

Cottonseed Intelligence Monthly IntelligenceMMMonthly

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USDA REPORTS: The USDA *Annual Ginning* report released mid-month had a running bales ginned total of 23.8 million bales. This represents a 600,750-bale increase over the running bales ginned total from the previous ginning report in March. Last year's production report had an upward revision, and with the longer ginning season, an increase above the previous ginning report was anticipated. According to USDA's *May Crop Production* report, on an equivalent 480-pound bale basis versus last year, 2005 cotton production had 3% production growth with a 638,550-bale increase. Total cotton acreage totaled 14.2 million acres, up 4% from 2004. At the same time, 13.8 million acres were harvested, which is a 6% increase from a year ago. Yields were lower than a year ago and below expectations.

Cottonseed production was lowered to 8.17 million tons, this amount is based on cottonseed amounts reported in USDA gin surveys. This is down 331,000 tons from earlier USDA estimates. Total cottonseed production is 26,000 tons below last year, which is roughly the same amount Texas production is off from a year ago. This lower number will be viewed as bullish for prices and helps confirm the tight feeling in the market with fewer available offers. Cottonseed sold to oil mills accounts for 56% of the supply this year, compared to 55% a year ago. This relates to oil mills purchasing an additional 87,300 tons of cottonseed. Total sales to oil mills was 4.588 million tons. After total crush, this leaves an excess of more than 1.5 million to be sold to feed markets or carried into next year. The carryover will likely be more than a third of the 1.5 million ton amount. The larger oil mill ownership and questions regarding cottonseed oil demand could put a damper on price strength if a glut of supply shows up on the market. This production report suggests tighter supplies, yet supply is still thought to be adequate for this season.

COTTONSEED MARKET: Markets are thinly traded and most of the activity was centered around resellers squaring up positions for the next couple months. Reports of smaller cottonseed production are helping add firmness to prices. Meanwhile, other feed ingredient prices are holding firm. The market is now rewarding those sellers with available supplies to sell. Most of the repositioning activity took place in the Mid-South and Southeast as prices in these markets firmed on the aggressive buying from resellers.

In the Southeast, North Carolina traded from \$6-\$8/ton higher compared to a month ago, on the mid-month flurry of reseller buying. South Carolina prices shifted up \$4/ton, but less trading had taken place due to fewer available supplies. Offers in Georgia were raised \$12/ton for the nearby, and the summer compared to last installment. Offers for the balance of the summer are keeping a couple dollar carry. North Alabama has firmed

up the most with the topside of the the traded level \$15/ton higher since last month. Some merchants are concerned that with this a thinly traded market, price strength may not last into next month. New crop offers in North Alabama are left unchanged, which is the only market in the region keeping offers at the same level as last month. Other markets show mixed as-ginned offers and bids. New crop pricing is not very well defined.

Mid-South merchants are noting there are more buyers than sellers in the market, which is making this a sellers' market and helped prices climb \$2/ton. Stronger price quotes are seen in the Missouri Bootheel and Northeast Arkansas as more buying interest is in this market. Most of the buying interest in the market is likely destined for Midwestern markets. Truck availability is no longer a problem for merchants, rather now their problem is to buy seed to move. Steady demand is expected to continue and should support price levels.

The West Texas market moved up the most of all markets trading \$20/ton above last month's level. However, these higher prices have the market at a standstill with little new trading taking place. Price levels are roughly \$10/ton above last summer's high point, which took place in August. End users are comfortable with the amount of seed they have on the books and will only buy more if absolutely necessary. Not much price support is expected from dairies as their needs appear to be covered. Export demand to Mexico remains stout and prices have moved higher.

California prices are holding steady after nearby offers were raised \$18/ton since the last installment. Thus far this season, demand has exceeded expectations. However, as is normal for this time of year, demand should lighten with warmer weather. Rail delivery points running out of supply this month are also helping prices firm. California prices are likely at a level that should curb demand and should hold steady.

COTTONSEED BALANCE SHEET: The old crop balance sheet from USDA does not yet reflect the production revision made in the *May Crop Production* report. The only change was a 41,000-ton increase to the feed, seed and other category which brought ending stocks down the same amount and below the 600,000-ton mark. Informa's old crop production was lowered 360,000 tons, aligning it with the recent crop production report. The crush was scaled back 30,000 tons on concerns surrounding sagging cottonseed oil demand. Exports remain unchanged as demand remains steady and is expected to continue into new crop. The feed, seed and other category was cut back 120,000 tons. The net effect of the changes was a tightening of ending stocks by 210,000 tons. Even with this lowering of ending stocks, it is still more than 210,000 tons above the 5-year average.

