

March 18

Volume 22, Issue 3

Cottonseed Intelligence Monthly

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COTTONSEED MARKET: During a month of increased price volatility, the outlook for cottonseed prices has been shaken up. Prior to the independently minor but collectively influential body of largely supportive news released during March, the forecast for cottonseed prices was neutral to bearish. Today, more near-term support is suggested. One element of the previous forecast remains: the fundamental price floor is still determined by the feeding industry's alternative feed ingredient values. However, after the benchmark Midsouth cottonseed price rallied 13 percent from \$150 per ton in early February to \$170 in early March, the issue on the minds of many market participants has turned from downside to upside price risk. The answer has become slightly more complicated than it was in February, when there was very little to suggest price hikes ahead. Today, cottonseed's price outlook must be broken into two time periods. Over roughly the next month, the supportive features that emerged in March have the potential to keep price risk to the upside. In the ending months of the marketing year, the price risk remains to the downside due to large stocks.

The most dominant feature supporting spot prices over the past month has been Argentina's serious drought, which has pushed soybean production expectations below the bottom of most analysts' ranges circa the turn of the calendar year. Now projected at 39 MMT according to Informa Economics IEG's analysis, Argentine soybean production is expected to be the smallest since 2008. Burdened by a La Nina weather pattern that tends to produce drier-than-normal conditions for the country, its soybean meal exports will be significantly affected unless farmers decide to part with their large soybean stockpiles. Such stockpile drawdowns are unlikely given Argentine farmers' reliance on stocks as a hedge against historically unpredictable shifts in government monetary and fiscal policy. Under current leadership, the country appears well positioned to bounce back next year, but the main near-term relief to soybean meal futures has been the slight rains received recently, which helped relax futures from highs above \$400 per ton in early March to roughly \$370 in late March.

The impact to cottonseed and cottonseed meal markets has been strong support from the underlying feed market. It was expected that the impacts to cottonseed meal would have been disproportionately strong as oil mills had already been struggling to meet all cottonseed meal demand given their decadal decline in crushing capacity. However, the supportive features led to an increase in late-March spot Midsouth cottonseed meal prices at roughly nine percent compared to a month earlier, whereas corresponding gains to cottonseed prices were approximately 13 percent. This unexpected

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result was caused by cottonseed meal reaching a pricing-out point sooner than expected. While soybean meal prices have been strong, Midsouth cottonseed meal prices at \$335 and West Texas prices at \$360 have caused a curtailing of volumes.

COTTONSEED BALANCE SHEET: In its latest monthly revisions to the cottonseed balance sheet, USDA reduced its 2017/18 crush projection by 50,000 tons to 1.950 million tons. This breaks with Informa's projection at 2.000 million tons and represents the first time this year USDA has held a forecast below Informa's. For the first several months of the marketing year – from August to February – USDA had maintained a crush expectation that was well above Informa's, a disparity that Informa had argued against at length on account of reports from the field and the estimates of reductions to crush capacity over the past five years.

In 2012/13, cottonseed crushers managed to process 2.500 million tons, but since that time the crushing industry has contracted significantly, losing an estimated 300,000 tons of annual capacity at least. Processors in aggregate suffered a slow start to the 2017/18 because of operational difficulties, including one plant that was revived after years of being shuttered. While Informa did not adopt USDA's lower crush projection, it believes the 50,000-ton difference is within the margin of error and reflects of a symbolic data gesture more than a material difference in balance sheet allocations.

Informa does take exception to USDA's ton-for-ton offset of its March reduction to crush forecasts with its increase in feed, seed, and residual forecast. A pattern of USDA fully offsetting usage projections has been formed this marketing year and may be an analytical misstep by USDA. Historically, one consumptive channel is not able to absorb all of the tonnage abandoned by another consumptive channel without a reduction to price. While it is possible that feeders absorb all tonnage not used by crushers, current reluctance of market participants to embrace lower prices suggests USDA's decision to offset usage projections relies on a future decline in cottonseed prices.

