

June 18

Volume 22, Issue 6

Cottonseed Intelligence Monthly

CIM

COTTONSEED MARKET: During June, the market focused on the continuing drought in the US Southern Plains; the announcement of further, extensive US tariffs on major trading partners and the subsequent, heavy retaliatory tariffs on US products shipped overseas; and continued weakness in the dairy industry.

Price action was muted during June as trading volumes remained seasonally light. Midsouth cottonseed prices were mostly unchanged around \$170 per ton, while cottonseed meal values in the region remained supported and unchanged around \$263 per ton after declining from its brief but powerful rally in March. In March, shortages combined with the steady strength in overall US feed demand drove Midsouth meal prices above \$325 per ton. Protein-consuming-animal units are high this year and are expected to remain high into 2019. This provides support to all protein meals, including cottonseed meal. Cottonseed meal also gains strength from its long-term declines to cottonseed processing capacity, which limits cottonseed meal supply.

The drought in the US Southern Plains was extended through June, but the market largely discounted the importance of the severity of the drought. The National Oceanic and Atmospheric Administration's Drought Monitor showed a slight shrinking of the geographic area affected by the drought in West Texas, the most significant drought region for cottonseed production. The market's impression of the developments has been supportive in the near term. Admittedly, US cotton conditions are unfavorable compared to recent history. They are below the five-year average and each of the past three years. However, they remain near the midpoint of the past ten-year range. Cotton conditions have only been reported during June, but they ended the month at the highest level year to date, rebounding strongly in the final week of the month following favorable precipitation in important drought-stricken areas. Ultimately, June's weather patterns are not nearly as significant as the coming months' to final yield prospects. As uncomfortable as it may be to refrain from yield predictions, history has demonstrated that weather through June is weakly associated with final production.

The US announced heavy tariffs on its closest trading partners, who in turn issued retaliatory tariffs on US imports into their own borders. The most significant of these to the cottonseed market have been the trade restrictions with China, followed by the trade restrictions with Mexico and Canada. The increased cost of doing business with China has depressed agricultural commodities futures,

Every effort has been made to assure the accuracy of the information and market data which is provided in this publication as a compilation for the use of its readers. Information has been obtained by Informa Economics IEG from sources believed to be reliable. However, because of the possibility of human or mechanical error, Informa does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Published by Informa Economics IEG, 7900 International Drive, Ste 650, Minneapolis, MN 55425.

© 2018 Informa Economics IEG, All Rights Reserved.

***For weekly cottonseed pricing and commentary contact
Mary Gammel at mary.gammel@informaecon.com or 901-766-4667***

contributing to a 43-cent-per-bushel (12 percent) drop in December corn futures and a \$1.54-per-bushel (18 percent) drop in soybean futures during June. These moves have increased the competitive pressure on cottonseed sellers and reduced cottonseed's price floor. Separately, the US issued tariffs against Mexico, a major purchaser of US dairy products and the largest purchaser of US cheese. In response, Mexico announced tariffs on US goods, including those on 30 percent of US cheese sales to the country. This is unfortunate timing for US dairies, which have been muddling through poor margins for many months. Weakness in dairy margins through the first quarter was exacerbated by the spring flush, which holds the peak dairy production of the year. Several bankruptcies have underlined the financial stress on dairymen and the subsequent strain on cottonseed demand and price projections. Based on Informa's analysis, dairy prices will likely not rebound until the fourth quarter. After that point, cottonseed demand is expected to experience a slow recovery among dairies.

COTTONSEED BALANCE SHEET: On June 6, USDA released its latest production estimate for 2017/18 cottonseed, reflecting a 303,000-ton decline to 6.422 million tons, an estimate Informa adopted. The sharp drop in old-crop production led Informa to increase its price forecasts and abandon much of its slightly bearish stance on old-crop cottonseed. Since those developments, old-crop prices have indeed remained supported. West Texas values in particular have seen support, rising \$12 per ton during the month to reach a June average at \$225 per ton. West Texas, however, was the region with the largest gains nationally and an outlier among the others.

Gaining only limited attention by much of the cottonseed industry, USDA announced a decrease in projected cotton planted acreage on June 29 by nearly two percent to 13.52 million acres. Earlier in June, USDA released its revised supply and demand estimates for cottonseed, consisting only of a 50,000-ton transfer from crush to feed, seed, and residual. Informa had already announced such a shift and made no changes to its balance sheet. The significant reduction to expected 2018/19 area causes a \$3.50-per-bushel reduction to cottonseed price forecasts in the benchmark Midsouth region. This may not affect old-crop trading values, however, as the July-September period typically features a slow decline before

new-crop supplies are available. The declines are due to the gradual clarity that develops around new-crop production estimates. Typically, \$20 per ton is lost from June prices by September, a reflection of the dwindling of the new-crop production risk premium.

