

**USDA PRODUCTION REPORT:** The September production report estimates all cotton production at 13.846 million bales. This is an increase of 79,200 bales compared to USDA's report from last month. While this increase in production appears to be bearish news, a large caveat was included on the report mentioning that the impact of hurricane Gustav has not been taken into account. Additionally the impact of Hurricane Ike has the potential to cause cotton production to be lowered in next month's report. The resulting loss of cotton production compared to last year could potentially be greater than 5.5 million bales. USDA's total cottonseed production forecast was raised by 29,000 tons from a month ago to 4.713 million tons.

USDA U.S. SEPTEMBER COTTON CROP ESTIMATE (000 Bales)

REGION	PLANTED	HARVESTED	YIELD/ACRE	2007/08 PRODUCTION	USDA 08/09 PRODUCTION	CHANGE
Southeast	1,947	1,926	773	3,237	3,101	-136
Mid-South	1,900	1,872	979	5,277	3,820	-1,457
Southwest	5,142	3,617	755	8,677	5,696	-2,981
West	250	245	1,508	1,164	770	-394
Upland	9,239	7,660	839	18,355	13,387	-4,968
Pima	175	170	1,296	852	459	-393
TOTAL	9,414	7,830	849	19,207	13,846	-5,361

**COTTONSEED MARKET:** The drastic price gyrations in CBOT futures and the woes in financial markets have kept markets quiet. With ginning season coming closer in the Mid-South and Southeast, there has been greater variability in new crop price ideas. Oil mills have reportedly backed away from the market at the middle of the month, which might mean their bid will dip lower. So, it appears there will be a standoff between crushers and gins as we head into a new ginning season. For the time being oil mills already have a large carryover and some purchases already made so they can be patient with buying the remainder of their needs. The net-value of cottonseed is expected to dip below the \$300-mark. It has been above that level since March.

California had a flurry of truck buying interest, which helped increase nearby price ranges by mid-month. The interest is only on single truck load type volume. The market is lacking large volume interest, which is related back to subpar dairy economics. Pima for spot was recently offered at \$340/ton and for clock has been offered at \$368/ton. The clock offer hasn't attracted much interest, suggesting prices will need to edge lower before it will trade. Dairies are expected to be hand-to-mouth buyers until they see a buying opportunity.

In the West Texas market there are reports of more gins coming forward looking to make some new crop sales. Dairy buyers are difficult to convince that now is a better time to buy than when

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gins will be running. The recent turn to warmer weather in the state is helping the cotton crop with a strong finish and this fact may result in larger production. It may be a couple more weeks before the nearby prices edges lower and this may help put downward pressure on gin forward offers as well.

In the Mid-South, there were reports of new crop trading mid-month at lower levels than shown in the chart. However, when merchants attempted to find sellers at such levels they were not able to find any. Defoliation is expected to start taking place provided weather is favorable. Then ginning could start in the last few days of the month. Tighter supply and a shorter ginning season in the region should result in less downward pressure on prices.

Demand in the Southeast market is considered lackluster given offers are well above bid levels. Delivered markets to dairies in the Northeast have been quiet. Buyers are waiting things out until sellers accept their bids. With only limited buying and selling interest, the region lacks clarity.

**COTTONSEED BALANCE SHEET:** The USDA old crop balance sheet had a 243,000-ton increase to ending stocks based on lower disappearance. The largest reduction came from the Feed, Seed and Other category off 166,000 tons. The crush was scaled back 46,000 tons and exports were adjusted 36,000 tons lower. From this point forward, changes to the old crop balance sheet will likely be minor.

USDA's new crop has larger beginning stocks plus production was raised 29,000 tons. This brings their total supply up 272,000 tons. An off-setting increase to the Feed, Seed and Other category keeps ending stocks at the same level as a month ago.

For old crop, Informa raised the crush by 53,000 tons as oil mills in the final quarter of the year had stronger runtimes than anticipated. The pace of exports faded the last couple months compared to the quick pace established the year earlier. It appears that last year's exports will be a high-water mark for the market. The Feed, Seed and Other category was adjusted lower by 18,000 tons. The result of these changes was a minor 7,000 ton reduction to ending stocks. This makes the stocks-to-use ratio a high 10.5%, versus the 5-year average of 6.5%.

