

COTTONSEED MARKET: The graph with mid-October harvest results shows that progress in most states lags the average pace. At the end of September progress in South Carolina was 5 percentage points ahead of the average pace. The impact of Hurricane Joaquin and rain events elsewhere in the Cotton Belt has caused other states to fall behind their average. It may take a couple more weeks before harvest progress gets back up to average levels.

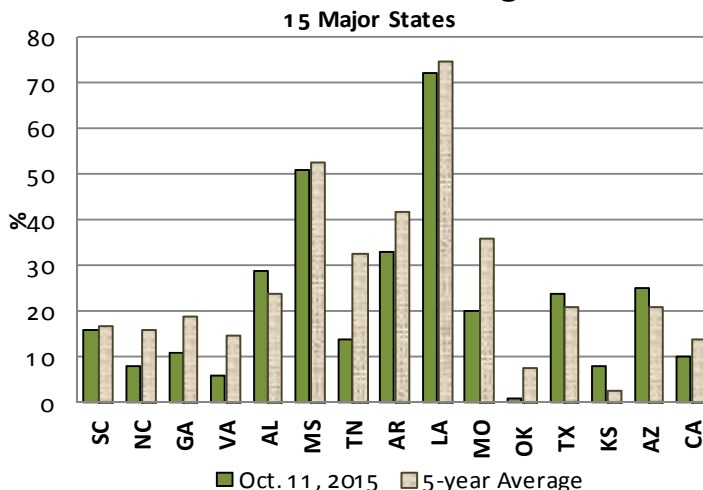
Markets remain quiet on any assigned sales. The focus of resellers continues to be on nearby supply. The volumes that have been trading nearby remain small and the spot prices no longer have a price premium to gin-run offers. This suggests that there has been an increase in availability of new crop supply in the market. End user demand has been light as they are satisfied with the current flow of new crop supply coming to market. Demand in the Northeast and Midwest has been light the past several weeks, which is related to mediocre dairy economics and ample supply of local competing feed ingredients.

California prices have edged lower as the arrival of rail supply has improved to keep availability comfortable for the next few weeks. End users are content with the amount of cottonseed booked. Forward offers have a small carry and are not able to attract additional buying interest.

There are concerns that dairies will continue to wait on making their cottonseed purchases anticipating lower prices during the ginning season. This year dairies have competitively priced and abundant farm supplies of hay and silage. Also there are competitively priced alternatives like distillers dried grains or canola meal which may reduce the need for cottonseed in rations.

Downward price pressure during ginning season will likely be more modest than normal this year on lower cottonseed production. This will result in a higher percentage of the crop going directly to storage which means there will be less than normal cottonseed needing to trade during the ginning season. Gins are anticipating to get more for their cottonseed in 2016 provided dairy economics improve. Currently buying interest hasn't been very supportive to the carry in forward offers. If dairy demand backs away from the market prices could be pressured modestly lower.

US Cotton Harvest Progress



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COTTONSEED BALANCE SHEET: USDA's 2014/15 balance sheet was unchanged with last month. The 2015/16 crop year had a modest 31,000 ton decline to production. This was offset by a decline to the Feed, Seed and Other category. Ending stocks are unchanged from last month. The stocks to use ratio of 8.4% equals the previous year's level, which is a half a percentage point below the 5-year average.

The Cottonseed Digest balance sheet for 2014/15 remains unchanged. The 2015/16 balance sheet had a 30,000-ton drop in production. There are concerns that the impact of Hurricane Joaquin could result in an even larger drop in production. As of mid-October it is still too early to get a reliable evaluation of the true supply or loss situation. Conditions elsewhere in the Cotton Belt have been mostly favorable for the crop and harvest progress.

The crush was lowered 50,000 tons. Lower vegetable oil prices and low crude oil futures continue to keep a bearish tone for the cottonseed oil market. The lack of oil buying interest and stout cottonseed prices suggest that profitability for crushers will be thin again this year. This means runtimes will be lighter with fewer mills running and there is a likelihood of longer downtimes as well. The Feed, Seed and Other category is unchanged. While dairy margins have been slightly better than expected, profitability is likely to be breakeven at best over the next few months. Given current stout cottonseed prices, dairies will keep inclusion rates lower than normal.

