

USDA REPORTS: All cotton 2016 production was estimated at 17 million bales for an increase of 434,500 bales, up 3% compared to the December report. The production increase was based on a 34 pound/acre increase to their yield from December. This relates to an 89-pound increase from last year. Texas contributed the most to the increase as its production was raised 396,000 bales compared to the December report. The next largest increase was in Oklahoma up 55,000 bales.

Cottonseed production was raised 144,000 tons from last month. Compared to the previous year it equates to an increase of 1.375 million tons. The last time the market had a larger year-over-year change in production was in 2010/11 when production was up 1.95 million tons from the previous year. That year the cottonseed crush was 600,000 tons larger than the previous year. This also was the last time the crush was above 2.5 million tons. This year such an increase from crushers is not possible given fewer crushing plants operating.

USDA - US Regional Cottonseed Production (000 tons)					
Region	2015/16 Production	2016/17 Production	% Change from 2015/16	YOY Change	5-year Averages
Southeast	1055	1105	4.7%	50	1438
Mid-South	691	1130	63.5%	439	1159
Southwest	2000	2767	38.4%	767	1724
Far West	297	416	40.1%	119	560
US Total	4043	5418	34.0%	1375	4881

COTTONSEED MARKET: Prices managed to edge higher at the middle of January on support from the rallying soybean complex related to crop concerns in South America. This coincided with a number of gins in West Texas finishing their ginning season, so there wasn't as much ginning pressure. At the same time, some resellers and dairy buyers in the Far West came to market to cover requirements. As these buyers were coming to market, gins backed away from selling which helped prices climb higher. The net impact of this recent buying activity seems negligible as trading volumes haven't been large enough to result in a significant amount of supply leaving the market.

The strength in the West Texas market helped widen the price spread to the Mid-South. The amount of trading in the Mid-South remains limited while there are still abundant unsold supplies in the region. Meanwhile, Midwest dairy demand remains lackluster since on-farm ingredient supplies of high quality alfalfa and silage are larger than normal and feed demand has been off with mostly mild weather. Midwest inclusion rates are below average which typically draws on supply from the Mid-South. This suggests that prices in the Mid-South should have less upside price potential compared to West Texas.

Southeast markets have been lackluster with fewer participants in the market. The common complaint is that end user demand continues to be focused on the nearby given the abundant supply situation.

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This is limiting the upside potential for prices through the summer months. End users haven't been concerned about running short of supply which is keeping them from booking forward. Expectations for an increase in cotton acres in the spring suggest that there will be ample supply.

The uptick in Far West buying activity at the middle of January quickly caused prices to increase. After the past several weeks of modest nearby buying interest, any increase in inquiries would be enough to cause sellers to elevate offers. The spread between nearby and forward offers has widened modestly, but still remains narrower than normal as should be the case given the abundant supply. The recent price increase could quickly disappear if the soybean futures complex has a downward price correction.

COTTONSEED BALANCE SHEET: The USDA raised 2016/17 production by 144,000 tons. This follows the increase in the crop production report released last week. The crush was raised 50,000 tons to 1.95 million tons, the highest level since the 2013/14 crop year. The feed, seed and other category was raised 80,000 tons, which would be the highest level for this category since the 2006/07 crop year. The net result of the changes was a 14,000-ton increase to ending stocks. The stocks to usage ratio was raised a tenth of a percent to 8%, which is 1 percentage point below the 10-year average.

The Cottonseed Digest balance sheet adopted USDA's ending stocks for 2015/16, which lowered the beginning stocks for 2016/17 by 8,000 tons. Production was raised 138,000 tons following the higher yield projections in the USDA report. West Texas made up the lion's share of the production increase. Since ginning in Texas should continue into February, there is still the possibility of production being raised in later reports. The last time cottonseed production was higher was during the 2012/13 crop year when it reached 5.66 million tons.

Exports are unchanged as the activity this early in the crop year doesn't justify meaningful changes. The crush was raised a modest 10,000 tons since robust oil mill cottonseed buying and strength in the soybean complex should support a larger cottonseed crush. The feed, seed and other category was raised 90,000 tons and provides the best opportunity for disappearance. However, prices will need to drift lower in order to attract additional demand for over 3.2 million tons of cottonseed to be feed to dairies. Current dairy cottonseed inclusion rates are lower than average due to the competitive feed market with abundant supplies of other feed ingredients. Cottonseed prices will likely need to drift lower, which could happen given abundant supply, or supply of other feed ingredients will need to tighten, which appears highly unlikely with high ending stocks.

