

USDA REPORTS: In the *Annual Crop 2006 Summary* released on January 12th, USDA raised all cotton production to 21.729 million bales. Compared to 05-06's record-breaking output, cotton production is off 9%. However, since the previous report a month ago, that is an increase of 432,000 bales, or 2%. Likewise, cottonseed production shot 2% higher compared to last month with an increase of 153,000 tons. This is a greater increase than the market may have anticipated. This increase in supply expectations could result in bearish implications for prices in the first half of 2007.

The largest increase to cotton production came from Texas, up 307,000 bales, which was followed by Georgia pegged to produce 110,000 bales more than thought a month ago. Alabama also had a significant increase of 80,000 bales. The states showing increases were expected to have lower production due to hot and dry weather. The states with the largest reductions were North Carolina and Mississippi both off 50,000 bales.

The *Cotton Ginnings* report as of January 1st, had a running bales ginned total of 19.218 million bales. This is an increase of 1.5 million bales since the last ginning report. The pace of ginning has dropped off more than half, compared to the report a month earlier. This suggests that more than 2 million bales were yet to be ginned at the first of the year. At this time last year, more than 3.7 million bales were yet to be ginned. Most of this difference comes from Texas, as compared to a year ago, production for the state is off over a million bales.

COTTONSEED MARKET: Price expectations were higher following the limit-up corn trading action on futures in Chicago following USDA's Production report. This bullish attitude has spilled over into the nearby cottonseed markets, but the bigger feature that most markets are dealing with is the lack of nearby offers. The concern of merchants is the potential loss of feed demand. End users are expected to continue hand-to-mouth buying and gins will continue offering forward supplies with a carry, which will likely discourage end users from booking forward. If this scenario plays out, chances there is the possibility for a larger carryout at the end of the season.

Southeastern markets are quiet as fewer gins are running and in the market following the holidays, plus the conference in the region mid-month had taken players away from trading. Compared to last month, North Carolina nearby quotes have climbed \$8/ton, while South Carolina offers soared \$15/ton. Even with the stronger prices, buying interest forward is still limited and demand to the Northeast is lackluster.

Offers are limited in the Mid-South, as trading levels for the nearby are \$6 higher compared to a month ago. Merchants are nervous the price strength will keep buyers away from the market, which may result in panic selling in late spring. Gins in the region own most of the supply, and this fact has some market participants nervous that too much demand rationing has taken place due to the strong prices. Forward offers have edged a couple dollars lower, but are not able to attract buyers.

West Texas markets are quiet as the snowstorms have set ginning progress back some, but

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, Inc. 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, Inc., 2633 Innsbruck Drive, Suite D, New Brighton, MN 55112.

For weekly cottonseed pricing and commentary contact:

James Bueltel - Phone 651-635-9157, Fax 651-635-0857 e-mail: james.bueltel@informaecon.com

ginning should get back on track before month's end. The West Texas market is the only location where nearby prices moved lower, as prices are off roughly \$5/ton. The lack of buying interest is cited as the reason for the weakness. Availability of cottonseed and logistics appears to be adequate. The forward offers have retreated several dollars as well. Pricing may be choppy for the next few weeks without a clear sense of direction until all ginning is completed in the region.

Nearby California truck quotes were lower earlier in the month, but have shifted higher as nearby supplies are not as abundant. Forward quotes are keeping a carry, but have edged a couple dollars lower. Still end users are not willing to pay up for the forward position. At the same time, merchants are careful not to over sell as availability and logistics could be a problem later this crop year. Prices end users will have to pay in the middle of the summer will likely be higher than current forward offers, but end users are willing wait on making purchases.

COTTONSEED BALANCE SHEET: The largest change to USDA's balance sheet was a 153,000-ton upward revision to production. This increase is inline with the boost shown in the January *Production Report*. On the demand side of the balance sheet, this increase was offset by exports being raised 150,000 tons, plus the feed, seed and other category was upped 3,000 tons. The only reduction to the demand side was a 50,000-ton decrease to the crush. Ending stocks were raised 50,000 tons, which puts it 90,000 tons above the 5-year average.

The perspective of a larger cotton crop led to changes on Informa's balance sheet as well. Using USDA's cotton forecast, cottonseed production was raised 234,000 tons. The two states with the largest increase were Texas and Georgia. These two states were expected to have much smaller crops because of hot and dry conditions. Some gins in these states still have cotton to gin and are expected to run for a few more weeks. Considering the long ginning season, there are still possibilities that production may be adjusted even higher.

