

August 2013  
Volume 17, Issue 08

# Cottonseed Intelligence Monthly

# CIM

**COTTONSEED MARKET:** Ongoing weakness in grain futures continues to have a negative impact on cottonseed prices. The downturn in nearby trading activity can be expected as end users are reluctant to take on any more than necessary for nearby ownership. Buyers are focused on the price inverse of forward grain futures contracts. They anticipate that this inverted market situation will continue and will keep downward pressure on nearby cottonseed prices. For the price inverse to hold, crop conditions will need to remain favorable which would lead to abundant supply. If there are production problems for corn, soybeans, or cotton it is possible that prices could rebound. For now, there is a stronger bias for prices to continue to edge lower ahead of harvest time.

For new crop, there appears to be more downside risk not only based on the outlook for abundant grain supply but also based on crushing economics. The new crop net value of cottonseed for Mid-South crushers, has hovered around \$230/ton during the first half of August, but due to the lack of buying interest for some of the cottonseed products there is risk for additional downside. Weaker soybean meal futures and lower price expectations for cottonseed meal are reason for the bearish outlook.

Due to volatile grain futures, end users are not actively buying new crop cottonseed meal or cottonseed oil. With the lack of new crop product trading, prices are likely skewed to the upside. This means there is a strong possibility that the actual net value for crushers will be lower than is suggested at this time. The outcome will be oil mills being less aggressive buyers as they have less margin available to pay for cottonseed compared to what they were able to pay the past few years. Given the outlook for large corn supply, USDA's average farm price for corn for the 2013/14 season is \$4.80/bushel. Applying the Mid-South 3-year average relative price of 109% to the USDA corn price, the Mid-South cottonseed price would be \$187/ton. However, new crop offers are holding a much higher risk premium which is rationing supply. This year the crop is projected to be below last year's level by more than a million tons. When applying the Mid-South crusher cottonseed value to the 3-year average relative price to cash corn during the October-December timeframe of 109%, it suggests cash corn prices would be roughly \$6.20/bushel, which would be more than what a dairy feeder would be willing to pay for cottonseed if corn prices are over a dollar per bushel lower. Certainly stout cottonseed new crop prices are not enticing additional end user buying. Most new crop trading is being done between resellers.

In looking at supply, Mid-South production will be below last year's level, because of fewer planted acres, late planting, and slow crop development. The later crop development also raises the possibility of lower yields due to exposure to the elements and the possibility of a weather event to have a negative impact on production. Given the smaller production, some Mid-South gins are planning to only sell the minimal amount of seed in the fall and put as much as they can into storage for sale later during 2014. By carrying the supply, they are anticipating that they will get a higher price

Every effort has been made to assure the accuracy of the information and market data which is provided in this publication as a compilation for the use of its readers. Information has been obtained by Informa Economics, Inc. from sources believed to be reliable. However, because of the possibility of human or mechanical error, Informa does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Published by Informa Economics, Inc., 3464 Washington Drive, Suite 120, Eagan, MN 55122-1438.

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

*James Bueltel - Phone 651-925-1052, Fax 651-925-1061 e-mail: james.bueltel@informaecon.com*

after the ginning season. It is possible that these gins will be rewarded with only marginally higher prices for their cottonseed. However, the increase is not expected to reach the \$30/ton 5-year average spread between OND and Jan-Aug prices due to large grain supplies. Demand for cottonseed in the feed market will be limited, because dairies will be able to cover their needs with other cost-competitive feed ingredients.

**COTTONSEED BALANCE SHEET:** The USDA old crop balance sheet was unchanged with last month. The largest change for new crop was the 158,000-ton decline in cottonseed production. The crush was lowered 50,000 tons while the Feed, Seed and Other category was lowered 113,000 tons. The net effect of the changes was a mere 5,000 ton increase to ending stocks.

The old crop balance sheet for the Cottonseed Digest was unchanged with last month. For the 2013/14 crop, production was reduced 214,000 tons, but the total remains roughly 200,000 tons above USDA's projection. Even with crop conditions below the 5-year average at this point in the year, there have been recent favorable rains in West Texas which should increase production prospects. The cottonseed crush was lowered 50,000 tons, as the outlook for larger soybean supply has the potential to suppress vegetable oil prices and erode some demand for cottonseed oil.

