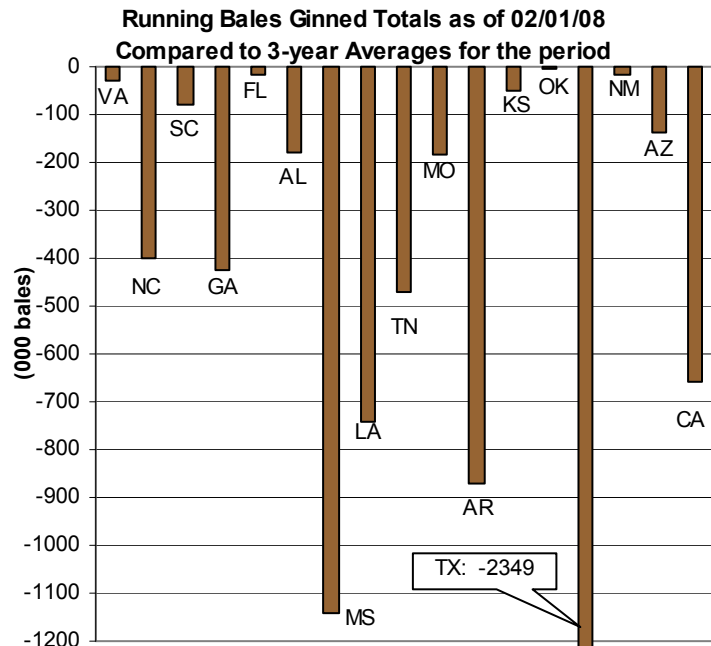


GINNING REPORT: As of February 1st, the all-cotton running ginned total was 12.375 million bales. This is 7.7 million bales, or 38% behind the 3-year average pace for the beginning of February. Compared to the last ginning report that showed results from the midpoint of January, the total grew by 236,000 bales of which roughly 200,000 came from Texas. The next ginning report will be released toward the end of March and only minor changes are anticipated. A drop off in production like this hasn't been seen in the past couple decades. The last time there was such a dramatic drop off in production was in 1998, when output dropped nearly 5 million bales compared to the year earlier. Incidentally, that was the last year when the majority of the season's seed was crushed for oil rather than was used in the feed industry.



COTTONSEED MARKET: The bearish tone in the market is expected to linger for the next few months as demand from dairies is apt to remain lackluster. New crop offerings are of interest to gins as they and growers are attempting to figure out their options for next year's crop. Gins are not actively participating in new crop trading as price levels mentioned are likely under their price ideas, but some small volume trading has taken place.

Nearby Southeast prices have dropped roughly \$30/ton compared to last month. In the case of South Carolina expectations were for a further drop in price, but sellers are not willing to drop offers without trading. Demand from the Northeast has been missing and keeping downward pressure. Forward offers are shown to the market but buyers are not willing to increase their position. Merchants are pessimistic that a bottom has been established. It appears that due to the lack of demand, cottonseed prices will need to go lower before prices have an opportunity to rebound.

Mid-South markets have only limited trading activity due to the lack of buying activity. The ice storm that started the month prevented shipments as gins were waiting for electricity to be restored. Market instability and concerns about demand has made sellers in the region willing to accept bids. Summer offers have a modest premium, but if there was a serious bid it would likely trade at the same

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level as the nearby offer. More than one merchant in the Midwest, with twenty plus years of experience, has mentioned that dairy demand is the worst they have ever seen in their career.

Nearby offers in the West Texas market managed to muster a rebound by the middle of February after drifting lower for the past few weeks, but no trading was reported. It appears sellers dug their heels in and decided they would not lower offers, nor accept bids. Dairies are not willing to participate and are willing to wait, and buy only as needed. At this point in the game, that is the safest way for them to survive during these difficult market conditions. Quoted ranges for the summer months dropped dramatically from last month and are now nearly flat with the spot market. The forward market is weak as buying interest is minimal.

Prices in California, the market has a weak tone as end users are only covering immediate needs. Availability of supply is not an issue this year. The main concern for the market is how much less cottonseed will be fed for the balance of the season. Increased herd culling over the next few months should hurt demand. Additionally, with weak milk prices dairies will be looking for ways to cheapen their diets, which may result in less cottonseed being feed. Offers for the summer months are not openly offered as the market is not well test because of too few buyers for that timeframe.