	Cottonseed Supply & Demand Estimates (1,000 tons)						
	Year begins Aug 1	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	450	547
Imports		16	51	0	0	0	10
Production		4,043	5,369	6,422	6,422	6,145	6,895
Total Supply		4,496	5,811	6,822	6,822	6,595	7,452
Crush		1,500	1,769	1,850	1,850	1,900	1,900
Exports		136	342	475	425	425	525
Feed, Seed, & Residual		2,469	3,300	4,047	4,000	3,895	4,500
Total Disappearance		4,105	5,411	6,372	6,275	6,220	6,925
End Stocks		391	400	450	547	375	527

Cottonseed fob points						
		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Change</u>	<u>Yr Ago</u>
<i>Southeast</i>		<i>(\$/ton)</i>				
North Carolina	Spot		145-150		-2o	175o
	JAS		155		n/a	175t
	OND		140-145		2o	155t
South Carolina	Spot		150		unc	172o
	JAS		155		n/a	n/a
	OND		140		unc	145b
South Georgia	OND		150		2o	155t
North Alabama	JAS		170		n/a	n/a
	OND		150		n/a	n/a
<i>Mid-South</i>		<i>(\$/ton)</i>				
Memphis North	Spot		175		0o	202o
	Jul		175	174	n/a	n/a
Missouri Bootheel	Spot		181		6o	n/a
	Jly-Ag		181	174	n/a	n/a
	OND		163		-7o	n/a
Northeast Arkansas	Spot		174		n/a	n/a
	JAS		174-175		n/a	n/a
	OND	155	161		n/a	n/a
<i>Southwest</i>		<i>(\$/ton)</i>				
West Texas - Lubbock North	Spot		235	233	3t	200o
	Jul	230	235-237	237	n/a	n/a
	JAS		240		n/a	n/a
	OND	205-207	212		-3o	180o
West Texas - Plainview North	JAS		240	240	n/a	n/a
<i>Far West</i>		<i>(\$/ton)</i>				
Arizona	Spot	275	280		n/a	n/a
	JAS	280			n/a	285o
Pima California	JAS	235	245		n/a	280o
<i>Specially Processed Products</i>		<i>(\$/ton)</i>				
Easi Flo - Courtland, AL	Spot		225		n/a	237o
	JAS		228		unc	n/a
	Nv-Dc		205		unc	n/a
<i>b = bid o = offer t = trade n/a = not available</i>						

Cottonseed dlvd. points					
		Truck	Rail	Change	Yr Ago
Northeast		(\$/ton)			
West New York	Spot	209o		-3o	n/a
	JJA	217o		5o	n/a
	OND	204o		2o	225o
Southeast Pennsylvania	Spot	194o		-2o	n/a
	JJA	201o		5o	n/a
	OND	189o		3o	210o
Northeast Ohio	Spot	209o		-3o	n/a
	JJA	217o		5o	n/a
	OND	204o		2o	225o
Midwest		(\$/ton)			
Michigan (Grand Rapids)	Spot	219o		n/a	n/a
	JJA	227o		n/a	n/a
	OND	214o		n/a	n/a
Minnesota (Rochester)	Spot	252o		-2o	253o
	Jly-Ag	254o		n/a	n/a
	OND	238o		4o	230o
Wisconsin (Madison)	Spot	245o		-4o	248o
	Jly-Ag	247o		n/a	n/a
	OND	233o		4o	225o
Rail - job track points		(\$/ton)			
California - Rail	OND		275o	n/a	280o
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, dairywomen in this group will migrate up into Groups 1, 2 or 3.

Cottonseed Intelligence Monthly is published monthly. Phone: 901-766-4667. E-mail: mary.gammel@informaecon.com. Every effort has been made to assure the accuracy of the information and market data which is provided in this publication as a compilation for the use of its readers. Information has been obtained by Informa Economics from sources believed to be reliable. However, because of the possibility of human or mechanical error, Informa does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Published by Informa Economics, 7900 International Drive, Ste 650, Minneapolis, MN 55425.

© 2018 Informa Economics IEG, All Rights Reserved.