USDA REPORTS: The Annual Ginning report had an all cotton running bales produced at an equivalent 480-pound bales ginned total of 21.576 million bales. This is an increase of 9,900 bales compared to the previous ginning report in March. This increase is a couple hundred bales larger than last year’s upward adjustment. This late upward adjustment is testament to the later ginning season caused in part by the wet early fall weather in West Texas.

Cottonseed production for 2006 was lowered to 7.35 million tons, down 10% from last year. The total was taken down over 280,000 tons, compared to previous forecasts. Such a downward movement in supplies will likely be seen by the market as fundamentally supportive for prices to move higher. Regional availability and logistics will play a role in price movement. The lower production numbers will support bullish price ideas held by seed holders. The production report shows that cottonseed sales to oil mills accounted for only 49%, which is below the 56% and 55% of the past couple years. This smaller percentage of seed supports the expectation of a smaller crush this year. Seed for planting is expected to be 72,800 tons, nearly 20,000 tons less than a year ago.

COTTONSEED MARKET: Prices managed to rebound by mid-month, as selling interest excited the market. The demand side of the market is still considered lackluster by most traders. Dairies are still not willing to take on forward ownership and are expected to continue keeping to their hand-to-mouth buying behavior. The lack of open offers is giving the advantage to sellers and these month by month purchases may continue to scale higher as the summer progresses.

New crop production ideas focus on less supply, and are bullish for prices. At the mid-month, the May Acreage Review, from Informa showed all cotton plantings were down 210,000 acres from USDA’s March report, to 11.9 million acres. The largest reduction was seen in Texas, down 150,000 acres. At the same time, West Texas has had the most favorable moisture and the potential to have above-average dryland production. This strong production has limited the upside on new crop pricing.

Nearby West Texas prices edged higher as some sellers pulled out of the market. There are reports of abundant supplies, and demand from dairy end users is lackadaisical. Prices may have to come back down unless crop development problems become a factor to drive prices higher. There are lower offers south of Lubbock, which is expected to continue through the summer. Regarding assigned supplies, dairies are not willing to pay the going price and anticipate prices will edge lower with the prospects for a good crop in the state.

Far West nearby and forward prices are holding firm. A steady stream of buyers is coming to market, and supplies have not become alarmingly tight, as some had anticipated would be the case. Stronger milk prices are seen as supportive for cottonseed prices. Merchants are optimistic that the forthcoming improvement in dairy economics will result in increased inclusion rates and higher prices by summer’s end.

Southeast markets are firmer as export demand is reportedly steady. Fewer offers in the mar-
ket and more tire kicking on the part of Northeastern dairies have also given merchants the inclination to raise prices. Not much trading to domestic users has taken place, but traders expect a round of buying ahead of Memorial Day. New crop is quiet as the regions remains dry. Gins are not willing to offer as planting has been delayed due to the lack of rain. Planting in Georgia is 26 percentage points behind the average as of May 13th.

Mid-South quotes moved higher due to fewer sellers in the market. Gins are not active sellers and this is a factor helping support price levels, as some traders were thinking gins would start selling after prices showed signs of weakness. It appears that gins don’t have much left to sell. Buyers will likely have to pay up if supplies need to be booked over the next couple weeks. Demand has not been robust, and some in the market are betting that prices will take a dip lower next month.

COTTONSEED BALANCE SHEET: USDA’s old crop balance sheet reflects the recent 284,000-ton reduction to production. As a result, disappearance was lowered by the same amount. The feed, seed and other category was reduced the most, down 210,000 tons. Meanwhile, the crush and exports were pared back 50,000 and 25,000 tons, respectively. Ending stocks for old crop are unchanged, and appear to be sufficient. Informa’s old crop balance sheet has lowered production to USDA’s level. On the demand side, feed demand was lowered 254,000 tons due to the tighter supply situation and dipped below the 5-year average. Exports dropped 40,000 tons, as price strength has slowed the pace of shipments.

This is the first look at the balance sheet for new crop. As expected, production is down over 9% due to fewer cotton acres. The West Texas production situation is a wildcard, but with a wet spring setting up the soil with greater than average water reserves this year’s crop may exceed expectations. Planting in the state has slipped behind the average, but there is still plenty of time for planting. The net effect of the rains in the Southwest is positive. USDA showed imports of 100,000 tons, which may not come to be as has been the case the past couple years. Crush is scaled back as fewer mills are expected to be running. New crop oil sales have not been made, but with vegetable oil prices strong expectations for cottonseed oil prices are higher which will likely limit demand. The feed, seed and other category is the lowest since the 2003/04-crop year, when production was at a similar level. Exports were scaled back, as tighter supplies will support higher prices, making exports less attractive. Ending stocks are expected to remain low, and appears they could dip even lower if production ends up being less.