Reductions to cottonseed prices is certainly possible, particularly later in the season. The supportive news features over the past month, however, make a near-term price decline less likely. Thus,

an increase in feeder purchases to the extent USDA predicts seems unlikely, at least over the next month. Consequently, USDA's March carryout projections remained unchanged from February at 425,000 tons, whereas Informa's carryout projection remained roughly 140,000 tons larger at 564,000 tons.

Year begins Aug 1	Cottonseed Supply & Demand Estimates (1,000 tons)					
	USDA 2014/15	USDA 2015/16	USDA 2016/17F	IEG 2016/17F	USDA 2017/18F	IEG 2017/18F
Beg. Stocks	425	437	391	391	400	399
Imports	59	16	51	51	0	0
Production	5,125	4,043	5,369	5,369	6,725	6,725
Total Supply	5,609	4,496	5,811	5,811	7,125	7,124
Crush	1,900	1,500	1,769	1,769	1,950	2,000
Exports	228	136	342	342	450	460
Feed, Seed, & Residual	3,044	2,469	3,300	3,301	4,300	4,100
Total Disappearance	5,172	4,105	5,411	5,412	6,700	6,560
End Stocks	437	391	400	399	425	564

Cottonseed fob points						
		Bid	Offer	Trade	Change	Yr Ago
<i>Southeast</i>		<i>(\$/ton)</i>				
North Carolina	Spot		145-148		-2o	185t
	Apr	145	148	145	n/a	n/a
	Ap-Ag	145	149-155		-3o	190o
	OND	135	140		n/a	170o
South Carolina	Spot		150		-4o	190o
	Mr-Jn		150	150	n/a	n/a
	OND	135	140		n/a	n/a
South Georgia	Spot		160	160	-3o	188o
<i>Mid-South</i>		<i>(\$/ton)</i>				
Memphis North	Spot		160		2o	180t
	Ap-Sp		195		34o	n/a
Northeast Arkansas	Spot		163		1o	180o
	Ap-Sp	153	163-165		n/a	n/a
	OND	150	155-165		-5o	165t
<i>Southwest</i>		<i>(\$/ton)</i>				
West Texas - Lubbock North	Spot	190	195		-3o	197t
	Apr		195		n/a	n/a
	Ap-Sp	195	199-200		-7o	202o
	OND	180	190		-5b	193t
<i>Far West</i>		<i>(\$/ton)</i>				
Arizona	Spot	260	275		unc	265t
California Corc. No.	Spot		275-280		-7o	290t
	Mr-Sp		275		n/a	n/a
	Clock	275			n/a	278o
Pima California	My-Sp		255		n/a	n/a
<i>Specially Processed Products</i>		<i>(\$/ton)</i>				
Easi Flo - Courtland, AL	Spot		210		-3o	225o
	Ap-Sp		215		unc	n/a
	Nv-Dc		200		unc	n/a

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>
<i>Northeast</i>		<i>(\$/ton)</i>			
West New York	Spot	210o		unc	252o
	Ap-Ag	215o		unc	260o
	OND	200o		-5o	234o
Southeast Pennsylvania	Spot	195o		unc	235o
	Ap-Ag	200o		unc	243o
	OND	185o		-5o	217o
Northeast Ohio	Spot	210o		unc	252o
	Ap-Ag	215o		unc	260o
	OND	200o		-5o	234o
<i>Midwest</i>		<i>(\$/ton)</i>			
Michigan (Grand Rapids)	Spot	220o		unc	262o
	Ap-Ag	225o		unc	270o
	OND	210o		-5o	244o
Minnesota (Rochester)	Spot	227o		-1o	245o
	Ap-Ag	230o		-1o	250o
	OND	225o		unc	235o
Wisconsin (Madison)	Spot	217o		-1o	239o
	Ap-Ag	220o		-1o	n/a
	OND	215o		unc	229o
<i>Rail - fob track points</i>		<i>(\$/ton)</i>			
California - Rail	Ap-Sp		260-265b	-7b	275o
	OND		265o	n/a	265o
<i>b = bid o = offer t = trade n/a = not available</i>					

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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