COTTONSEED BALANCE SHEET: The USDA balance sheet for February was basically unchanged. It only had a 1,000-ton reduction to the Feed, Seed and Other category, which raised the ending stocks by the same amount. The Informa balance sheet has kept the supply side the same as a month ago. However, there are downward adjustments to the disappearance side, which results in a 44,000-ton increase to ending stocks.

The crush was lowered again this month with a reduction of 14,000 tons. The net-value of cottonseed for crushers continues to erode, as demand for primary and co-products continue to soften. This year crushers will continue to struggle to be profitable. In such a market environment, it is possible that crushing will be curtailed. Crushers may be able to show better returns by selling their seed inventories into the feed market rather than crushing them.

The Feed, Seed and Other category was lowered 30,000 tons. Historically weak buying from dairymen is a consequence of low milk prices. Expectations are for a reduction in the cow numbers, as dairies cull the lower producing cows from their herd. There is also the possibility that there will be another CWT (Cooperatives Working Together) herd retirement program this year. Dairies are looking for ways to limit their input costs. Compared to other grain byproducts' prices, cottonseed is pricy. It appears dairies will limit usage of cottonseed unless prices rollback and it becomes an economical option.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	USDA	Feb. /	Feb. /	Feb. /
	2005/06	2006/07	USDA	USDA	Informa
			2007/08E	2008/09F	2008/09F
Beg. Stocks	592	602	489	643	643
Imports	0	0	3	50	5
Production	8172	7348	6589	4429	4486
Total Supply	8764	7950	7080	5122	5134
Crush	3010	2680	2706	2400	2408
Exports	523	616	599	350	200
Feed, Seed, & "Other"	4630	4165	3132	2042	2050
Total Disappearance	8163	7461	6437	4792	4658
End Stocks	602	489	643	330	478

COTTONSEED fob points					
<u>PRICES 02-13-09</u>		<u>Trade</u>		<u>Yr Ago</u>	
SOUTHEAST		(\$/ton)			
No. Carolina	Spot	170o / 165t		278o	
	Fb-Ag	180o		280o	
(as-ginned)	OND	145b / 160o / 160t		n/a	
	So. Carolina	Feb.	175b / 180o		275o
(as-ginned)	Fb-Ag	177b / 182o		280o	
	OND	145b / 160o		n/a	
Georgia So.	Feb.	170b / 180-200o		270o	
	Fb-Ag	175b / 185o		280o	
(as-ginned)	OND	145b / 160o / 151t		n/a	
	Alabama No.	Spot	195o		n/a
MID-SOUTH		(\$/ton)			
Memphis No.	Spot	190-193o / 191t		278t	
	Fb-Ag	190b / 195o		280o	
	OND	190o		250t	
MO Bootheel	Spot	194o / 192t		281t	
SOUTHWEST		(\$/ton)			
West Texas	Spot	225-227o		265o	
	Ap-Sp	225b / 230o		280o	
	OND	195o		255-265t	
FAR WEST		(\$/ton)			
Arizona	Spot		225o		275t
Cal Corc. N	Spot			265t	335t
& Stockton	Fb-Mr			265t	345o
SPECIALY PROCESSED PRODUCTS (\$/TON)					
Easi Flo[™]	Courtland, AL	Ja-Ag	220o	328o	
FuzZpellets[™]	Weldon, NC	Spot	248o	305o	
Cotton Flo[™]	Weldon, NC	Spot	248o	305o	
b = bid o = offer t = trade n/a = not available					

COTTONSEED dlvd. points					
<u>PRICES 02-13-09</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Fb-Mr	223o			
	Ap-Ag	233o			
SE Pennsylvania	Fb-Mr	205o			
	Ap-Ag	215o			
NE Ohio	Fb-Mr	222o			
	Ap-Ag	232o			
MIDWEST		(\$/ton)			
MI (Grand Rpds.)	Fb-Mr	230o			
	Ap-Ag	240o			
MN (Rochester)	Spot		240-245o	250-253o	
	Ap-Ag		242-247o	252-256o	
WI (Madison)	Spot		238-242o	245-248o	
	Mr-Ag		239-243o	246-249o	
SOUTHWEST		(\$/ton)			
Texas / Dublin-	Spot		260o		
Stephenville	Fb-Ag		270o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	Fb-Mr				249t
	Ap-Ag				254o
California	Spot				260o
Idaho (UP)	Spot				269t
WA/OR (BN)	Spot				275b 280o
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.

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