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COTTONSEED MARKET: By the middle of October, spot prices have edged lower to be within a few dollars of the generic as-ginned price. The nearby price premiums have evaporated from markets because currently availability of cottonseed has improved. Ginning pressure hasn't developed to the extent that some dairies had anticipated by this time. End user demand remains light. At the same time, demand for other feed ingredients is currently slower than normal. End users are willing to wait for prices to drift lower before taking on more ownership. Resellers are limiting how much they are willing to buy forward until end users show a willingness to cover their requirements for coming months into 2013.

Southeast ginning continues to lag behind expectations. Because of the abundant rains pushing back harvest, production may be larger than earlier anticipated. Harvest progress as of October 15th in Georgia was behind only 2 points compared to other states in the region, which were on average 15 percentage points behind. By the last half of the month, all gins in the region will be up and running and is expected to be a drag on prices. Due to the lack of interested buyers of forward supply, trading is limited and keeping a bearish tone in the region.

Mid-South markets were surprisingly quiet as ginning continues strong while buying interest is light. Ginning is the furthest along in this region and over half should be completed by the end of October. Movement of new crop supply under contract continues at a steady pace. Nearby offers were nudged lower a few dollars, but the drop in price hasn't been enough to cause a drastic increase in demand. Oil mills are seen as less interested in buying at this point as they have a good portion of their needs covered. Any new purchases will likely need to trade at lower prices. Lower protein prices have caused cottonseed meal prices to decline narrowing crusher margins. Feed buyers appear content with their ownership and are waiting to see if some bargains can be bought in the Southeast.

The West Texas market has been quiet for the first half of October, as only a minority of gins have been running, but more will be starting up soon. The price premium for nearby supply was lost over the past few weeks and it is possible there will be more downward price pressure before the end of the month once more supply is available. Dairies are not aggressive buyers and are expected to stay clear of the market until they see prices drift lower. If there would be a price discount of \$20/ton and corn prices hold firm, then feedlots would likely buy up cottonseed because it would be an excellent value. Deferred offers are a non-issue as end users are not willing to take on ownership and gins are not willing to sell as they expect a higher price.

Far West end user demand remains below expectations. However, trading in Idaho held steady for the past few weeks. Most buying interest is focused on covering nearby requirements in other locations. California nearby supply tightness will disappear during the last half of October as more gins will be running. Supply in Stockton will increase as well as another vessel of Australian cottonseed is landed mid-month. This will be the third ship of cottonseed since August. Far West cotton-

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seed inclusion rates in dairy rations are apt to be larger than a year ago given improved availability of supply compared to last year.

COTTONSEED BALANCE SHEET: For the 2011/12 crop, USDA had an off-setting change of 11,000 tons which lowered the Feed, Seed and Other category and raised ending stocks. The Feed, Seed and Other category is still over 200,000 tons above the 5-year average. Production for the 2012/13-crop was raised 58,000 tons as cotton production prospects were raised in USDA's October *Crop Production* report. The Feed, Seed and Other category was increased 59,000 tons. The net effect of these changes was a 10,000-ton increase to ending stocks, which is only 9,000 tons shy of the 5-year average.

The Cottonseed Digest balance sheet for the 2011/12 crop year remains unchanged. Production for the 2012/13 crop was raised 61,000 tons on higher cotton yield projections than earlier anticipated. The additional time in the fields and late moisture which keep the crop green and filling bolls should boost yields.

The crush was raised 25,000 tons making it 200,000 tons above the 5-year average. Oil mills have been steady buyers. The net production value of cottonseed for Mid-South crushers has fallen more than \$70/ton since the beginning of September, which was the high point during 2012. Weaker grain prices and lackluster demand over the past several weeks has caused cottonseed meal and hull prices to fall, which is reason for the lower net-value for crushers. The Feed, Seed and Other category was raised 30,000 tons. Ample supply of cottonseed from increased imports and domestic production suggests feeding rates will likely be above last year's levels.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Year begins Aug 1	USDA	Oct. / USDA	Oct. / CSD	Oct. / USDA	Oct. / CSD
	<u>2010/11</u>	<u>2011/12E</u>	<u>2011/12E</u>	<u>2012/13F</u>	<u>2012/13F</u>
Beg. Stocks	342	618	618	430	527
Imports	0	72	72	100	125
Production	6098	5370	5370	5868	5921
Total Supply	6440	6059	6060	6398	6573
Crush	2563	2400	2372	2600	2565
Exports	275	133	133	300	280
Feed, Seed, & "Other"	2984	3097	3028	2998	3100
Total Disappearance	5822	5629	5533	5898	5945
End Stocks	618	430	527	500	628

COTTONSEED fob points				
<u>PRICES 10-19-12</u>		<u>Trade</u>		<u>Yr Ago</u>
Southeast		(\$/ton)		
No. Carolina (as ginned)	Spot	250t		n/a
	OND	240b / 245-246o / 241t		247o
	Ja-Ag	260b / 265-266o		275o
So. Carolina	OND	240b / 245o		247o
	Ja-Ag	260b / 262-265o / 260t		270o
Georgia So. (as ginned)	Spot	240o		n/a
	OND	230b / 239o / 230-235t		245t
	Ja-Ag	260o / 255t		n/a
North Alabama	OND	250t		n/a
Mid-South		(\$/ton)		
Memphis No. (as ginned)	Spot	280o		275t
	OND	270b / 275o		267o
	Ja-Ag	290-295o		305o
MO Bootheel	OND	274b / 280o		282o
NE Arkansas	Nv-Dc	275t		n/a
Southwest		(\$/ton)		
West Texas: LN (as ginned)	Spot	300b / 310o / 305-307		377o
	OND	305-308o / 303-305t		n/a
	Ja-Ag	320b / 325o		n/a
West Texas: PN	OND	302o		n/a
West Texas: SN	OND	300b / 305o		n/a
Far West		(\$/ton)		
Arizona	OND	340t		355t
Cal. Corc. No. & Stockton	Spot	390-395o / 390t		384t
	OND	385b / 390o		n/a
	Ja-Ag	395b / 405-410o		n/a
	Clock	390b / 400o		387o
Pima California	Spot	370t		n/a
Specially Processed Products (\$/ton)				
Easi Flo[™]	Courtland, AL	Spot	320o	315o
		Ja-Ag	335o	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 10-19-12</u>		<u>Truck</u>	<u>Rail</u>	<u>Yr Ago</u>
Northeast		(\$/ton)		
W. New York	OND	301o		302o
	Ja-Ag	321o		n/a
SE Pennsylvania	OND	284o		285o
	Ja-Ag	304o		n/a
NE Ohio	OND	301o		302o
	Ja-Ag	321o		n/a
Midwest		(\$/ton)		
MI (Grand Rpds.)	OND	313o		312o
	Ja-Ag	333o		n/a
MN (Rochester)	Oc-Nv	350o		n/a
	Ja-Ag	370-375o		360o
WI (Madison)	Oc-Nv	345o		n/a
	Ja-Ag	360o		350o
Southwest		(\$/ton)		
Texas / Dublin- Stephenville	Spot	315o		n/a
	OND	325o		385o
Rail - fob track points		(\$/ton)		
Laredo TX	OND		350o	n/a
California	Nv-Dc		375o	n/a
	Ja-Sp		395o	n/a
Idaho (UP)	Spot		375t	375t
	Nv-Dc		370o	380o
	Ja-Jly		375o	n/a
WA/OR (BN)	Spot		385o	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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