Informa scaled back new crop production as storm damage might lower seed yields. Also, a later than average harvest exposes the crop to the potential for additional losses, so for now estimates are conservative. From last month, the crush had the largest reduction, down 150,000 tons. This is based on weaker economic indicators for crushers and reports of lighter bookings. The Feed, Seed and Other category was raised 95,000 tons, to cover the loss of demand for crushing. Dairy buying interest has been lighter and appears it will likely stay that way for several months. Ending stocks were up 1,000 tons, which results in a similar ratio to use as noted about old crop.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	Sept. / USDA	Sept. / Informa	Sept. / USDA	Sept. / Informa
	<u>2006/07</u>	<u>2007/08E</u>	<u>2007/08E</u>	<u>2008/09F</u>	<u>2008/09F</u>
Beg. Stocks	602	489	489	643	643
Imports	0	3	3	50	25
Production	7348	6589	6588	4713	4661
<b>Total Supply</b>	<b>7950</b>	<b>7080</b>	<b>7080</b>	<b>5406</b>	<b>5329</b>
Crush	2680	2706	2703	2600	2475
Exports	616	599	599	350	320
Feed, Seed, & "Other"	4165	3132	3135	2156	2045
<b>Total Disappear- ance</b>	<b>7461</b>	<b>6437</b>	<b>6437</b>	<b>5106</b>	<b>4840</b>
End Stocks	489	643	643	300	489

<b>COTTONSEED fob points</b>				
<b><u>PRICES 09-19-08</u></b>		<b><u>Trade</u></b>		<b><u>Yr Ago</u></b>
<b>SOUTHEAST</b>		<b>(\$/ton)</b>		
No. Carolina	Spot	328o / 328t		n/a
(as ginned)	OND	280o		175o
So. Carolina	Spot	320o		n/a
Georgia So.	Spot	320o / 310t		n/a
(as ginned)	OND	270o		155t
Alabama No.	Oc-Nv	300b / 305o		n/a
<b>MID-SOUTH</b>		<b>(\$/ton)</b>		
Memphis No.	Spot	315o / 315t		172o/t
(as ginned)	OND	280b / 295o		170o
	Ja-Ag	300b / 310o		n/a
MO Bootheel	Spot	315o / 315t		172o
<b>SOUTHWEST</b>		<b>(\$/ton)</b>		
West Texas	Spot	335-340o / 335t		171t
(as ginned)	OND	305-310o		165o
	Ja-Sp	330t		178t
<b>FAR WEST</b>		<b>(\$/ton)</b>		
Arizona	Spot	380o		223b
	OND	380o		225b
Cal Corc. N	Spot	420-425o / 415-420t		265-275t
& Stockton	OND	420o		255o
<b>SPECIALLY PROCESSED PRODUCTS (\$/TON)</b>				
<i>Easi Flo<sup>tm</sup></i>	Courtland, AL	Spot	399o	215o
<i>FuzZpellets<sup>tm</sup></i>	Weldon, NC	Spot	No quote	219o
<i>Cotton Flo<sup>tm</sup></i>	Weldon, NC	Spot	No quote	219o
<b>b = bid o = offer t = trade n/a = not available</b>				

<b>COTTONSEED dlvd. points</b>					
<b><u>PRICES 09-19-08</u></b>		<b><u>Dump</u></b>	<b><u>Hopper</u></b>	<b><u>Live Floor</u></b>	<b><u>Rail</u></b>
<b>NORTHEAST</b>		<b>(\$/ton)</b>			
<b>W. New York</b>	Spot	390o			
	OND	350o			
<b>SE Pennsylvania</b>	Spot	365o			
	OND	325o			
<b>NE Ohio</b>	Spot	382o			
	OND	340o			
<b>MIDWEST</b>		<b>(\$/ton)</b>			
<b>MI (Grand Rps.)</b>	Spot	395o			
	OND	355o			
<b>MN (Rochester)</b>	Spot		365-370o	370-380o	
	OND		345o	345-350o	
<b>WI (Madison)</b>	Spot		362-367o	368-373	
	OND		330-35o	340-345o	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
<b>Texas / Dublin- Stephenville</b>	Spot		375o		
	OND		350o		
<b>RAIL - FOB TRACK POINTS</b>		<b>(\$/ton)</b>			
<b>Laredo TX (Mid-Bridge)</b>	Spot				375b 380o
	OND				380-385o
<b>California</b>	Spot				400t
<b>Idaho (UP) (new crop)</b>	Spot				425o
	OND				400o
<b>WA/OR (BN)</b>	Spot				435o
	OND				415o
<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.

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