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COTTONSEED MARKET: Significant price declines over the past month in the Southeast, Mid-south, and West Texas signal the onset of the ginning season. Falling at a greater rate than normal, these sharp declines suggest robust new-crop quantities. The sharpness of the declines was also encouraged by a brief period of tightness in old-crop supplies. The Midsouth exhibited price action representative of this effect, with values having touched \$230 per ton a month prior to new crop before dropping precipitously to their current levels around \$145. Californian gins have also come online, likewise bursting the pre-ginning rally; support to that market had been from a combination of poor-quality old-crop cottonseed in West Texas and logistical delays for off-season tonnage delivered by rail. The rates at which markets devalued cottonseed across the US depended on gin start dates, though now prices are falling in essentially all geographies. While the nationwide end-of-season price firmness was not anticipated by Informa Economics IEG, the arrival of new-crop quantities has corrected that temporary price action and pulled values back within Informa's forecast ranges.

With tightness in the 2016/17 crop now in the past, the question has become whether markets have any further to fall. The main uncertainty around supplies is the degree to which last weekend's (October 28) freezing temperatures in Texas reduced cottonseed production capacity. With nearly half of Texas' cotton already harvested, Texas' proportion of bolls open was reported most recently at 90 percent, leaving only 10 percent subject to closed-boll deterioration. The other supply-side concern is truncated development caused by the freeze, which reached 24 degrees in some parts of the state. If the freeze had come three weeks later, around November 18 as was expected, plants would have had that time to build out cottonseed production.

With national supplies widely believed to be ample, a ginning-season price floor chiefly depends on two demand factors. First, how will deteriorating dairy margins undercut the dairy industry's aggregate demand for feed ingredients. Second, how will cottonseed crushers be able to cope with historically large crushing volumes given their dwindling crush capacity. Dairy margins have faded from a month ago, particularly for the deferred delivery periods. Falling dairy prices domestically and internationally have resulted from overproduction, which may cut into cottonseed demand during the spring flush.

Cottonseed crusher margins benefit from the subsequent reduction in competition for cottonseed, but their capacity has been untested since the most recent highs in processing volumes. In

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2012/13, these crushers managed to accommodate 2.500 million tons, which is 75,000 tons above Informa's current 2017/18 crush projection at 2.425 million tons and even further above USDA's projection at 2.400 million tons. Many in the industry believe even a 2.400-million-ton crush is no longer achievable. As expected, crushing margins have improved as new-crop cottonseed has become available. Time may provide the only ability clarity into how oil mills will be able to squeeze greater processing rates out of mills, many of which are aging and some of which have been resurrected after years of laying idle. If 100,000 tons of capacity has been lost in the crushing sector, a more bearish cottonseed opinion would result. Because dairy margins may take the better part of the marketing year to equilibrate and cottonseed crushers may not be able to capture all of the currently strong protein meal demand, the outlook for cottonseed is neutral to bearish.

COTTONSEED BALANCE SHEET: October contained a few fundamental features that suggested some price support, though most of the factors still point to price weakness in the months ahead. The largest supportive feature in October was USDA's reduction of cotton and cottonseed production, primarily in Texas. USDA reduced 2107/18 cottonseed production projections by 192,000 tons to 6.676 million tons in response to their reduction in cotton production projections by approximately 200,000 bales to 21.115 million bales the week prior. The decrease in cotton output was prompted by a 100,000-acre reduction to area. Informa did not adopt the entirety of the forecast cottonseed production decrease, reducing projected output by only 50,000 tons to 6.800 million tons because of a more optimistic opinion of the effect of Hurricanes Harvey and Irma.

USDA reduced only feed, seed, and residual 2017/18 demand usage projections, lowering it by 50,000 tons. Informa responded to its lower production forecasts by decreasing feed usage projections by 25,000 tons but increased its crush projections by 100,000 tons. The higher crush forecasts were made because, unlike the nearly indefatigable demand of feeders, crushers have a limit to their demand. A decline in feeding demand could mean that crushing capacity is reached, which would push all cottonseed that cannot go to feed or export at current price levels into 2017/18 cottonseed

carryout. This would cause a decline in prices from current levels. Even after the increased purchases of cheaper cottonseed by feeders, the larger carryout may weigh on the minds of market participants and encourage declines in prices. Lower input prices and higher margins for crushers account for the increase to Informa's crush forecasts.

