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COTTONSEED MARKET: Throughout December, the cottonseed market was focused on increased demand for cottonseed in livestock feeding, 2018/19 cottonseed production increase by USDA, and the tighter supply of cottonseed with ginning still running behind. Ginning is running around nine percent behind pace according to the latest USDA's *Cotton Ginnings* report, which has allowed for new-crop cottonseed to trickle into the market rather than be plentiful for immediate delivery. This slow pace of new-crop seed entering the market with an increase in feed demand has created a tighter supply of cottonseed this year for some areas. West Texas's cottonseed market has seen an increase in feed demand from the feedlot industry due to the increased price in DDG's. The short supply of DDG's has caused the price to increase significantly causing some cattle feeders to evaluate rations for other feed stuffs to incorporate at a more cost-effective rate. Ethanol margins have been negative and caused some plants to shut down making DDG's hard to find for cattle producers that were relying on the plant's DDG production and helped increase the demand for cottonseed and by-products further. Cottonseed and cottonseed meal has been an alternative to DDG's allowing for an alternative for the protein needed while supplementing beef cattle with the protein needed to grow and develop to full potential.

Weather has been a factor this year in the cotton industry with two major hurricanes along with continued unfavorable weather throughout harvest. There are still cotton acres left to be harvested in parts of the Southeast that have been too wet all year. USDA released its December *WASDE* and *US Crop Production* reports December 11 with USDA increasing its 2018/19 US cotton production by 180,000 bales to 18.59 million bales. This increase in 2018/19 cotton production was due to a slightly higher forecast for Texas yield that offset several yield reductions seen throughout the southeastern states. Along with *WASDE* and *US Crop Production* reports, USDA released its *Oil Crops Outlook* report on December 13. This report provided USDA's updated 2018/19 cottonseed balance sheet changes incorporating its increase of US cotton production from the December 11 *Crop Production* report. USDA increased its 2018/19 cottonseed production by 59,000 tons to 5.86 million tons. This increase in cottonseed production also led USDA to leave crush and exports unchanged from previous forecast while increasing its feed, seed and residual by 59,000 tons to 3.68 million tons leaving ending stocks unchanged from previous forecast at 400,000 tons. IEG Vantage's 2018/19 cottonseed balance sheet was unchanged with cottonseed production at 5.82 million tons, crush at 1.9 million tons, exports at 370,000 tons, feed, seed and residual at 3.6 million tons bringing ending stocks to 396,000 tons. Cottonseed prices did not react to USDA's increase in 2018/19 cottonseed production, with traders disagreeing with the reports increase in cottonseed production.

Hay prices across the US remained firm. There are reports of hay shortages and the possibility of being completely out of hay in early 2019 in parts of Texas and other areas of the US that experienced a lower hay production this year because of drought or excessive rain. In the Midwest, particularly parts of Minnesota, cattle producers are shipping hay in from other states as excessive rains earlier in the year delayed hay harvest and, in turn, reduced the quantity and quality

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

of hay available for livestock in the state. Currently the US dairy industry could use a break from higher feed input costs and lower returns from milk prices. The US dairy retirement rate is at eight percent, which is an all-time high. The dairy operations that are currently milking 500 head or less are within the eight percent retirement rate and unfortunately are part of the legacy generation dairy farmers that have carried the family generation after generation. These operations have been unable to keep the cash-flow steady and margins are not as favorable. Operations with 5,000-plus milking cows are reported to have been doing well with better margins and returns overall. As input costs are closely watched and cottonseed prices have become firmer in the recent weeks some dairies are considering other feed alternatives to reduce or replace cottonseed particularly in the areas that have experienced a significant increase in price. As 2019 quickly approaches, the dairy industry is hoping for a better year with the potential of improvement in Class III prices and overall expectations for margins to slightly improve.

