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# Cottonseed Intelligence Monthly

# CIM

**COTTONSEED MARKET:** Markets are not well defined due to the lack of end user buying interest. The depth of bids is limited to a handful of truckloads for the next several weeks. This situation perpetuates the attitude that supply continues to outweigh demand. This is keeping end users from covering forward requirements. End users are anticipating there will be more downward price pressure as long as the cotton crop develops well enough to ensure cottonseed supply will be larger than a year ago.

California nearby traded lower during May since supply has been sufficient and rail movement hasn't been a concern. There has been steady movement of supply. Supply tightness has not been a major issue so far this year as rail suppliers continue to keep supply pipelines at comfortable levels. Dairy economics have not been robust, yet margins are keeping above breakeven levels and has led to the dairy herd continuing to expand the past few months. The projected increase in milk production may make matters worse for dairy margins and demand for cottonseed during the last half of 2017.

Recent gains in cotton fiber prices has raised the question whether the Mid-South will have even more cotton acres than what is currently projected. The Mid-South is being watched as it is better equipped to switch acres from other crops to cotton compared to other regions. Any increase in cotton acres would likely have a negative factor on cottonseed price since the new crop outlook points to supply being burdensome. This is based on the assumption that West Texas will have increased cotton acres and cottonseed production will be at least average.

New crop offers have edged lower, but trading has been limited during the first half of May. Southeast bids have fallen to equate to a price based on new crop rail prices in Idaho or California. Gins haven't been actively selling at such levels since they are willing to hold out hope for a development that will lend price support. Expectations are set for gin-run prices to be below year ago levels given current heavy supply and lack-luster end user demand.

During May the USDA released their Cotton Ginnings Annual Summary. Total running bales ginned were 16.71 million, which was an increase of over 4 million bales from the year ago. Compared to the 3-year average, it was an increase of over 3 million bales. Texas contributed 2.7 million bales to the increase over its 3-year average. The increase in planting acres forecasted raises the potential for the new crop year ginning to be larger than the 3-year average again.

The 2016 bale total exceeded the previous 3-years. This year's decline of gins running was only 4 compared to the 5-year average of 28. The increase in cotton production is related to the number of gins running. This is similar to the situation for 2012 and 2014 when the increase in cotton production limited the decline in the number of gins running.

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**COTTONSEED BALANCE SHEET:** The USDA's balance sheet for 2016/17 had production lowered 49,000 tons, which was the only change compared to last month. This lower cottonseed production number relates to a new historical low lint to seed ratio. Favorable growing conditions for most of the Cotton Belt and improved genetics are reason for lower seed yields.

This is the first month of a balance sheet for the 2017/18 crop year. USDA's production is projected to be 6.325 million tons. This would be an increase of 18%, while acreage is projected to be up 21%. The crush was raised to 2.2 million tons, which would mean some oil mills that did not crush this year would need to come back into production and the ones that did run would need to increase runtimes. The last time a crush was larger was during the 2012/13 crop year. Exports are pegged at 275,000 tons, which should be attainable if new crop prices continue to soften. The feed, seed and other category is 3.725 million tons. This is the highest level since the 2006/07 crop year when cottonseed production was over 7 million tons.

Cottonseed production numbers don't change much after the May for the current crop year, so the Cottonseed Digest adopted USDA's production numbers for the 2016/17 crop year. This relates to an 81,000-ton decline to production. Imports were raised 15,000 tons, as imports from have exceed the pace projected with 4 months of data yet to be reported. The net change in supply is a 66,000-ton decline. The crush was raised 20,000 tons following stronger than anticipated runtimes the past couple months. Exports were raised 10,000 tons as shipments to Asian markets were stronger than earlier anticipated. The feed, seed and other category was unchanged as buying interest remains light and inclusion rates are apt to stay steady. Ending stocks shifted 96,000 tons lower, yet the stocks to use ratio remains roughly 2 percentage points above the 5-year average.

The Cottonseed Digest for the 2017/18 crop year production is conservatively forecast at 6.25 million tons, which is 75,000 tons below USDA's number and 881,000 tons above last year's output. The crush was

raised to 1.8 million tons which implies stronger runtimes than the current crop year. Exports are forecasted over 200,000 tons higher than a year ago. The increase in crush, exports and the feed, seed and other category is based on cottonseed supply being larger and there being enough downward pressure on price to stimulate growth in these demand categories. Projected ending stocks are likely to be the largest on record given the outlook for a large supply of dried distillers grains and other feed ingredients that should keep carryovers larger than in recent years. The stocks to use ratio looks to be a historical high 13%, compared to the 10-year average of 9%.

| Year begins Aug 1          | Cottonseed Supply/Demand Balance Sheet (000 tons) |                 |                 |                 |                 |
|----------------------------|---|-----------------|-----------------|-----------------|-----------------|
|                            | USDA  | May /<br>USDA   | May /<br>CSD    | May /<br>USDA   | May /<br>CSD    |
|                            | <u>2015/16</u>                                    | <u>2016/17E</u> | <u>2016/17E</u> | <u>2017/18F</u> | <u>2017/18F</u> |
| Beg. Stocks                | 437   | 391             | 391             | 435             | 573             |
| Imports                    | 16  | 50              | 65              | 0               | 30              |
| Production                 | 4043  | 5369            | 5380            | 6325            | 6250            |
| <b>Total Supply</b>        | <b>4496</b>                                       | <b>5810</b>     | <b>5836</b>     | <b>6760</b>     | <b>6853</b>     |
| Crush                      | 1500  | 1800            | 1720            | 2200            | 1800            |
| Exports                    | 136   | 250             | 270             | 275             | 480             |
| Feed, Seed, & "Other"      | 2469  | 3325            | 3262            | 3725            | 3780            |
| <b>Total Disappearance</b> | <b>4105</b>                                       | <b>5375</b>     | <b>5252</b>     | <b>6200</b>     | <b>6060</b>     |
| End Stocks                 | 391   | 435             | 573             | 560             | 793             |

