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USDA REPORTS: In its first survey-based production estimate of the 2006/07-season, USDA reported a larger than anticipated all US cotton production at 20.43 million bales, down only slightly from 20.50 million bales in the July estimate. This is more than a million bales above the average of reported industry expectations and 780,000 bales above Informa's August estimate issued a week earlier. One significant difference between the two reports is that USDA has abandonment in Texas 300,000 acres lower and total harvested acres at 4.225 million. The US average upland cotton yield is 20-Lbs/acre higher than Informa's. USDA's forecast for cottonseed is pegged at 7.175 million tons, which is close to our estimate of 7.1 million tons, which was in the market a week earlier.

The first ginning report of the season was released on August 11, showing a running bales ginned total of 23,250, as of August 1st. This is roughly a third of last year's output, and below the 3-year average by 25,266 bales. The below average results are reflective of the poor crop conditions, high abandonment and lower yields in the Southern Valley of Texas. This report shows the ginning activity concentrated in The Southern Valley of Texas. The total for the 4-county area this year, is expected to be only about 125,000 bales.

COTTONSEED MARKET: The Southeast markets remain strong for the nearby as availability of supply remains tight thanks to robust export buying interest in the market. Since the last installment, North Carolina prices have moved up roughly \$20. Recently, no spot trading has been reported in South Carolina as there is no nearby offer. Spot offers in Georgia jumped to \$140/ton as some buyers are expected in the market before the end of the month. Alabama price levels are even with Georgia's and are holding firm for the nearby and for as-ginned supplies as well. This late in the year these price run-ups can be expected, as there is very little seed to be sold. New crop price levels have moved only a couple dollars higher, but the market is lacking the trading to give either side of the market confidence that prices are at a reasonable level.

Those needing to get their hands on seed in the Mid-South for the nearby are having to pay the asking level or raise their bids to accomplish trading. Since last month prices have edged a couple dollars lower. Gins are anxious to get contracted seed out of their storage, so they can see how much is left to sell at these stout price levels. Defoliation is right around the corner in the Delta, which suggests that new crop supplies should be in the market by the middle of September. This new seed on the market can potentially undermine the current end-of-year premium that some gins would like to get before ginning pressure drives prices lower. Price levels may still climb higher into the first week of September.

Spot offers in West Texas dipped lower early in the month, but have come back to the same levels as a month ago. Mexican buying interest continues to linger in the market. The Laredo mid-bridge price is at the mid- to low-\$160's for the September-November time frame. New crop in West Texas traded at \$145, and then offers were raised \$5, but nothing traded subsequently. Most merchants and dairies are not willing to get too excited about trading new crop at these higher price levels.

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Some feedlot buying was reported as of late, but their buying is not expected to be as large as a year ago. Due to the lack of forward contracting at this point, it appears that dairy buying activity this year will be focused on month-to-month. The rains that have fallen on the Panhandle will be beneficial for the irrigated crop, but it is too little too late for dryland acreage.

The Far West market is concerned about the new freight rates, which will significantly increase the cost of railed cottonseed to California and the Pacific Northwest. Merchants in the Far West are anticipating that between 1 and 1.5 pounds of cottonseed will be taken out of dairy rations in the region this year. Even with less demand, getting enough seed to market will be a challenge for the trade. Sellers in the region are already feeling the lighter demand. California nearby prices moved up a couple dollars this week with only limited trading activity.

COTTONSEED BALANCE SHEET: The August USDA cottonseed balance sheet released mid-month had only one change to old crop with exports increased 10,000 tons, which lowered beginning stocks for new crop by the same amount. New crop production was scaled back 5,000 tons. This marks a 15,000-ton reduction to production and ending stocks, as all other categories were unchanged.

The Informa balance sheet for old crop has exports raised 36,000 tons due to late-season buying activity increased from Asian and Mexican buyers. The crush was upped 70,000 tons, while the feed, seed and other category was lowered 139,000 tons. The net effect was an increase in old crop ending stocks by 33,000 tons, which will be representative of the amount held by oil mills.

