

COTTONSEED MARKET: Trading has been lighter the second half of December due to merchants focusing on moving supply and fulfilling contracts before the holidays. Trading activity through the holidays will be light as usual as those gins that have completed ginning will be less willing sellers until January.

Southeast markets have enough gins running for there to be steady movement of gin-run supply available during the first half of December. A significant share of North Carolina gins are expected to finish ginning before the holidays. However, ginning in Georgia is expected to continue running well into February. Storage there is expected to be getting close to full, which could cause sellers to lower offers to insure supply keeps moving. This is a scenario that may play out during January. There has been an uptick in export buying interest during December, but bookings remain limited.

Mid-South prices have edged higher with ginning completed and most supplies coming out of storage and a reason for gins to hold out for higher prices. Since most gins have completed ginning by Thanksgiving or the first week of December, they are not eager to sell as they anticipate prices will continue to firm. Given the abundance of grain and other competing feed ingredients and potentially lower margins for dairies, prices are not expected to firm much in coming months as they have in the past couple years.

West Texas prices moved higher on steady buying interest. Most dairies have not taken on more first quarter supply thinking prices will go lower by that time. Steady spot demand has prevented supplies from being a burden on prices. The remainder of cottonseed being produced is going to storage as gins are willing to hold off on selling in anticipation of stronger prices. The premium on forward offers at \$20/ton appears reasonable compared to last year's \$55/ton premium from the December price to the Jan-Sept. average price. Nonetheless, dairies and resellers are holding off on buying forward supplies.

Far West markets have been quiet. Rail offers for the nearby are difficult to find as sellers have only limited supply to offer near-term. Once sellers have a sense of rail car turnaround times, they may be willing to show offers. Meanwhile, demand has been subdued as the milk price outlook is bearish and suggests margins will be narrow in coming months. Therefore, dairies are not willing to take on additional forward ownership.

The Mid-South cottonseed's relative price to distillers dried grains and cash corn have drifted lower in recent months. This suggests that cottonseed prices are closer in line with the historical relationship to distiller grains and cash corn. The lower relative price means that cottonseed should be a better value for dairy end users. The recent price increase in distiller grains related to the return of China buying US distillers grains following the ban on distillers made with unauthorized GMO corn. This has the potential to lend modest price support to cottonseed in coming months if distillers dried grains continue to rally into 2015 .

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COTTONSEED BALANCE SHEET: The USDA lowered 2014/15 cottonseed production 155,000 tons compared to a month ago. Cotton production was reduced 474,000 bales from the November's projection based on cotton yields being lowered 24 pounds per acre.

The Feed, Seed and Other category was lowered 155,000 tons. Ending stocks are unchanged at 468,000 tons which is 7,000 tons above the 5-year average. USDA's stocks-to-use ratio was raised to 8.8% which matches the 5-year average.

The Cottonseed Digest's 2014/15 production was lowered 139,000 tons based on expectations of lower yields. Cottonseed production is still projected to exceed the 5-year average by nearly 200,000 tons and last year's output by more than a million tons.

The crush was lowered by 63,000 tons. Runtimes thus far this year have been delayed. The crush has been able to match or exceed last year's crush only 3 weeks since the beginning of the crop year. A couple months of above average runtimes would be necessary before the crush total could be increased and that doesn't seem likely.

The Feed, Seed, and Other category was lowered 20,000 tons. Slow rail movement and firm cottonseed prices may result in less usage. Lower milk prices, narrowing dairy margins and lower competing feed ingredient prices in coming months are also potentially bearish for cottonseed usage.

Export progress through October for this crop year is 7% below last year's pace. The slow start to harvest and ginning is partially reason for the subpar results for the first quarter of the crop year. Stout prices and competition from other feedstuffs are also behind the 20,000-ton decline in exports.

Ending stocks were lowered 10,000 tons to 406,000 tons, which is over 50,000 tons below the 5-year average. The stocks-to-use ratio at 7.8% remains unchanged from last month, but remains a percentage point below the 5-year average.

Cottonseed Supply/Demand Balance Sheet (000 tons)						
Year begins Aug 1	USDA	USDA	December / USDA	December / CSD	December / USDA	December / CSD
	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14E</u>	<u>2013/14E</u>	<u>2014/15E</u>	<u>2014/15E</u>
Beg. Stocks	618	430	492	507	425	289
Imports	72	182	198	200	100	59
Production	5370	5666	4203	4203	5258	5288
Total Supply	6059	6278	4893	4910	5783	5636
Crush	2400	2500	2000	2052	2425	2280
Exports	133	191	219	219	290	280
Feed, Seed, & "Other"	3096	3094	2250	2350	2600	2670
Total Disappearance	5629	5786	4468	4621	5315	5230
End Stocks	430	492	425	289	468	406

COTTONSEED fob points				
<u>PRICES 12-19-14</u>		<u>Trade</u>		<u>Yr Ago</u>
Southeast		(\$/ton)		
North Carolina	Spot	200-206t		280t
	JFM	230b / 235-240o / 235t		290o
	Ja-Ag	240b / 250o		n/a
Georgia So.	Spot	200b / 205o / 200-203t		266t
	Ja-Ag	240b / 250o		n/a
No. Alabama	Spot	240o		n/a
Mid-South		(\$/ton)		
Memphis No.	Spot	265		300t
MO Bootheel	Spot	270o / 265t		n/a
NE Arkansas	Spot	270o / 265t		n/a
	JFM	265b / 270o		310o
	Ja-Ag	270b / 276-280o		315o
Southwest		(\$/ton)		
West Texas: LN	Spot	270b / 275o		330o
	Ja-Ag	290o		n/a
	Ap-Sp	290b / 305o		n/a
Far West		(\$/ton)		
Arizona	Spot	350b / 360o / 360t		355t
Cal. Corc. No.	Spot	370-373o		422o
	Ap-Sp	375o		n/a
Pima California	Spot	340b / 345-350o		380o
Specially Processed Products (\$/ton)				
<i>Easi Flo™</i>	Courtland, AL	Spot	310o	330o
		Ja-Ag	320o	345o
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 12-19-14</u>		<u>Truck</u>	<u>Rail</u>	<u>Yr Ago</u>
Northeast		(\$/ton)		
W. New York	Spot	2750		3540
	Ja-Ag	3050		3640
SE Pennsylvania	Spot	2580		3370
	Ja-Ag	2880		3470
NE Ohio	Spot	2980		3540
Midwest		(\$/ton)		
MI (Grand Rpd.s.)	Spot	2950		3640
	Ja-Ag	3350		3740
MN (Rochester)	Spot	340-3450		3770
	Ja-Ag	350-3550		3850
WI (Madison)	Spot	3350		3720
	Ja-Ag	3450		3770
Southwest		(\$/ton)		
Texas / Dublin- Stephenville	Spot	2700		3400
Rail - job track points		(\$/ton)		
California	Spot		3650	4220
Idaho (UP)	Spot		3550	4020
WA/OR (BN)	JFM		3650	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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