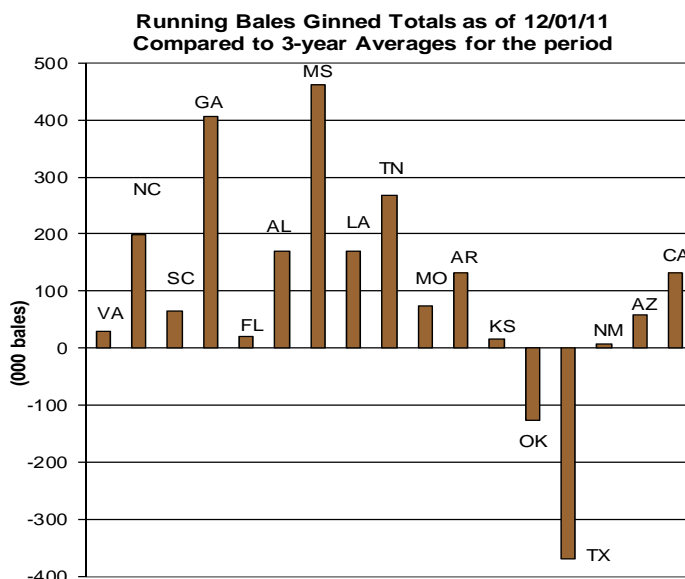


**USDA REPORTS:** The ginning report for the beginning of December had a running bales ginned total of 11.7 million bales. Compared to the previous report for the middle of November, nearly 2.5 million bales were ginned. The pace of ginning slowed by 244,000 bales since the previous report and the next report will have an even greater slowdown. In applying USDA's total cotton production forecast of 15.827 million bales, which was lowered 473,000 bales from last month, there is roughly a quarter of the crop yet to be ginned. At the beginning of December, Georgia was the state with the most cotton yet to be gin as reported ginning results were over a million bales below forecasted levels. Texas and California both had over 600,000 bales of cotton yet to gin. Along with cotton production off, USDA lowered cottonseed production by 158,000 tons, to 5.312 million tons. Year-over-year, cottonseed production is projected down roughly 13%.



**COTTONSEED MARKET:** The bearishness in feed ingredient markets continues to put downward pressure on nearby prices. Forward offers have drifted lower, but are not able to attract buyers. Meanwhile, end user's lack a sense of urgency about getting requirements covered given slow demand and ample supply of other feed ingredients. Dairies appear to have covered their needs through the holidays, and there has been only small volume nearby trading taking place. Resellers that are behind on shipments are expected to continue being aggressive sellers in the nearby which suggests there will be limited upside price risk.

Ginning continues in the Southeast and this supply pressure combined with lower feed ingredient prices has led to lower prices. In Georgia, ginning is expected to continue into January. This will likely keep nearby prices weak. The Southeast will continue to be the most attractive source of cottonseed and attract buyers from outside the region. Forward offers have a slight premium and at these levels it looks like Southeast cottonseed is competitively priced to neighboring markets.

Mid-South offers are slightly lower while the market remains quiet. For the most part, ginning has been completed or is expected to be done by month's end. There continues to be some ginning pressure, but there are fewer loads that need to move. Buying interest from the Upper Midwest has

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been modest with buyers focusing on covering only immediate needs. If dairies would be willing to book forward, nearby prices could find support.

The arrival of cottonseed from the Mid-South and Southeast by trucks and rail has resulted in lower prices in West Texas. End users are content to buy supply from other regions at prices below what local gins are quoting. Forward offers have flattened out, but end users are not willing to take on ownership. If the drought in the Southwest continues and milk prices muster a rebound, then sellers might be able to sell at levels close to current levels. Currently, there is a bias for continued price weakness coming from other lower-priced feed ingredients.

Nearby demand in California remains weak compared to last month. Merchants are more willing to lower offers in order get supply moving. The ongoing ginning progress in the state is contributing to the downward pressure as well as lower offers on other feed ingredients. Pima supplies traded at \$325 for the nearby, roughly \$10/ton lower than last week. Forward offers have drifted lower as well, but buying interest remains light. The inverse suggests that end users' forward ownership is limited and sellers are not concerned about supply tightness. Dairies are content to wait and see if their economic outlook improves before buying forward.

**COTTONSEED BALANCE SHEET:** The only change to USDA's balance sheet this month was a 158,000-ton reduction to cottonseed production. This drop in output is related to the 473,000-bale reduction made in their production report. The resulting lint-to-seed ratio is more than a percentage point below the 5-year average.

The Cottonseed Digest balance sheet had production reduced 215,000 tons based on lower cotton production forecasts. The lower supply prospective isn't expected to have much of an upward impact on price for the near-term while there is still ginning going on and other feed ingredients have become more price-competitive. It appears that cottonseed prices have additional downward price risk in order to attract additional dairy demand.

