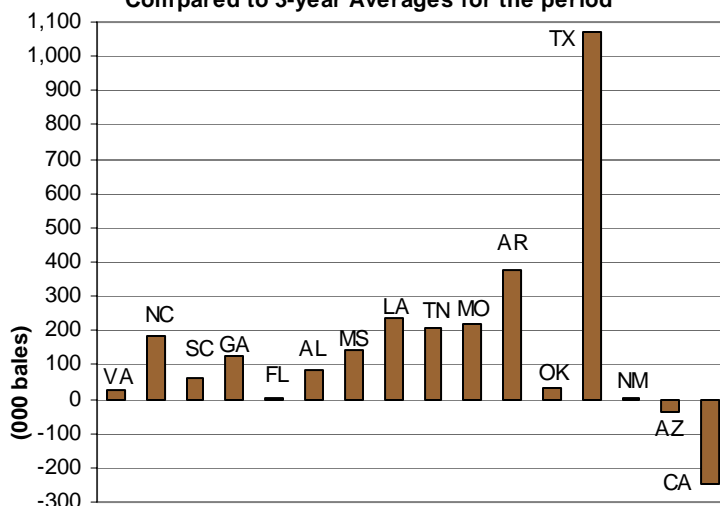


**USDA REPORTS:** The USDA Crop Production for December has all cotton production up to 23.7 million bales. This is a 2% increase over last year's production and last month's forecast. The increase comes from the overall yield raised 19 pounds per acre to 832 pounds per acre. Record yields are expected in Georgia, Kansas, New Mexico, Oklahoma, and Texas. The estimate on cottonseed production has reached new record highs, as the total was raised to 8.496 million tons, which is up 194,000 tons from last month.

The ginning report as of December first, showed an all cotton running bales ginned total of 16.342 million bales. This is over 2.5 million bales ahead of the average pace set during the past 3 years. Since the last report release 2 weeks ago, over a million bales were ginned in Texas. If USDA's production estimate is met, then two-thirds of the crop has already been ginned and the amount that Texas is ahead of the 3-year average and likely will continue to grow in coming reports.

Running Bales Ginned Totals as of 12/01/05  
Compared to 3-year Averages for the period



**COTTONSEED MARKET:** At the middle of the month, most markets are steadily firming as merchants have started scrambling to line up shipments ahead of the Christmas holiday break. For the last half of December, the market will be much quieter until after the holidays. Gins continue to wind down and are not interested in selling the seed that they have just stored. With fewer gin offers in the market, chances are better for prices to strengthen. Currently, buying interest is focused on nearby supply and is coming from those still needing to cover needs before the end of the year.

In the Southeast, nearby prices in Georgia and South Carolina have only moved up a couple dollars. With the large crop in Georgia, there are concerns that burdensome supplies will continue to limit the upside potential for prices. Forward quotes, however, have moved a couple dollars higher. North Carolina nearby offers have moved up \$6, however, there are some quality concerns associated with supplies, keeping prices under pressure. The North Alabama market strengthened the most in the region since the last installment with a \$16 increase for nearby. Offers for the first quarter have moved up \$4 in recent weeks. This move is supported by firmer prices in the Mid-South.

The Memphis North market is offered \$25 higher, since last month as gins have set \$100 as a

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psychological level they no longer want to trade under. With fewer gins offering, it appears that traders need to be a bit more aggressive with bids in order to buy anything. With only a couple gins still running in the region, markets are mostly quiet. After the holiday season prices may error some, dropping below the \$100-level. Most of the buyers are only interested in spot supplies and are in the Northeast Arkansas or Missouri Bootheel market.

There are more inquiries in West Texas from dairy end users on forward requirements. Some of the heightened interest is related to the increase in CBOT futures early this week. No forward trades were reported, and price levels quoted should be attractive for end users as the offer side is more than \$20 below the 5-year average for the January-September time frame. End users without forward ownership may want to cover a portion of their needs, as price may shoot higher later this summer if there are concerns regarding next year's crop. For the first quarter of 2006, spot prices do still run a risk of slipping lower as some gins will continue running for the next couple months.

In the Far West, Arizona offers jumped higher mid-month as buyers appear to have become more aggressive. It is difficult to tell how long this strength will last but at least through the holidays. The California market is holding steady with only limited nearby demand. As ginning winds down in the state, there may be stronger prices. For now the market is well supplied and end users are also concerned about prices moving drastically higher.

**COTTONSEED BALANCE SHEET:** USDA's balance sheet for December shows a 194,000-ton increase in production. On the disappearance side of the balance sheet, all categories were raised. Crush was upped 75,000 tons, which would make this crush the largest since the 1999/2000 crop year. Exports were raised another 25,000 tons. The feed, seed, and other category was increased by 44,000 tons. The total increase to the demand side is 144,000 tons. Ending stocks were elevated by 50,000 tons, which should signal less upside potential for prices in coming months.