This month's balance sheet is the first look at new crop. As anticipated, production is lower than a year ago, but still comfortably above the 5-year average. Crush has been scaled back after two years of strong crushings. For the time being, the crush is forecasted more than 200,000 tons above the 5-year average. Exports and feed demand were lower than the current marketing year, as supplies are expected to be less abundant. Fundamentals suggest prices will be higher, yet there is still uncertainty regarding crushing demand for new crop supplies, which could be a negative factor for pricing.

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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.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA <u>2004/05</u>	May / USDA <u>2005/06F</u>	May / Informa <u>2005/06F</u>	May / USDA <u>2006/07F</u>	May / Informa <u>2006/07F</u>
Beg. Stocks	421	592	592	589	640
Imports	1	25	2	25	2
Production	8242	8501	8200	7915	7800
Total Supply	8664	9118	8794	8529	8442
Crush	2923	3075	2950	2950	2880
Exports	379	425	424	375	400
Feed, Seed,& "Other"	4770	5029	4780	4650	4680
Total Disappearance	8072	8529	8154	7975	7960
End Stocks	592	589	640	554	482

COTTONSEED fob points

PRICES 5-19

Bid

Offer

Trade

Yr Ago

-06

SOUTHEAST		(\$/ton)	
No. Carolina	Spot	98b / 100o / 98-100t	95o
	My-Ag	97b / 102o	100o
	(as ginned) OND	87b / 92o	96o 93t
So. Carolina	Spot	94b / 98o / 98t	105o
	My-Ag	95b / 102o	107-108o
Georgia So.	Spot	105b / 110o	106t
	My-Ag	105b / 112o	111o
	(as ginned) OND	86b / 91o	108o
Alabama No.	Spot	126o / 118-125t	107t
	My-Ag	126b / 128o	110-113o
	OND	100b / 105o	108o
MID-SOUTH		(\$/ton)	
Memphis No.	Spot	115b / 117-118o / 116t	105t
	My-Ag	120o	110-111o
	(as ginned) OND	100b / 104o	107o
MO Bootheel	Spot	122o / 122t	107o
SOUTHWEST		(\$/ton)	
West Texas	Spot	150-155o / 150-154t	118-120t
	My-Sp	157.50o / 155t	120-125o
	(as ginned) OND	120-125o	115-120o
FAR WEST		(\$/ton)	
Arizona	Spot	185b / 190o / 187t	n/a
	OND	160b / 175o	n/a
Cal Corc. N & Stockton	Spot	203b / 210o / 205-206t	n/a
	My-Sp	203b / 210o / 205-206t	178o
	OND	180b / 195o	175o
	Clock	192b / 201o	185o
SPECIALLY PROCESSED PRODUCTS			

(\$/TON)				
<i>Easi Flo</i> tm	Centre, AL	Spot	156o	143o
<i>FuzZpellets</i> tm	Weldon, NC	Spot	129o	129o
<i>Cotton Flo</i> tm	Weldon, NC	Spot	137o	131o
b = bid o = offer t = trade n/a = not available				

COTTONSEED dlvd. points					
<u>PRICES 5-19-06</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	155o			
	My-Ag	157o			
SE Pennsylvania	Spot	136o			
	My-Ag	139o			
NE Ohio	Spot	150-152o			
	My-Ag	155o			
MIDWEST		(\$/ton)			
MI (Grand Rpd.)	Spot	163o			
	My-Ag	166o			
MN (Rochester)	Spot		168o	175-178o	
	OND		158o	168o	
WI (Madison)	Spot		160o	169-170o	
	OND		148o	160o	
SOUTHWEST		(\$/ton)			
Texas / Dublin-	Spot		175o		
Stephenville	Jn-Ag		177o		

RAIL - FOB TRACK POINTS		(\$/ton)			
California	Spot				198-200o
	Clock				195o
Idaho (UP)	Spot				196t 197o
	OND				175t 180o
WA/OR (BN)	Spot				198-203o
	My-Ag				202-206o
b = bid o = offer t = trade					