

USDA GINNING REPORTS: The running bales ginned total was 12.4 million bales at the beginning of the month. This is behind the 3-year average by 3.88 million bales. Since the last report of January 15, more than 350,000 bales were ginned.

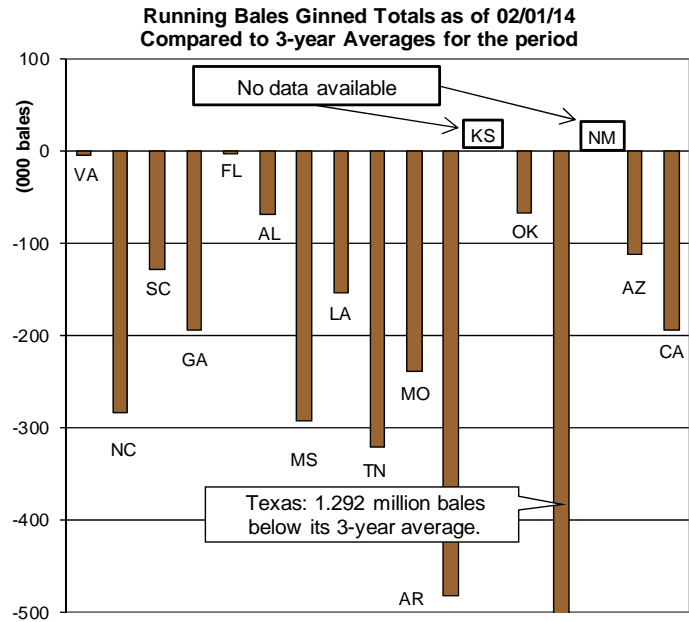
COTTONSEED MARKET: Prices have moved higher in all markets compared to a month ago. The recent strength in the soybean complex and other protein sources have been supportive for the higher prices. At the same time offers are limited in the market and sellers are using higher prices to ration the limited supply. This year's smaller crop combined with robust demand from dairies suggests that any downside price risk remains unlikely.

The recent price increases should keep cottonseed prices out of reach for oil mills. The PBSY cottonseed oil basis to soybean oil has strengthened over the past couple months. These increases are rationing limited oil supply. If cottonseed prices continue to climb, crushers will likely keep the basis on cottonseed oil strong to keep the net-value of their seed holdings close to the value of the dairy feed market. It is possible that they could turn sellers in coming months if cottonseed prices remain stout. If oil mills start selling cottonseed, then there will be a downward price correction, but for the time being that does not seem probable.

Southeast prices are firmer with most nearby trading taking place in North Carolina compared to Georgia. Open offers are limited. Sellers are not willing to show offers, because they didn't want to sell too early and miss potentially trading at a higher price at some point in the future. The rationing of supply appears that it will continue, but given the upward price moves as of late, any further price increases might be limited.

Supply tightness in the Mid-South is certainly contributing to the higher prices. Offers are limited, while nearby supply was bought up quickly. Merchants are anticipating that dairies will stay clear of the market and only feed what they have bought and will reformulate rations with lower cottonseed inclusion rates or no cottonseed at all. Because of the tight supply situation in the region, prices may continue to hold firm for the next few months, as sellers have an advantage due to limited open offers.

West Texas prices are not moving up as quickly as in other markets. Price spreads to the Far



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West and rail destinations have widened. It appears that there should be more upward price moves in West Texas to keep pace with adjacent markets. Local dairy buyers are keeping to the sidelines and most of the trading is done with resellers.

California prices moved higher, but end users have been slow to take on any new bookings. The price increases are necessary to cover replacement cost for any new supply to be shipped from the East. Dry conditions in California suggest end user demand and prices will stay strong.

COTTONSEED BALANCE SHEET: The USDA's February balance sheet was unchanged from last month. Compared to last year, cottonseed production is off over 1.2 million tons. The next major difference to the year ago is in the Feed, Seed and Other category, which was down roughly 750,000 tons.

The Cottonseed Digest's balance sheet has production unchanged from last month. Imports were raised 19,000 tons as there is still the potential for another vessel of cottonseed from Australia to be brought to California. This number might need to be adjusted lower if demand from a different country like China buys the supply away from the US. However, recent strength in the US market suggests that domestic prices are being raised to ration domestic supply while at the same time climbing to a level that should attract additional supply from outside the US market.