| Cottonseed Supply/Demand Balance Sheet (ooo tons) | | | | | | |
|---|----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Year begins Aug 1 | USDA | USDA | Oct. / USDA | Oct. / CSD | Oct. / USDA | Oct. / CSD |
| | <u>2012/13</u> | <u>2013/14</u> | <u>2014/15E</u> | <u>2014/15E</u> | <u>2015/16F</u> | <u>2015/16F</u> |
| Beg. Stocks | 430 | 492 | 425 | 425 | 437 | 486 |
| Imports | 182 | 198 | 59 | 59 | 0 | 20 |
| Production | 5666 | 4203 | 5125 | 5125 | 4274 | 4281 |
| Total Supply | 6278 | 4893 | 5609 | 5609 | 4711 | 4787 |
| Crush | 2500 | 2000 | 1900 | 1695 | 1650 | 1500 |
| Exports | 191 | 219 | 228 | 228 | 225 | 180 |
| Feed, Seed, & "Other" | 3094 | 2250 | 3044 | 3200 | 2469 | 2680 |
| Total Disappearance | 5786 | 4468 | 5172 | 5128 | 4344 | 4360 |
| End Stocks | 492 | 425 | 437 | 486 | 367 | 427 |

| COTTONSEED fob points | | | | |
|--|---------------|---------------------|------|----------------------|
| <u>PRICES 10-16-15</u> | | <u>Trade</u> | | <u>Yr Ago</u> |
| <i>Southeast</i> | | (\$/ton) | | |
| North Carolina | OND | 230b / 240-2450 | | 195t |
| | Ja-Ag | 250-255b / 260-2650 | | 218o |
| Georgia So. | Spot | 2500 | | 200t |
| | OND | 240-2430 | | 195t |
| | Ja-Ag | 260-2640 | | n/a |
| <i>Mid-South</i> | | (\$/ton) | | |
| Memphis No. | Oc-Nv | 2750 | | n/a |
| | OND | 270b / 275t | | 220t |
| | Ja-Ag | 2900 | | 247o |
| MO Bootheel | OND | 275-2800 | | 2300 |
| | Ja-Ag | 2950 | | n/a |
| NE Arkansas | Spot | 2800 | | 235t |
| | JFM | 280t | | n/a |
| | Ja-Ag | 285b / 2950 | | n/a |
| <i>Southwest</i> | | (\$/ton) | | |
| West Texas: LN | Spot | 2700 / 268t | | 315t |
| | OND | 265t | | 220o |
| | Ja-Sp | 2850 | | n/a |
| Oklahoma | Spot | 285t | | n/a |
| | OND | 2600 | | n/a |
| <i>Far West</i> | | (\$/ton) | | |
| Arizona | Spot | 3700 | | n/a |
| Cal. Corc. No. | Spot | 395-400t | | 415o |
| | Nv-Dc | 3780 | | n/a |
| | Nv-Ja | 3800 | | n/a |
| | Nv-Sp | 378-3800 | | 365o |
| Pima California | Spot | 320-3350 | | 360t |
| | Nv-Ja | 3400 | | n/a |
| | Clock | 3450 | | n/a |
| <i>Specially Processed Products (\$/ton)</i> | | | | |
| <i>Easi Flotm</i> | Courtland, AL | Nov | 3200 | 265o |
| | | Ja-Ag | 3350 | 285o |
| 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 10-16-15</u> | | <u>Truck</u> | <u>Rail</u> | <u>Yr Ago</u> |
| Northeast | | (\$/ton) | | |
| W. New York | OND | 3090 | | 2620 |
| | Ja-Ag | 3290 | | 2800 |
| SE Pennsylvania | OND | 2920 | | 2440 |
| | Ja-Ag | 3120 | | 2620 |
| NE Ohio | OND | 3090 | | 2620 |
| | Ja-Ag | 3290 | | 2820 |
| Midwest | | (\$/ton) | | |
| MI (Grand Rpd.) | OND | 3190 | | 2780 |
| | Ja-Ag | 3390 | | 2930 |
| MN (Rochester) | Spot | 345-3500 | | n/a |
| | OND | 345-3500 | | 3020 |
| WI (Madison) | Ja-Ag | 360-3650 | | 3160 |
| | OND | 3400 | | 2950 |
| Ja-Ag | | 3600 | | 3070 |
| | Southwest | | (\$/ton) | |
| Texas / Dublin- Stephenville | Spot | 2850 | | 2500 |
| Rail - fob track points | | (\$/ton) | | |
| California | Nv-Dc | | 3700 | n/a |
| | Nv-Sp | | 368t | n/a |
| | Ja-Sp | | 3750 | n/a |
| Idaho (UP) | Nov | | 3600 | n/a |
| | Nv-Sp | | 3650 | n/a |
| WA/OR (BN) | Nv-Ja | | 3750 | 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.

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