Production in Informa Economics' balance sheet was increased 100,000 tons because the crop continues to exceed expectations in Texas and Georgia. Seed yields in these states are reportedly larger compared to the past several years. The amount of seed going to the crush was raised 50,000 tons. During the August-October time frame this year, an additional 93,700 tons of seed were crushed compared to a year ago. At this point, crushers should be able to crush more than a year ago provided there are no breakdowns thanks to abundant seed supply and the strong early crushing results. The feed, seed, and other category was raised 50,000 tons as more demand from feedlots is anticipated given larger cattle numbers and strong cottonseed hull prices that should get more end users to include whole cottonseed in rations. Exports were left unchanged as the staying power of demand is questionable with higher freight costs. Supply fundamentals point to the likelihood of a bearish tone and price levels similar to or lower than year ago levels.

**Cottonseed Supply/Demand Balance Sheet (000 tons)**

Yrs beg Aug 1	Cottonseed Supply/Demand Balance Sheet (000 tons)				
	USDA	USDA	Dec / USDA	Dec / USDA	Dec / Informa
	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05E</u>	<u>2005/06F</u>	<u>2005/06F</u>
Beg. Stocks	400	347	421	592	592
Imports	104	2	1	25	2
Production	6184	6665	8242	8496	8475
<b>Total Supply</b>	<b>6687</b>	<b>7013</b>	<b>8664</b>	<b>9113</b>	<b>9069</b>
Crush	2495	2639	2923	3075	3000
Exports	370	355	379	425	390
Feed, Seed, & "Other"	3477	3598	4770	4973	4940
<b>Total Disappearance</b>	<b>6341</b>	<b>6592</b>	<b>8072</b>	<b>8473</b>	<b>8330</b>
End Stocks	347	421	592	640	739

<b>COTTONSEED fob points</b>				
<b><u>PRICES 12-16-05</u></b>		<b><u>Trade</u></b>		<b><u>Yr Ago</u></b>
<b>SOUTHEAST</b>		<b>(\$/ton)</b>		
<b>No. Carolina</b>	Spot	75b / 78o		94t
	JFM	85b / 95o		108o
	Ja-Ag	90b / 93o		112o
<b>So. Carolina</b>	Spot	80b / 84o		96t
	Ja-Ag	95b / 103o		115o
<b>Georgia So.</b>	Spot	80b / 84o		103o
	Ja-Ag	95-96b / 103-104o		118o
<b>Alabama No.</b>	Spot	95o / 93t		n/a
	Dec.	100o		102-103t
	JFM	95b / 104o		107t
	Ja-Ag	98b / 105o		117o
<b>MID-SOUTH</b>		<b>(\$/ton)</b>		
<b>Memphis No.</b>	Spot	95b / 105o		105t
	JFM	102o / 101t		n/a
	Ja-Ag	97-102b / 103-105o		111o
<b>MO Bootheel</b>	Spot	103o		105-107t
	JFM	103t		n/a
	Ja-Ag	103b		n/a
<b>SOUTHWEST</b>		<b>(\$/ton)</b>		
<b>West Texas</b>	Spot	92-95b / 97-105o / 97-100t		95t
	Ja-Sp	112-115b / 115-120o		n/a
<b>FAR WEST</b>		<b>(\$/ton)</b>		
<b>Arizona</b>	Spot	145b		145t
<b>Cal Corc. N &amp; Stockton</b>	Spot	165b / 170o / 168t		163-166o
	Ja-Sp	170b / 176-178o		163o
<b>SPECIALLY PROCESSED PRODUCTS (\$/TON)</b>				
<b>Easi Flo™</b>	<b>Courtland, AL</b>	Spot	138o	135o
<b>FuzPellets™</b>	<b>Weldon, NC</b>	Spot	110o	128o
<b>Cotton Flo™</b>	<b>Weldon, NC</b>	Spot	111o	131o
<b>b = bid   o = offer   t = trade   n/a = not available</b>				

<b>COTTONSEED dlvd. points</b>					
<b><u>PRICES 12-16-05</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	138o			
	Ja-Ag	150o			
<b>SE Pennsylvania</b>	Spot	118o			
	Ja-Ag	130o			
<b>NE Ohio</b>	Spot	133o			
	Ja-Ag	145o			
<b>MIDWEST</b>		<b>(\$/ton)</b>			
<b>MI (Grand Rpd.)</b>	Spot	145o			
	Ja-Ag	157o			
<b>MN (Rochester)</b>	Spot		153o	157-159o	
	Ja-Ag		163o	168-170o	
<b>WI (Madison)</b>	Spot		143o	148-153o	
	Ja-Ag		153o	163o	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
<b>Texas / Dublin- Stephenville</b>	Spot		125o		
	Ja-Aug		140o		
<b>RAIL - FOB TRACK POINTS</b>		<b>(\$/ton)</b>			
<b>California</b>	Dec.				169o
	Ja-Sp				168b 175o
<b>Idaho (UP)</b>	Spot				165b 169o
	Ja-Sp				172b 178o
<b>WA/OR (BN)</b>	Spot				173o
	Ja-Sp				182o
<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.