| <b>COTTONSEED fob points</b>  |               |                                |              |              |               |
|---|---------------|--------------------------------|--------------|--------------|---------------|
| <i>PRICES 05-19-17</i>  |               | <i>Bid</i>                     | <i>Offer</i> | <i>Trade</i> | <i>Yr Ago</i> |
| <b>Southeast</b>  |               | <b>(\$/ton)</b>                |              |              |               |
| North Carolina  | Spot          | 165-168b / 168-175o / 170-173t |              | 249t         |               |
|   | JJA           | 166-168t                       |              | 253t         |               |
|   | OND           | 140b / 150o                    |              | 207o         |               |
| South Carolina  | Spot          | 168o                           |              | 210o         |               |
| Georgia So.   | Spot          | 160b 160t                      |              | 247o         |               |
|   | OND           | 145b                           |              | 207o         |               |
| <b>Mid-South</b>  |               | <b>(\$/ton)</b>                |              |              |               |
| Memphis No.   | Spot          | 180o / 175t                    |              | 265t         |               |
|   | OND           | 158-160b / 165o                |              | 230o         |               |
| MO Bootheel   | Spot          | 175b / 180o                    |              | 267t         |               |
|   | OND           | 160b / 165o                    |              | 235o         |               |
| NE Arkansas   | Spot          | 175b / 180o                    |              | 270o         |               |
|   | OND           | 160b / 165o                    |              | 235o         |               |
| <b>Southwest</b>  |               | <b>(\$/ton)</b>                |              |              |               |
| West Texas: LN  | Spot          | 178b / 180-182o                |              | 260t         |               |
|   | Jn-Sp         | 182o                           |              | 265o         |               |
|   | OND           | 165b / 170o                    |              | 235o         |               |
|   | Clock         | 180o / 175t                    |              | n/a          |               |
| West Texas: PN  | Spot          | 185o / 183t                    |              | n/a          |               |
| West Texas: SN  | Spot          | 170t                           |              | 265o         |               |
|   | OND           | 170o                           |              | n/a          |               |
| Oklahoma  | Spot          | 185b / 200o                    |              | 265o         |               |
| <b>Far West</b>   |               | <b>(\$/ton)</b>                |              |              |               |
| Arizona   | Spot          | 255b / 265o                    |              | 325o         |               |
| Cal. Corc. No.  | Spot          | 280o / 275t                    |              | 350o         |               |
|   | Jn-Sp         | 275o                           |              | 350o         |               |
|   | Clock         | 270o                           |              | n/a          |               |
| Pima California   | Spot          | 270o                           |              | 300o         |               |
| Apr   |               |                                |              |              |               |
| <i>Easi Flo<sup>tm</sup></i>  | Courtland, AL | Spot                           | 215          | 305o         |               |
|   |               | Oc-Nv                          | 200          | n/a          |               |
| <b>b = bid o = offer t = trade n/a = not available</b>              |               |                                |              |              |               |
| West Texas: LN=Lubbock North, PN=Plainview North, SN=Seminole North |               |                                |              |              |               |

| <b>COTTONSEED dlvd. points</b>                         |       |                 |             |               |
|--|-------|-----------------|-------------|---------------|
| <u>PRICES 05-19-17</u>                                 |       | <u>Truck</u>    | <u>Rail</u> | <u>Yr Ago</u> |
| <b>Northeast</b>                                       |       | <b>(\$/ton)</b> |             |               |
| <b>W. New York</b>                                     | Spot  | 240o            |             | 311o          |
|  | JJA   | 240o            |             | 302o          |
|  | OND   | 218o            |             | 271o          |
| <b>SE Pennsylvania</b>                                 | Spot  | 222o            |             | 292o          |
|  | JJA   | 222o            |             | 303o          |
|  | OND   | 203o            |             | 252o          |
| <b>NE Ohio</b>   | Spot  | 240o            |             | 314o          |
|  | JJA   | 240o            |             | 321o          |
|  | OND   | 218o            |             | n/a           |
| <b>Midwest</b>   |       | <b>(\$/ton)</b> |             |               |
| <b>MI (Grand Rpd.)</b>                                 | Spot  | 250o            |             | 324o          |
|  | JJA   | 250o            |             | 330o          |
|  | OND   | 228o            |             | 283o          |
| <b>MN (Rochester)</b>                                  | Spot  | 235o            |             | 330o          |
|  | JJA   | 235o            |             | 332o          |
|  | OND   | 220o            |             | 302o          |
| <b>WI (Madison)</b>                                    | Spot  | 231o            |             | 317o          |
|  | JJA   | 231o            |             | 322o          |
|  | OND   | 215o            |             | 290o          |
| <b>Southwest</b>                                       |       | <b>(\$/ton)</b> |             |               |
| <b>Texas / Dublin-<br/>Stephenville</b>                | Spot  | 225o            |             | 265o          |
| <b>Rail - job track points</b>                         |       | <b>(\$/ton)</b> |             |               |
| <b>California</b>                                      | Jn-Sp |                 | 260o        | 350o          |
|  | Oc-Mr |                 | 255t        | n/a           |
|  | Clock |                 | 258o        | 340o          |
| <b>Idaho (UP)</b>                                      | Jn-Sp |                 | 260o        | 345o          |
|  | OND   |                 | 250o        | 330o          |
| <b>WA/OR (BN)</b>                                      | Jn-Sp |                 | 270o        | n/a           |
| <b>b = bid o = offer t = trade n/a = not available</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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