The crush was lowered 25,000 tons, as some locations may take more than anticipated down time due to the outlook for crushing margins not being as robust. Exports were lowered 20,000 tons. During the first quarter of the new crop year, accumulative exports are 31,320 tons, which is 25,000 tons below last year's pace and more than 50,000 tons below the 5-year average for this time of year. Clearly the increased crop in Australia has displaced US exports, plus the strength of the dollar will likely limit buying interest for US supply. The Feed, Seed and Other category was lowered 170,000 tons on lackluster dairy buying, and brings usage below last year's level. For this to increase either more imports from Australia will need to happen, or prices will have to soften to attract buying.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Year begins Aug 1	USDA	Dec. / USDA	Dec. / CSD	Dec. / USDA	Dec. / CSD
	<u>2009/10</u>	<u>2010/11E</u>	<u>2010/11E</u>	<u>2011/12F</u>	<u>2011/12F</u>
Beg. Stocks	514	342	342	618	618
Imports	24	0	0	100	150
Production	4149	6098	6098	5312	5329
<b>Total Supply</b>	<b>4687</b>	<b>6440</b>	<b>6440</b>	<b>6030</b>	<b>6097</b>
Crush	1900	2563	2563	2400	2425
Exports	291	275	275	225	180
Feed, Seed, & "Other"	2154	2984	3984	2975	2941
<b>Total Disappearance</b>	<b>4305</b>	<b>5822</b>	<b>5822</b>	<b>5600</b>	<b>5546</b>
End Stocks	342	618	618	430	551

<b>COTTONSEED fob points</b>					
<b><u>PRICES 12-16-11</u></b>		<b><u>Bid</u></b>	<b><u>Offer</u></b>	<b><u>Trade</u></b>	<b><u>Yr Ago</u></b>
<b>SOUTHEAST</b>		<b>(\$/ton)</b>			
<b>No. Carolina</b>	Spot	235-240o		195o	
	JFM	250b / 255-260o		205o	
	Ja-Ag	255b / 260o		210o	
<b>So. Carolina</b>	Spot	220-225o		195o	
	JFM	250b / 255o		210o	
	Ja-Ag	270o		n/a	
<b>Georgia So.</b>	Spot	215b / 220o / 215t		172t	
	JFM	240-245o		200t	
	Ja-Ag	245-250o		205o	
<b>No. Alabama</b>	Spot	255o		n/a	
<b>MID-SOUTH</b>		<b>(\$/ton)</b>			
<b>Memphis No.</b>	Spot	275o		218t	
	JFM	275o		225o	
	Ja-Ag	280o		n/a	
<b>MO Bootheel</b>	Spot	275o / 275t		220o	
	Ja-Ag	285o		n/a	
<b>NE Arkansas</b>	Spot	275o		n/a	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
<b>West Texas (as ginned)</b>	Spot	345o / 345t		203t	
	JFM	360o		217-220o	
	Ja-Ag	365o		225o	
<b>FAR WEST</b>		<b>(\$/ton)</b>			
<b>Arizona</b>	Spot	350		265o	
<b>Cal. Corc. N &amp; Stockton</b>	Spot	380-385o / 380t		290t	
	JFM	386o		290o	
	Ja-Sp	380o / 375t		298o	
<b>SPECIALLY PROCESSED PRODUCTS (\$/TON)</b>					
<b>Easi Flo™</b>	<b>Courtland, AL</b>	Spot	305o	249o	
<b>b = bid   o = offer   t = trade   n/a = not available</b>					

<b>COTTONSEED dlvd. points</b>					
<b><u>PRICES 12-16-11</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	265o			
	Ja-Ag	283o			
<b>SE Pennsylvania</b>	Spot	248o			
	Ja-Ag	266o			
<b>NE Ohio</b>	Spot	265o			
	Ja-Ag	283o			
<b>MIDWEST</b>		<b>(\$/ton)</b>			
<b>MI (Grand Rps.)</b>	Spot	275o			
	Ja-Ag	293o			
<b>MN (Rochester)</b>	Spot		335o	343-347o	
	Ja-Ag		345o	357o	
<b>WI (Madison)</b>	Spot		325o	330-337o	
	Ja-Ag		337o	347o	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
<b>Texas / Dublin- Stephenville</b>	Spot		375o		
	Ja-Ag		390o		
<b>RAIL - FOB TRACK</b>		<b>(\$/ton)</b>			
<b>Laredo TX</b>	Spot				n/a
<b>California</b>	Spot				n/a
<b>Idaho (UP)</b>	Spot				351t
	JFM				370o
	Ja-Ag				370o
<b>WA/OR (BN)</b>	Spot				360o
	Ja-Sp				380o
<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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