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# Cottonseed Intelligence Monthly

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**COTTONSEED MARKET:** Across most of the Midsouth, Southeast, and Southwest, cottonseed prices increased marginally during April, rising about \$5 per ton in Memphis North, Lubbock North, South Georgia, and North Carolina. Californian cottonseed values ran counter to the rest of the nation with a roughly \$5 decline in Corcoran North. These changes reflect the supportive demand-side fundamentals provided by firm prices of competing feeds. The supply side remains suppressive to prices with large national cotton acreage expected to provide just less than seven million tons of cottonseed in 2018/19. The critical supply-side caveat is the rising expectation that West Texas will fail to reach its production potential because of higher-than-normal abandonment and yield losses from the ongoing drought in the Southern Plains.

Spot prices are already showing pronounced signs of the risk of production shortfalls in West Texas. Lubbock North spot prices are now among the highest since before the start of 2017/18 ginning, around \$205. West Coast cottonseed values have been exhibiting a much narrower-than-normal carry, indicating the concern West Coast traders have about the ability to supplement West Coast supplies with West Texas shipments in new crop. Historically, spot values during April have held a \$25-per-ton premium to gin run values of the same week. This year has deviated from the typical \$25 April-to-gin-run carry. The latest survey data collected show a \$7 carry, suggesting serious concern over the combination of local and West Texas availability in new crop.

Precipitation has finally fallen in West Texas, though not most heavily in the areas of greatest concern to cotton farmers and not nearly in the quantities needed to alleviate the dryness problems. The implications of the drought extend beyond cottonseed production into competing feed markets, exacerbating the upside price risk via production shortfalls in other regionally grown feed ingredients. Across the rest of the US, however, 2018/19 cottonseed production potential remains high, and the upcoming season is expected to provide another year of high volumes and historically low prices.

In balance, the outlook for US cottonseed prices is neutral to slightly bearish with greater downside price risk possible from a deflation of corn and soybean meal prices, both of which are seen by Informa Economics IEG to be at slight risk of decline. Continuing to support cottonseed's price outlook are the large numbers of grain consuming animal units in the US. Solid to strong growth rates – driven by meat demand and the typical expansion-contraction cycles in each species – are projected for beef cattle, hogs, and broilers. The support these herd and flock numbers represent are

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expected to keep competing feed ingredient prices from retracting their support to cottonseed prices.

**COTTONSEED BALANCE SHEET:** USDA's Economic Research Service is expected to release its projections for 2018/19 next month. Informa has released its projections, featuring a three-percent year-over-year increase in US cottonseed production and a roughly equally sized increase in usage. Because the cottonseed crushing industry will not likely add any processing capacity in the upcoming marketing year, crushing volumes are projected to remain at their 2017/18 levels. This places a greater importance on exports and feed usage forecasts, with the latter bearing nearly 80 percent of the increases between the two consumptive channels.

Informa's 2018/19 balance sheet starts with a large beginning stocks projection at 590,000 tons, the largest since 2011/12. This will almost certainly be larger than USDA's projection, as USDA has maintained a 2017/18 feed, seed, and residual (FSR) forecast at 4.300 million tons, 100,000 tons larger than Informa's. Reports from the field suggest USDA may be overestimating feed usage, even though feed demand for cottonseed has been sizeable and steady most of the marketing year. Informa's 2017/18 FSR projection at 4.200 million tons would still be the highest usage since 2006/07. Next year's imports are expected to closely resemble this year's, with high domestic availability all but eliminating the incentive to buy from abroad. While Informa's 2018/19 cotton planted area is forecast to be the highest in seven years, an increase in abandonment from the eight percent assumed in its forecasts would push harvested cotton area below Informa's projected 12.354 million acres. The main risk in this regard is the West Texas drought. Given 12.354 million planted acres, implied cottonseed production would be 6.945 million tons, the largest since 2006/07.

Because crush capacities were reached this year, next year's crush volumes are expected to be at 2017/18's level or, because of 2017/18's slow start, slightly higher. Old-crop crushing volumes suffered from plants' operational difficulties during gin run and have failed to meet expectations in each subsequent month. In April, Informa further reduced its 2017/18 crush forecast to 1.900 million tons, 50,000 below USDA's. New-crop export projections are 115,000 tons larger than 2017/18's, which were the largest since 2007/08. If realized, 2018/19 exports would be the largest since 2006/07. New-crop ending stocks would therefore be just above old crop's, at 594,000 tons. This is consistent with the persistence of large stocks in consecutive years of high production and implies a neutral to slightly bearish price outlook for 2018/19.

