

August 2014

Volume 18, Issue 08

Cottonseed Intelligence Monthly

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COTTONSEED MARKET: During the first half of August, nearby trading was light which is common for the time of year. Nearby prices in the Southeast and Mid-South have seen double digit swings up and down and up again over the past several weeks. Southeast nearby prices have retained their strength which speaks to the tight supply situation in the region. Nearby prices are inclined to start drifting lower toward new crop prices by the end of the month given the mostly favorable production outlook. Supply will likely remain tight in the Southeast and Mid-South before new crop comes to market. The amount of price volatility to the upside should be limited. Given the softer prices with other feed ingredients, end user demand for cottonseed at current prices may be limited.

West Texas nearby offers have edged lower as there appears to be ample supply with an increase in nearby selling interest. Trading volumes remain small, but there were more sellers showing offers attempting to get the highest price that they can knowing that a large new crop will likely weigh on prices. There are concerns about the West Texas crop's slow development, yet there should still be ample supply to bridge the gap between old and new crop.

The California market had prices nudge higher nearby as some locations are running low on old crop cottonseed. At the same time, nearby buying interest is light because other feed ingredients have become much more price competitive. New crop offers are unchanged and without robust dairy buying interest, trading remains lighter than normal.

The relative price of Mid-South cottonseed to distiller dried grains has moved to a historical high of 328%. The relative price increase was pushed up by the late-season rally in Mid-south cottonseed price combined with the softness in distiller dried grains related to the loss of export demand to China. The higher relative price means that end users are more likely to use more distiller dried grains in rations when possible and limit the amount of cottonseed. The current stout relative price is expected to fall before the end of August. In coming months the relative price to distiller dried grains is expected to fall by roughly half due to price competition from other feed ingredients.

New crop offers have edged lower compared to a month ago. Because of above average crop conditions during the course of the growing season and a larger crop, new crop prices have additional downward price risk. There are concerns that the crop is delayed and new crop supplies will come to market slightly later than normal. This could provide modest support to nearby prices, but there is potential that the ginning season will run longer than normal in to January or February and this has the potential to keep downward pressure on prices longer than normal. The bearish tone with other feed ingredients has kept end users on the sidelines. It is reasonable to think than forward buying will be light until harvest pressure pushes prices lower, then end user buyers are more inclined to come to market and start covering their forward needs.

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COTTONSEED BALANCE SHEET: The old crop balance sheet of USDA had imports raised 28,000 tons. Exports were lowered 10,000 tons. The Feed, Seed and Other category was lowered 38,000 tons. The new crop balance sheet had cottonseed production up 242,000 tons. Both the crush and the Feed, Seed and Other category were raised 100,000 tons. Exports were unchanged. Ending stocks were raised 42,000 tons as a result of the changes.

The Cottonseed Digest's old crop balance sheet had imports raised 14,000 tons and might need to be modestly increased next month based on final import data. The crush was increased 40,000 tons on runtimes holding stronger than expected the final months of the crop year. Exports for June were 10,000 tons below the 5-year average for the month. Stout prices during the past few months have limited export buying interest. The net result of these changes lowered ending stocks to 313,000 tons, which would make it the lowest ending stocks in 14 years.

The largest change for new crop was the 454,000-ton increase to production. This increase is based on larger yields than earlier conservative projections. Now there is a lower probability that production will be reduced by a weather calamity. Exports were lowered by 14,000 tons as some supply was delivered in July and was shifted to the old crop balance sheet.

The Feed, Seed and Other category was raised 342,000 tons, picking up the majority of this month's production increase. The outlook for positive dairy margins in coming months and growth in cow numbers should increase dairy demand. Over the past 10 years, cottonseed supply was over 6 million tons in 7 of those years. For those 7 years the Feed, Seed and Other category has been over 3 million tons 5 years. The remaining 2 years were roughly 20,000 and 80,000 tons shy of the 3 million level. The crush was raised 100,000 tons to 2.4 million tons which would be the smallest crush for those past 7 years when supply was over 6 million tons. Cottonseed oil bookings to date are slow but crushing economics are projected to be favorable as gin-run cottonseed prices are apt to drift below current levels. Exports were modestly raised 10,000 tons as more buying interest is expected this fall with an outlook of Australia's crop smaller by a third. Ending stocks were lowered 21,000 tons. The stocks-to-use ratio is a percentage point below the 5-year average.

Cottonseed Supply/Demand Balance Sheet (000 tons)						
Year begins Aug 1	USDA	USDA	August / USDA	August / CSD	August / USDA	August / CSD
	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14E</u>	<u>2013/14E</u>	<u>2014/15F</u>	<u>2014/15F</u>
Beg. Stocks	618	430	492	507	353	313
Imports	72	182	138	176	0	48
Production	5370	5666	4203	4203	5777	5777
Total Supply	6059	6278	4833	4886	6130	6138
Crush	2400	2500	2000	2050	2500	2400
Exports	133	191	230	223	290	300
Feed, Seed, & "Other"	3096	3094	2250	2300	2850	3000
Total Disappearance	5629	5786	4480	4573	5640	5700
End Stocks	430	492	353	313	490	438

COTTONSEED fob points				
<u>PRICES 08-15-14</u>		<u>Trade</u>		<u>Yr Ago</u>
<i>Southeast</i>		(\$/ton)		
North Carolina	Spot	330b / 340-355o / 330-345		290t
	OND	200b / 205o / 205		210t
	Ja-Ag	215b / 225o		n/a
South Carolina	Spot	205		n/a
Georgia So.	Spot	320b / 325-345o / 345		320o
	OND	195-200b / 205o		220o
<i>Mid-South</i>		(\$/ton)		
Memphis No.	Spot	325-350		295t
	OND	245o		255o
MO Bootheel	OND	248-250o		257o
NE Arkansas	OND	245-248o		256o
<i>Southwest</i>		(\$/ton)		
West Texas: LN	Spot	325-330o / 323-325		375o
	OND	250b / 255o		275t
	Ja-Sp	270b / 275		n/a
<i>Far West</i>		(\$/ton)		
Arizona	Spot	380o		380o
	OND	330o		325o
Cal. Corc. No.	Spot	455-458o		410t
	OND	370o		360o
Pima California	Spot	410b / 430		390t
	OND	340b 350o		335o
<i>Specially Processed Products (\$/ton)</i>				
<i>Easi Flo™</i>	Courtland, AL	Spot	400/o	360/o
		Oc-Nv	285/o	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				
<u>PRICES 08-15-14</u>		<u>Truck</u>	<u>Rail</u>	<u>Yr Ago</u>
Northeast		(\$/ton)		
W. New York	Spot	4020		3600
	OND	2720		2680
	Ja-Ag	2920		n/a
SE Pennsylvania	Spot	3850		3400
	OND	2550		2500
	Ja-Ag	2750		n/a
NE Ohio	Spot	4020		3600
	OND	2720		2680
	Ja-Ag	2750		n/a
Midwest		(\$/ton)		
MI (Grand Rpd.)	Spot	4120		3710
	OND	2840		2780
	Ja-Ag	3040		n/a
MN (Rochester)	Spot	405-4150		3770
	OND	3150		3220
WI (Madison)	Spot	400-4050		3720
	OND	3100		3150
Southwest		(\$/ton)		
Texas / Dublin- Stephenville	Spot	3250		3900
Rail - fob track points		(\$/ton)		
California	OND		3600	351t
Idaho (UP)	Spot		4100	3920
	OND		3350	3410
	Ja-Sp		3450	n/a
WA/OR (BN)	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.