On the demand side of the market, only the crush is unchanged, and it is still below USDA's expectations by 50,000 tons. The 2003-04 crop year was the last time the crush was smaller, at that time cottonseed production was roughly a million tons below this year's expected level. Export expectations were raised 75,000-tons as the Mexican and Asian demand continues lingering in the market place longer than some merchants had anticipated. The feed, seed and other category was boosted 62,000 tons, as prices on other ingredients have climbed. Dairies appear to have fewer economical options to replace cottonseed and may end up using more cottonseed than earlier estimated. Ending stock were upped 97,000 tons, which raised the stocks to use ratio to 7%. This is still below the year ago level by 0.4%, yet it is above the 5-year average by 0.8%. While higher ending stocks typically lead to lower prices, this year the price strength from other ingredients will likely limit downward price pressure for cottonseed in coming months.

Cottonseed Supply/Demand Balance Sheet (000 tons)

Yrs beg Aug 1	Cottonseed Supply/Demand Balance Sheet (000 tons)				
	USDA	USDA	Jan. / USDA	Jan. / USDA	Jan. / Informa
	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06E</u>	<u>2006/07F</u>	<u>2006/07F</u>
Beg. Stocks	347	421	592	602	602
Imports	2	1	0	0	
Production	6665	8242	8172	7632	7642
Total Supply	7013	8664	8764	8234	8244
Crush	2639	2923	3011	2850	2750
Exports	355	379	523	550	570
Feed, Seed, & "Other"	4598	4770	4629	4330	4350
Total Disappearance	6592	8072	8163	7680	7670
End Stocks	421	592	602	554	574

COTTONSEED fob points					
<u>PRICES 01-19-07</u>		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Yr Ago</u>
SOUTHEAST		(\$/ton)			
No. Carolina	Spot	124b / 126o		82b 86o	
	JFM	125b / 129o		82b 92o	
	Ja-Ag	134b / 137o		90b 94o	
So. Carolina	JFM	125b / 129o		90b 95o	
	Ja-Ag	130b / 136o		95b 100o	
Georgia So.	Spot	105b / 110o / 105t		83b 85o	
	JFM	127b / 133o		n/a	
	Ja-Ag	135b / 140o		101o	
Alabama No.	Jan.	130b / 135o / 133t		103o	
	Ja-Ag	140b / 143o / 140t		107o	
MID-SOUTH		(\$/ton)			
Memphis No.	Spot	125b / 132o / 130t		103o	
	JFM	123b / 135o		102t	
	Ja-Ag	135-138b / 140o		n/a	
MO Bootheel	Spot	130b / 132t		104o	
	Fb-Ag	138t		n/a	
Louisiana	Spot	140o		n/a	
SOUTHWEST		(\$/ton)			
West Texas	Spot	150-152b / 155o		115-118t	
	Fb-Mr	157-160o		n/a	
	Fb-Sp	172b / 175-180o / 175t		130o	
FAR WEST		(\$/ton)			
Arizona	Spot	205b / 210 205t		160o	
Cal Corc. N	Spot	208-210o		170o	
& Stockton	JFM	215-222o		n/a	
	Ja-Sp	230o		176o	
SPECIALY PROCESSED PRODUCTS (\$/TON)					
<i>Easi Flotm</i>	Centre, AL	Spot	166o	144o	
<i>FuzZpelletstm</i>	Weldon, NC	Spot	170o	110o	
<i>Cotton Flotm</i>	Weldon, NC	Spot	170o	123o	
b = bid o = offer t = trade n/a = not available					

COTTONSEED dlvd. points					
<u>PRICES 01-19-07</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	180o			
	Ja-Ag	189o			
SE Pennsylvania	Spot	161o			
	Ja-Ag	172o			
NE Ohio	Spot	174o			
	Ja-Ag	185o			
MIDWEST		(\$/ton)			
MI (Grand Rpds.)	Spot	190o			
	Ja-Ag	199o			
MN (Rochester)	Jan.		186o	190-194o	
	Ja-Ag		191-193o	200-202o	
WI (Madison)	Jan.		170-174o	176-186o	
	Ja-Ag		184-188o	190-193o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot		190o		
	Ja-Sp		205o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	Fb-Mr				185b 190o
	Spot				210o
California	Spot				202t 203o
	JFM				200b 207o
Idaho (UP)	Fb-Ag				209b 214o
	Jan				208b 210t
WA/OR (BN)	Fb-Sp				222o
b = bid o = offer t = trade					

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.