Cottonseed Supply & Demand Estimates (1,000 tons)						
<i>Year begins Aug 1</i>	USDA 15/16	USDA 16/17	USDA 17/18 F	IEG 17/18 F	USDA 18/19 F	IEG 18/19 F
Beg. Stocks	437	391	400	400		590
Imports	16	51	0	0		10
Production	4,043	5,369	6,725	6,725		6,945
<b>Total Supply</b>	<b>4,496</b>	<b>5,811</b>	<b>7,125</b>	<b>7,125</b>		<b>7,545</b>
Crush	1,500	1,769	1,950	1,900		1,950
Exports	136	342	450	435		550
Feed, Seed, & Residual	2,469	3,300	4,300	4,200		4,451
<b>Total Disappearance</b>	<b>4,105</b>	<b>5,411</b>	<b>6,700</b>	<b>6,535</b>		<b>6,951</b>
End Stocks	391	400	425	590		594

<b>Cottonseed fob points</b>						
		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Change</u>	<u>Yr Ago</u>
<b><i>Southeast</i></b>		<b><i>(\$/ton)</i></b>				
North Carolina	Ap-Sp	145	150		n/a	n/a
	OND	135	140		n/a	160o
South Carolina	Ap-Sp		150	150	n/a	n/a
	OND	135			n/a	n/a
South Georgia	Ap-Sp	162-165	170		n/a	n/a
	OND	135			n/a	n/a
<b><i>Mid-South</i></b>		<b><i>(\$/ton)</i></b>				
Memphis North	Spot		162		4o	180o
Missouri Bootheel	My-Ag		175		n/a	180o
Northeast Arkansas	Spot	161	165	163-164	5o	180o
	OND	150		155	unc	n/a
<b><i>Southwest</i></b>		<b><i>(\$/ton)</i></b>				
West Texas - Lubbock North	Spot		205-215	201-207	16t	185t
	Ap-Sp			190-220	n/a	n/a
	May	205	217		n/a	n/a
	My-Sp		220	210-215	n/a	188o
	OND	195	200		13o	174o
<b><i>Far West</i></b>		<b><i>(\$/ton)</i></b>				
Arizona	Spot		270-280		unc	265o
California Corc. No.	Spot		275		5o	285o
	Ap-Sp		275		1o	n/a
	Clock		282		n/a	272o
<b><i>Specially Processed Products</i></b>		<b><i>(\$/ton)</i></b>				
Easi Flo - Courtland, AL	Ap-Sp			190-195	n/a	n/a
	May		217		n/a	n/a
	My-Sp			210-215	n/a	n/a
	OND		195		n/a	215o
<b><i>b = bid o = offer t = trade n/a = not available</i></b>						

<u>Cottonseed dlvd. points</u>					
		<u>Truck</u>	<u>Rail</u>	<u>Change</u>	<u>Yr Ago</u>
<b><i>Northeast</i></b>		<b><i>(\$/ton)</i></b>			
West New York	Spot	215o		unc	245o
	Ap-Ag	215o		unc	n/a
	OND	205o		unc	223o
Southeast Pennsylvania	Spot	200o		unc	227o
	Ap-Ag	200o		unc	n/a
	OND	190o		unc	208o
Northeast Ohio	Spot	215o		unc	245o
	Ap-Ag	215o		unc	n/a
	OND	205o		unc	223o
<b><i>Midwest</i></b>		<b><i>(\$/ton)</i></b>			
Michigan (Grand Rapids)	Spot	255o		30o	255o
	Ap-Ag	225o		unc	n/a
	OND	215o		unc	233o
Minnesota (Rochester)	Spot	230o		-25o	235o
	My-Ag	235o		n/a	232o
	OND	220o		unc	223o
Wisconsin (Madison)	Spot	220o		5o	230o
	My-Ag	225o		n/a	232o
	OND	210o		unc	218o
<b><i>Rail - job track points</i></b>		<b><i>(\$/ton)</i></b>			
California - Rail	My-Sp		265o	n/a	265o
	OND		268-270o	n/a	n/a
Idaho - Rail UP	Ap-Sp		260t	n/a	n/a
	OND		260-262o	-1o	n/a
<b><i>b = bid o = offer t = trade n/a = not available</i></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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