

August 2011
Volume 15, Issue 08

Cottonseed Intelligence Monthly

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USDA PRODUCTION REPORT: The August USDA Production report projected all cotton production to be 16.6 million bales, which is down 9% from last year's level. The general reception of the cotton production was that it was larger than anticipated by most market participants. There is still a lot of time left in the growing season allowing for the possibility negative factors that could cause the final production to be lowered. The cottonseed production total was raised to 5.565 million tons, which is up 35,000 tons since last month. Compared to the amount of cottonseed produced last year, the industry will have over a half million tons less supply to trade this year.

Total harvested acres, compared to last year are projected to be down by 10% even though planted acres were up over 2.7 million acres. The region with the largest projected change to harvested acres is the Southwest, down nearly 4 million acres or 38%. For the remaining regions, the total acres harvested should be larger. Eastern states should have 18% more acres harvested, while the Mid-South is projected up 21% and the Far West is up the most at 34%, thanks to additional Pima acres.

Total abandonment is projected to be 30%, which is the highest in recent years. Due to the drought and persistent heat in West Texas, the Southwest has the highest percentage of abandonment projected over 50%. The remaining regions are forecasted in to have only 2-3% abandonment. There is still the possibility this year for abandonment to rise if wells run dry or if there is hurricane damage.

COTTONSEED MARKET: The first couple of weeks of August have been quiet due to the lack of buying interest. The soft tone confirms that the surge in prices during the previous month has cleared demand from the market. At the same time uncertainty about the supply situation has kept buyers on the sidelines or looking to book price competitive alternatives for cottonseed. The longer it takes end users to get on board with these price levels, it suggests that there might be additional downward pressure before they start buying. The concern is that once significant amounts of trading starts and prices rebound, downside price risk will likely be minuscule until next year's supply comes to market.

Southeast markets have been lethargic. Traders are looking forward to the first of new crop supply about the middle of September. Dairy demand has been shy coming to the market and will likely stay on the sidelines in anticipation of further weakening of price. But, the downside will likely be limited. Gins have become comfortable with their supply situation and have shown more interest in selling.

Nearby offers in the Mid-South have edged lower, but only small volumes are trading. End user demand is minimal, as resellers are the main participants for nearby trading. Dairies in the Midwest are waiting for gin-run supply before coming to the market. New crop offers have drifted a couple dollars lower. Oil mills have dropped their bid a couple dollars, which suggests their initial bid was

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met with sufficient selling from gins. Resellers are not interested in building their position at these price levels. Gins are seeing their crop as being average and are not willing to sell too early.

New crop offers in West Texas moved above old crop levels. It appears that old crop buying interest has left the market, as offers drifted lower a few more dollars. Gins are still not willing to sell new crop. There are growers shutting off wells, as they are not expecting their crop to make a profit. If there is additional abandonment, new crop prices are apt to hold their value and ginning pressure will be minimal. Oil mills have not been as aggressive buyers this year. There are concerns about the negative impact of the drought on production and if there will be enough supply for oil mills.

Far West markets are quiet and nearby prices continue to drift lower due to lighter demand. Dairies don't have much forward coverage and has some merchants concerned about demand. New crop offers were lower, but prices haven't gone low enough to attract buyers.

COTTONSEED BALANCE SHEET: From USDA's Crop Production report, their 2011/12 cottonseed production number was raised 35,000 tons to 5.565 million tons. The remaining categories are unchanged. Next month the final numbers should be available for the 2010/11 balance sheet.

The Cottonseed Digest's old crop balance sheet had the crush raised 58,000 tons as recent months have had a stronger crush than anticipated. Demand for cottonseed oil is stout as inventories have drifted lower. Given the outlook for tighter supply of cottonseed next year, oil mills will crush their existing inventory of seed. Exports were lowered 17,000 tons as a strong dollar and prices discouraged trade the past month. This situation will likely continue for the rest of the crop year, so another downward reduction is possible especially since Mexico's cotton production is projected up over 60%.

The old crop Feed, Seed and Other category was lowered 76,000 tons, as end users have resisted recent price increases. Oil mills have not been active sellers and the result is an increase to the ending stocks number. The last time stocks to use were higher was in the 2007/08 crop year, they were 644,000 tons. In the following year, cottonseed production dropped over 2 million tons. This year's year-over-year reduction projected to be a half a million tons.

For the 2011/12 season, cottonseed production dropped 91,000 tons. Additional reductions are possible if abandonment in Texas is greater than the 50% that is projected. Exports were lowered 50,000 tons on tight supply and stout prices.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	Aug. / USDA	Aug. / CSD	Aug. / USDA	Aug. / CSD
	2009/10	2010/11E	2010/11E	2011/12E	2011/12E
	Beg. Stocks	514	342	342	443
Imports	24	0	0	100	100
Production	4149	6098	6098	5565	5558
Total Supply	4687	6440	6440	6108	6235
Crush	1900	2500	2508	2400	2400
Exports	291	290	268	225	200
Feed, Seed, & "Other"	2154	3207	3087	3060	3073
Total Disappearance	4305	5997	5863	5685	5673
End Stocks	342	443	577	423	562

COTTONSEED fob points					
<u>PRICES 8-19-11</u>		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Yr Ago</u>
SOUTHEAST		(\$/ton)			
No. Carolina (as ginned)	Spot	365b / 375o			234o
	OND	265b / 272o / 265-270t			138o
	JFM	290o			n/a
So. Carolina (as ginned)	Ja-Ag	295o			n/a
	Spot	365b / 375o			n/a
	OND	265b / 275o / 265t			138o
Georgia So. (as ginned)	JFM	290o			n/a
	Spot	375b / 385o			239o
	OND	260b / 270o			137o/t
JFM	295o			n/a	
MID-SOUTH		(\$/ton)			
Memphis No. (as ginned)	Spot	375b / 383-385o / 380-383t			250-255t
	OND	290b / 303-308o / 303-305t			167o
	Ja-Ag	325o			n/a
MO Bootheel (as ginned)	Spot	385o			258-260o
	OND	305o			166t
SOUTHWEST		(\$/ton)			
West Texas (as ginned)	Spot	380b / 385o			262-265o
	OND	390b / 395o			165-170o
FAR WEST		(\$/ton)			
Arizona (as ginned)	Spot.	410b / 420o / 415t			320t
	OND	360o			225o
Cal. Corc. N & Stockton	Spot	470-475t			365o
	OND	395o			257o
	Clock	415o			267o
SPECIALLY PROCESSED PRODUCTS (\$/TON)					
Easi Flotm	Courtland, AL	Spot	455o	290o	
b = bid o = offer t = trade n/a = not available					

COTTONSEED dlvd. points					
<u>PRICES 8-19-11</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	417o			
	OND	317o			
SE Pennsylvania	Spot	400o			
	OND	300o			
NE Ohio	Spot	417o			
	OND	317o			
MIDWEST		(\$/ton)			
MI (Grand Rpds.)	Spot	427o			
	OND	327o			
MN (Rochester)	Spot		435-443o	445-455o	
	OND		365o	375o	
WI (Madison)	Spot		435-443o	445-455o	
	OND		360o	370o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot		385o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	Spot				n/a
California	Spot				460o
	OND				385-390o
Idaho (UP)	Spot				450-460o
	OND				385b 395o
WA/OR (BN)	Spot				470o
	OND				400o
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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