easi Flo</i> tm | Courtland, AL | Spot | 415 | 377o |
| | | Oc-Nv | 295 | 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 | | | | |
|-----------------------------------------|-------|-----------------|-------------|---------------|
| PRICES 07-18-14 | | Truck | Rail | Yr Ago |
| Northeast | | (\$/ton) | | |
| W. New York | Spot | 3970 | | 3720 |
| | OND | 2850 | | 2920 |
| SE Pennsylvania | Spot | 3770 | | 3550 |
| | OND | 2670 | | 2750 |
| NE Ohio | Spot | 3970 | | 3720 |
| | OND | 2850 | | 2920 |
| Midwest | | (\$/ton) | | |
| MI (Grand Rpds.) | Spot | 4070 | | 3820 |
| | OND | 2950 | | 3020 |
| MN (Rochester) | Spot | 418-4400 | | 4110 |
| | JAS | 420-4400 | | n/a |
| | OND | 315-3300 | | 3520 |
| WI (Madison) | Spot | 412-4160 | | 4030 |
| | JAS | 414-4180 | | n/a |
| | OND | 309-3110 | | 3400 |
| Southwest | | (\$/ton) | | |
| Texas / Dublin- Stephenville | Spot | 4500 | | 4000 |
| Rail - job track points | | (\$/ton) | | |
| California | OND | | 355-3600 | 367t |
| | Clock | | 3600 | n/a |
| Idaho (UP) | Spot | | 4500 | 4100 |
| | OND | | 340-3450 | 350t |
| WA/OR (BN) | Clock | | 3450 | 3850 |
| | OND | | 3650 | n/a |
| 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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