The cottonseed crush was lowered 50,000 tons, as crushers' cottonseed holdings as of December were 38% less than the 5-year average for that time. Spot cottonseed prices have climbed to levels that should discourage crushers from buying because the prices of cottonseed oil, meal and hulls are not high enough to be profitable. Cottonseed oil basis has dramatically strengthened the past few weeks, and could be at a level that will discourage additional sales. If dairies support prices at current levels, crushers may garner better profits by selling their seed holdings to dairies rather than crushing them for oil.

The largest projected change this month was the 59,000-ton increase to the Feed, Seed and Other category. Due to the strength in milk prices and support from other feed ingredients, dairies seem most likely to provide demand. Compared to a year ago, this demand category is down 19%, which is off the same percentage as the Cottonseed Digest's total supply from a year ago. This year's tight supply situation will likely keep prices elevated until there is more clarity regarding the size of next year's crop.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Year begins Aug 1	USDA	USDA	Feb / USDA	Feb / USDA	Feb / CSD
	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13E</u>	<u>2013/14F</u>	<u>2013/14F</u>
Beg. Stocks	342	618	430	492	507
Imports	0	72	0	100	128
Production	6098	5370	5666	4367	4429
Total Supply	6440	6059	6096	4959	5064
Crush	2563	2400	2500	2200	1950
Exports	275	133	191	150	215
Feed, Seed, & "Other"	2984	3096	2913	2175	2448
Total Disappearance	5822	5629	5604	4525	4613
End Stocks	618	430	492	434	451

COTTONSEED fob points				
<u>PRICES 02-14-14</u>		<u>Trade</u>		<u>Yr Ago</u>
<i>Southeast</i>		(\$/ton)		
North Carolina	Spot	330b / 340o		246t
	Fb-Ag	340b / 345o / 345t		n/a
	Mr-Ag	350o		n/a
	OND	255t		230t
	Ja-Ag	275o		n/a
Georgia So.	Spot	328o / 325-327t		244o
	Mr-Ag	350o		247o
<i>Mid-South</i>		(\$/ton)		
Memphis No.	Spot	370-375b / 375-380o		287o
	Mr-Ag	380o		n/a
MO Bootheel	Spot	375t		290t
	OND	285o / 281t		n/a
NE Arkansas	Spot	375o		283t
	Fb-Mr	375b		n/a
	Ap-Ag	380o		n/a
<i>Southwest</i>		(\$/ton)		
West Texas: LN	Spot	365o		342o
	Mr-Ag	375b / 385o		n/a
<i>Far West</i>		(\$/ton)		
Arizona	Spot	390b		365t
Cal. Corc. No.	Spot	465o		387o
Pima California	Spot	435b / 440o		360o
<i>Specially Processed Products (\$/ton)</i>				
<i>Easi Flotm</i>	Courtland, AL	Spot	420o	320o
		Fb-Ag	420o	n/a
b = bid o = offer t = trade n/a = not available West Texas: LN=Lubbock North, PN= Plainview North, SN= Seminole North				

COTTONSEED dlvd. points					
PRICES 02-14-14		Truck	Rail	Δ +/-	Yr Ago
Northeast		(\$/ton)			
W. New York	Spot	3960		50	3050
	Mr-Ag	4160		100	3130
SE Pennsylvania	Spot	3770		50	2880
	Mr-Ag	3970		100	2960
NE Ohio	Spot	3960		50	3050
	Mr-Ag	4160		100	3130
Midwest		(\$/ton)			
MI (Grand Rpd.s.)	Spot	4100		60	3150
	Mr-Ag	4300		110	3230
MN (Rochester)	Spot	440-4430		-230	3490
	Mr-Ag	453-4550		-110	n/a
WI (Madison)	Spot	430-4380		-260	3440
	Mr-Ag	445-4480		-130	n/a
Southwest		(\$/ton)			
Texas / Dublin- Stephenville	Spot	3800		unc	3500
Rail - fob track points		(\$/ton)			
Larado TX	Spot		4350	n/a	3550
California	Spot		4650	150	3760
	Mr-Sp		460t	n/a	n/a
Idaho (UP)	Spot		445-4470	110	3600
	OND		3800	n/a	n/a
WA/OR (BN)	Spot		4550	100	3770
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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