Year begins Aug 1	Cottonseed Supply & Demand Estimates (1,000 tons)					
	USDA	USDA	Sept	Sept	Sept	Sept
	2014/15	2015/16	USDA	IEG	USDA	IEG
	2016/17F	2016/17F	2017/18F	2017/18F		
Beg. Stocks	425	437	391	391	399	465
Imports	59	16	51	65	0	0
Production	5,125	4,043	5,369	5,369	6,676	6,800
Total Supply	5,609	4,496	5,811	5,825	7,075	7,265
Crush	1,900	1,500	1,769	1,760	2,400	2,425
Exports	228	136	342	290	360	465
Feed, Seed, & Residual	3,044	2,469	3,301	3,310	3,900	3,950
Total Disappearance	5,172	4,105	5,412	5,360	6,660	6,840
End Stocks	437	391	399	465	415	425

Cottonseed fob points						
		Bid	Offer	Trade	Change	Yr Ago
Southeast		(\$/ton)				
North Carolina	Spot	125-129	130-134		-10	195o
	OND	120	125-132		-60	n/a
	Ja-Ag	140	145		-50	207o
	Ja-Sp		145-150		-20	n/a
South Carolina	Spot	125	130		unc	n/a
	OND	120-124	125-130		n/a	180o
	Ja-Sp		145-150		-20	n/a
South Georgia	Spot	127	128-132		-30	175t
	OND	125	132	125	-30	n/a
	Ja-Ag	145	147		n/a	195t
	Ja-Sp		145-150		-20	n/a
Mid-South		(\$/ton)				
Memphis North	Spot		145		unc	200o
	Oct		145		n/a	n/a
	Nv-Dc		145		n/a	200o
	Ja-Sp		165		n/a	n/a
Missouri Bootheel	Spot		150		unc	200t
	Oct		150		unc	n/a
	Nv-Dc		155		n/a	195t
	Ja-Ag	163	170		unc	211b
Southwest		(\$/ton)				
West Texas - Lubbock North	Spot	160-165	170-175		-30	209o
	Nv-Dc	155	158-160		10	208o
	Ja-Sp	170	172-178		unc	220t
West Texas - Seminole North	Spot	155-165	165-175		n/a	n/a
	Nv-Dc	150-155	153-160		n/a	205b
	Ja-Sp	165-170	168-178		n/a	220o
Far West		(\$/ton)				
Arizona	Spot			260	n/a	280o
	Nv-Jn	220	240		n/a	n/a
	Fb-Sp			254	n/a	n/a
California Corc. No.	Spot			280-285	0t	315o
	Nv-Dc	270	273		n/a	310o
Pima California	Spot		255		n/a	255o
	Ja-Jn	240			n/a	n/a
Specially Processed Products		(\$/ton)				
Easi Flo - Courtland, AL	Nov		185		n/a	n/a
	Dec		192		-150	n/a
	Ja-Ag		202		-130	260o

b = bid o = offer t = trade n/a = not available

<u>Cottonseed dlvd. points</u>					
		<u>Truck</u>	<u>Rail</u>	<u>Change</u>	<u>Yr Ago</u>
Northeast		(\$/ton)			
West New York	Spot	190-200o		unC	257o
	OND	185-195o		-5o	n/a
	Ja-Ag	205-215o		unC	282o
Southeast Pennsylvania	Spot	175-185o		unC	240o
	OND	170-180o		-5o	n/a
	Ja-Ag	190-200o		unC	265o
Northeast Ohio	Spot	190-200o		unC	257o
	OND	185-195o		-5o	n/a
	Ja-Ag	205-215o		-10o	282o
Midwest		(\$/ton)			
Michigan (Grand Rapids)	Spot	200-210o		unC	267o
	OND	195-205o		-5o	n/a
	Ja-Ag	215-225o		unC	292o
Minnesota (Rochester)	OND	200-205o		0o	265o
	Ja-Ag	223o		3o	272o
Rail - fob track points		(\$/ton)			
California - Rail	Nv-Jn		260o	-5b	n/a
	Clock		265o	unC	n/a
Idaho - Rail UP	Nv-Ja		260o	n/a	n/a
	Clock		260o	unC	290o
b = bid o = offer t = trade n/a = not available					

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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