Compared to last month's balance sheet, new crop production was scaled back 250,000 tons. This is because of heat and drought related to abandonment in West Texas, which is larger than what the market has seen for the past couple years. Additionally, lower production is expected in Alabama and Georgia. The crush was lowered 75,000 tons on unfavorable crush economics. The feed, seed and other category dropped 190,000 tons, as less production will limit the amount of seed used in dairy rations. Even if ending stocks rose 33,000 tons, lower production is an over riding factor that will drive prices higher for new crop and this price pressure will likely result in less usage. Exports are unchanged this month, but this category has the potential to increase if the interest from Mexico continues, and the growth in Asian demand continues to outpace previous years.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	Aug. / USDA	Aug. / Informa	Aug. / USDA	Aug. / Informa
	2004/05	2005/06F	2005/06F	2006/07F	2006/07F
	Beg. Stocks	421	592	592	529
Imports	1	5	2	100	2
Production	8242	8172	8200	7175	7050
Total Supply	8664	8769	8794	7804	7685
Crush	2923	3050	3020	2750	2725
Exports	379	485	500	415	420
Feed, Seed, & "Other"	4770	4705	4641	4125	4050
Total Disappearance	8072	8240	8161	7290	7195
End Stocks	592	529	633	514	490

COTTONSEED fob points				
<u>PRICES 8-18-06</u>		<u>Trade</u>		<u>Yr Ago</u>
SOUTHEAST		(\$/ton)		
No. Carolina	Spot	128b / 131o		90-95t
	(as ginned) OND	92b / 94o		97o
So. Carolina	OND	90b / 97o		98o
	Ja-Ag	110b / 116o		n/a
Georgia So.	Spot	140o		123-125o
	OND	95b / 100o		98-100o
Alabama No.	Spot	138-140o		120-121o
	OND	105-110b		103b
	Ja-Ag	125b		n/a
MID-SOUTH		(\$/ton)		
Memphis No.	Spot	125t		122-124o
	(as ginned) OND	105b / 108-110o / 106t		105o
	Ja-Ag	130o		119o
MO Bootheel	Spot	132o / 130t		125-126o
	Sp-Nv	110o		108o
NE Louisiana	Sept.	115-120o		n/a
SOUTHWEST		(\$/ton)		
West Texas	Spot	160-163o / 160t		138-140t
	(as ginned) OND	145b / 150o / 145t		117t
	Ja-Sp	160b / 170o / 165t		n/a
FAR WEST		(\$/ton)		
Arizona	Spot	190b / 210o / 205t		145t
	OND	175b / 185o		150o
Cal Corc. N & Stockton	Spot	195b / 200o / 200t		186-190o
	OND	195o		181o
	Clock	205o		185o
SPECIALY PROCESSED PRODUCTS (\$/TON)				
Easi Flo™	Centre, AL	Spot	165o	154o
FuzZpellets™	Weldon, NC	Spot	159o	131o
Cotton Flo™	Weldon, NC	Spot	162o	132o
b = bid o = offer t = trade n/a = not available				

COTTONSEED dlvd. points					
<u>PRICES 8-18-06</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	188o			
	OND	150o			
SE Pennsylvania	Spot	170o			
	OND	130o			
NE Ohio	Spot	183o			
	OND	145o			
MIDWEST		(\$/ton)			
MI (Grand Rpds.)	Spot	198o			
	OND	160o			
MN (Rochester)	Spot		175-78o	182-185o	
	OND		160-165o	170-174o	
WI (Madison)	Spot		167o	173-182o	
	OND		152o	160-163o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot		185o		
	OND		175o		
RAIL - FOB TRACK POINTS		(\$/ton)			
California	Spot				195o
	OND				180b 186o
Idaho (UP)	Spot				190b 195o
	OND				180b 185o
WA/OR (BN)	Spot				196-197o
	OND				200o
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.