COTTONSEED BALANCE SHEET: USDA released its *Oil Crops Outlook* report December 13, which showed significant changes to its balance sheet. USDA increased its 2018/19 cottonseed production 59,000 tons from the previous forecast to 5.86 million tons. This increase in cottonseed production led USDA to leave crush at 1.8 million tons, which is unchanged from its previous forecast, and to increase its feed, seed and residual use by 59,000 tons from the previous forecast to 3.68 million tons, leaving USDA's 2018/19 ending stocks forecast unchanged from previous forecast at 400,000 tons. IEG Vantage adopted USDA's 2018/19 cotton production forecast into its lint-to-seed ratio for 2018/19 cottonseed production, which brought IEG's 2018/19 cottonseed production to 5.82 million tons.

Cottonseed Supply & Demand Estimates (1,000 tons)						
Year begins Aug 1	USDA 2015	USDA 2016	USDA 2017	IEG 2017	USDA 2018	IEG 2018
Beg. Stocks	437	391	400	400	450	450
Imports	16	51	0	0	0	0
Production	4,043	5,369	6,422	6,422	5,858	5,816
Total Supply	4,496	5,811	6,822	6,822	6,308	6,266
Crush	1,500	1,769	1,854	1,854	1,800	1,900
Exports	136	342	478	478	425	370
Feed, Seed, & Residual	2,469	3,300	4,040	4,040	3,683	3,600
Total Disappearance	4,105	5,411	6,372	6,372	5,908	5,870
End. Stocks	391	400	450	450	400	396
Source: USDA ERS						

Cottonseed fob points						
		Bid	Offer	Trade	Change	Yr Ago
Southeast		(\$/ton)				
North Carolina	Spot		150-155		7o	127t
	Ja-Ag	155	160-165		-2o	150o
South Georgia	Spot		150		unc	134t
Mid-South		(\$/ton)				
Memphis North	Spot		178-180		7o	152o
Missouri Bootheel	Spot		180-185		2o	152t
	Ja-Ag	190	200		6o	n/a
Northeast Arkansas	Spot		180-185		3o	152t
	Ja-Ag	185	195		n/a	n/a
Southwest		(\$/ton)				
West Texas - Lubbock North	Spot		230		unc	170t
	Ja-Sp		251		n/a	180o
Far West		(\$/ton)				
Arizona	Spot		285-290		12o	247o
	Dc-Ja	275	285-290		n/a	250t
	Ja-Sp	285	295-300		unc	250o
California Corc. No.	Spot		310-315		2o	272o
	Jan	312	315		n/a	n/a
Pima California	Dc-Mr		265	263	-5o	n/a
Specially Processed Products		(\$/ton)				
Easi Flo - Courtland, AL	Spot		215		5o	200o
	Ja-Sp		235		n/a	n/a
b = bid o = offer t = trade n/a = not available						

<u>Processed Cottonseed Products</u>						
		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Change</u>	<u>Yr Ago</u>
Southeast		Meal (\$/ton)				Hulls
Georgia	Spot		220		unc	242o
Mid-South		Meal (\$/ton)				Hulls
Memphis	Spot		260		20o	225o
Pine Bluff	Spot		260		20o	230o
	Dc-Mr		260		n/a	205o
Mississippi	Spot		245		n/a	220o
Southwest		Meal (\$/ton)				Hulls
West Texas	Spot		290		5o	256o
	JFM		290-291		0o	254o
	Ap-Sp		255		n/a	n/a
Far West		Meal (\$/ton)				Hulls
California	Dc-Mr	262-265	275		unc	260o
Cubes	Spot		345		unc	300o
Cottonseed Meal Basis vs. Wednesday's CBOT SoyMeal						
		<u>SBM</u>	<u>CSM</u>	<u>BASIS</u>	<u>Change</u>	<u>Yr Ago</u>
Southeast		307.8	220	-87.8	0	-22.5
Mid-South		307.8	260	-47.8	20	30
Southwest		307.8	290	-17.8	5	33.5
<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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