Ending stocks were raised 30,000 tons to a record high level because of lackluster end user demand and higher than average unsold inventories. The stocks to use ratio at 13.8% is record high. If there is evidence of improved end user consumptive demand, stocks will be lowered.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Year begins Aug 1	USDA	USDA	USDA	Jan / USDA	Jan / CSD
	2013/14	2014/15	2015/16	2016/17F	2016/17F
Beg. Stocks	492	425	437	391	391
Imports	198	59	16	50	50
Production	4203	5125	4043	5418	5393
Total Supply	4893	5609	4496	5859	5834
Crush	2000	1900	1500	1950	1650
Exports	219	228	136	250	240
Feed, Seed, & "Other"	2250	3044	2469	3225	3245
Total Disappearance	4468	5172	4105	5425	5135
End Stocks	425	437	391	434	699

COTTONSEED fob points				
<i>PRICES 01-20-17</i>		<i>Trade</i>		<i>Yr Ago</i>
Southeast		(\$/ton)		
North Carolina	Spot	198b / 200-205o / 200		241t
	Fb-Mr	205o		n/a
Georgia So.	Spot	185b / 195-198o		242t
	Ap-Ag	200o		n/a
Mid-South		(\$/ton)		
Memphis No.	Spot	195b / 200-205o		260o
	Fb-Mr	205o		n/a
	Fb-Ag	210o		n/a
MO Bootheel	Spot	200-205o		265o
	Fb-Mr	205t		n/a
	Fb-Ag	210o		n/a
NE Arkansas	Spot	200-205o		265o
	Fb-Ag	205o / 205t		n/a
Southwest		(\$/ton)		
West Texas: LN	Spot	207o		255t
	Fb-Mr	210o / 208t		n/a
	Fb-Sp	215-218		n/a
West Texas: SN	Spot	205t		257o
	Fb-Mr	208o		n/a
Oklahoma	Spot	205o		235o
	Ja-Sp	210b / 215o		n/a
Far West		(\$/ton)		
Arizona	Spot	280o / 275t		320t
	Fb-Mr	290o		n/a
	Fb-Sp	290t		n/a
Cal. Corc. No.	Spot	305o / 300t		362o
Pima California	Spot	270o		305o
	Fb-Sp	280o		305o
Specially Processed Products (\$/ton)				
<i>Easi Flotm</i>	Courtland, AL	Spot	242o	315o
		Ja-Ag	n/a	320o
b = bid o = offer t = trade n/a = not available West Texas: LN=Lubbock North, PN=Plainview North, SN=Seminole North				

COTTONSEED dlvd. points				
<u>PRICES 01-20-17</u>		<u>Truck</u>	<u>Rail</u>	<u>Yr Ago</u>
Northeast		(\$/ton)		
W. New York	Spot	254o		307o
	Fb-Mr	267o		n/a
	Fb-Ag	273o		312o
SE Pennsylvania	Spot	237o		290o
	Fb-Mr	250o		n/a
	Fb-Ag	256o		295o
NE Ohio	Spot	254o		307o
	Fb-Mr	267o		n/a
	Fb-Ag	273o		312o
Midwest		(\$/ton)		
MI (Grand Rpd.)	Spot	264o		317o
	Fb-Mr	277o		n/a
	Fb-Ag	283o		322o
MN (Rochester)	Spot	262-265o		327o
	Fb-Ag	265-267o		329o
WI (Madison)	Spot	259-260o		325o
	Fb-Ag	263o		327o
Southwest		(\$/ton)		
Texas / Dublin- Stephenville	Spot	240o		290o
Rail - job track points		(\$/ton)		
California	Fb-Sp		288t	n/a
Idaho (UP)	Ap-Sp		295o	n/a
WA/OR (BN)	Spot		303o	360o
	Fb-Sp		303o	n/a
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, dairymen in this group will migrate up into Groups 1, 2 or 3.

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