The Feed, Seed and Other category was lowered 150,000 tons, on price competition from other feed ingredients. Increased corn and soybean supply is expected to lower their prices and cash basis and drag grain co-product prices lower as well. Currently, dairies are waiting to buy new crop until more is known about the supply situation. Due to less cottonseed and stout prices, cottonseed inclusion rates in dairy rations will be lower.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Year begins Aug 1	USDA	Aug / USDA	Aug / CSD	Aug / USDA	Aug / CSD
	<u>2011/12</u>	<u>2012/13E</u>	<u>2012/13E</u>	<u>2013/14F</u>	<u>2013/14F</u>
Beg. Stocks	618	430	430	492	480
Imports	72	100	172	100	100
Production	5370	5666	5666	4367	4566
<b>Total Supply</b>	<b>6059</b>	<b>6196</b>	<b>6268</b>	<b>4959</b>	<b>5146</b>
Crush	2400	2500	2525	2200	2300
Exports	133	175	188	150	140
Feed, Seed, & "Other"	3097	3029	3075	2204	2250
<b>Total Disappearance</b>	<b>5629</b>	<b>5704</b>	<b>5788</b>	<b>4554</b>	<b>4690</b>
End Stocks	430	492	480	4056	456

<b>COTTONSEED fob points</b>				
<u>PRICES 08-16-13</u>		<u>Trade</u>		<u>Yr Ago</u>
<b>Southeast</b>		<b>(\$/ton)</b>		
North Carolina	Spot	295-300o / 290t		265t
	OND	210-215b / 220o / 210t		262o
Georgia So.	Spot	320o		265o
	OND	210b / 220o		260t
<b>Mid-South</b>		<b>(\$/ton)</b>		
Memphis No.	Spot	295-300o / 295t		290o
	OND	250b / 255o		300t
MO Bootheel	Spot	295b / 300-305o		298t
	OND	250b / 255-260o		309o
NE Arkansas	Spot	295b / 300-305o		298t
	OND	253b / 256o		306o
	Ja-Ag	275b		n/a
<b>Southwest</b>		<b>(\$/ton)</b>		
West Texas: LN	Spot	370b / 375o		387t
	OND	275b / 280o / 275t		355o
West Texas: SN	Spot	365b / 370o		n/a
<b>Far West</b>		<b>(\$/ton)</b>		
Arizona	Spot	380o		n/a
	OND	325o		350o
Cal. Corc. No. & Stockton	Spot	410-415o / 410t		393t
	OND	350b / 355-365o		390o
Pima California	Clock	365o		400o
	Spot	390t		n/a
	OND	330b / 335o		n/a
	Clock	340o		n/a
<b>Specially Processed Products (\$/ton)</b>				
<i>Easi Flo</i> <sup>™</sup>	Courtland, AL	Spot	360o	340o
		OND	305o	n/a
<b>b = bid o = offer t = trade n/a = not available</b> <b>West Texas: LN=Lubbock North, PN= Plainview North, SN= Seminole North</b>				

<b>COTTONSEED dlvd. points</b>				
<b>PRICES 08-16-13</b>		<b>Truck</b>	<b>Rail</b>	<b>Yr Ago</b>
<b>Northeast</b>		<b>(\$/ton)</b>		
<b>W. New York</b>	Spot	3600		3280
	OND	2680		3300
<b>SE Pennsylvania</b>	Spot	3400		3110
	OND	2500		3130
<b>NE Ohio</b>	Spot	3600		3280
	OND	2680		3300
<b>Midwest</b>		<b>(\$/ton)</b>		
<b>MI (Grand Rpd.)</b>	Spot	3710		3400
	OND	2780		3420
<b>MN (Rochester)</b>	Spot	375-3800		3690
	OND	320-3250		3720
<b>WI (Madison)</b>	Spot	370-3750		3590
	OND	3150		3660
<b>Southwest</b>		<b>(\$/ton)</b>		
<b>Texas / Dublin- Stephenville</b>	Spot	3900		3650
	OND	3250		3700
<b>Rail - job track points</b>		<b>(\$/ton)</b>		
<b>Laredo TX</b>	Spot		3800	n/a
	OND		3250	n/a
<b>California</b>	Spot		403t	3900
	OND		351t	n/a
	Ja-Sp		3650	n/a
<b>Idaho (UP)</b>	Spot		390-3950	3760
	OND		340-3420	3730
<b>WA/OR (BN)</b>	Spot		4000	3860
<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.

*Cottonseed Intelligence Monthly@2013* is published monthly Phone: **651-925-1052/Fax 651-925-1061** e-mail: james.bueltel@informaecon.com  
Every effort has been made to assure the accuracy of the information and market data which is provided in this publication as a compilation for the use of its readers. Information has been obtained by Informa Economics, Inc. from sources believed to be reliable. However, because of the possibility of human or mechanical error, Informa does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Published by Informa Economics, Inc, 3464 Washington Drive, Suite 120, Eagan, MN 55122.