<table>
<thead>
<tr>
<th>Cottonseed Supply/Demand Balance Sheet (000 tons)</th>
</tr>
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<tbody>
<tr>
<td>Beg. Stocks</td>
</tr>
<tr>
<td>Imports</td>
</tr>
<tr>
<td>Production</td>
</tr>
<tr>
<td>Total Supply</td>
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<tr>
<td>Crush</td>
</tr>
<tr>
<td>Exports</td>
</tr>
<tr>
<td>Feed, Seed, &amp; “Other”</td>
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<tr>
<td>Total Disappearance</td>
</tr>
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<td>End Stocks</td>
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## COTTONSEED fob points

### PRICES 05-18-07

<table>
<thead>
<tr>
<th>Region</th>
<th>Spot</th>
<th>Jn-Ag</th>
<th>Jn-Sp</th>
<th>OND</th>
</tr>
</thead>
<tbody>
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<td></td>
<td></td>
</tr>
<tr>
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<td>150b / 154o</td>
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<td>98-100t</td>
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<tr>
<td>(as-ginned)</td>
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<td>125b / 130o</td>
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<td>92o</td>
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<tr>
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<td>146b / 153o</td>
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<tr>
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<tr>
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<thead>
<tr>
<th>Region</th>
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<th>Jn-Sp</th>
<th>OND</th>
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<td><strong>MID-SOUTH</strong></td>
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<tr>
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<tr>
<td>(as-ginned)</td>
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<td>104o</td>
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<tr>
<td>MO Bootheel</td>
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<td></td>
<td>122o/t</td>
</tr>
<tr>
<td>J JA</td>
<td>150b</td>
<td></td>
<td></td>
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<table>
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<tr>
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<td>West Texas</td>
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<td>150b / 155o</td>
<td>150-154t</td>
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<td>(as-ginned)</td>
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<td>120-125o</td>
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<tr>
<td>Cal Corc. N &amp; Stockton</td>
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<td>228o</td>
<td>222b / 226o</td>
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<td>Jn-Sp</td>
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<td>228o</td>
<td>205-206t</td>
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<tr>
<td>OND</td>
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<td></td>
<td>235o</td>
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### Specially Processed Products ($/ton)

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<td>Centre, AL</td>
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<td>156o</td>
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<tr>
<td>Fuzzpellets™</td>
<td>Weldon, NC</td>
<td>184o</td>
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<td>129o</td>
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<tr>
<td>Cotton Flo™</td>
<td>Weldon, NC</td>
<td>184o</td>
<td></td>
<td>137o</td>
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*b = bid  o = offer  t = trade  n/a = not available*
**COTTONSEED Dlvrd. points**

<table>
<thead>
<tr>
<th>Prices 05-18-07</th>
<th>Dump</th>
<th>Hopper</th>
<th>Live Floor</th>
<th>Rail</th>
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<tr>
<td>W. New York</td>
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<td></td>
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<tr>
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<tr>
<td></td>
<td>Jn-Ag</td>
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<tr>
<td>NE Ohio</td>
<td>Spot</td>
<td>198o</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jn-Ag</td>
<td>202o</td>
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<tr>
<td><strong>MidWest</strong></td>
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<tr>
<td>MI (Grand Rpds.)</td>
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<td>200-202o</td>
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<tr>
<td>WI (Madison)</td>
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<td>194-195o</td>
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<td></td>
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<td>196-199o</td>
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<td><strong>SouthWest</strong></td>
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<td>Stephenville</td>
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**Rail - FOB Track Points**

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<tbody>
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<td>Laredo TX (Mid-Bridge)</td>
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<td>194t</td>
<td>197o</td>
</tr>
<tr>
<td>Idaho (UP)</td>
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<td>215</td>
<td>218o</td>
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<tr>
<td></td>
<td>Jn-Ag</td>
<td>216b</td>
<td>220o</td>
</tr>
<tr>
<td></td>
<td>OND</td>
<td>212b</td>
<td>215o</td>
</tr>
<tr>
<td>WA/OR (BN)</td>
<td>Spot</td>
<td>224b</td>
<td>228o</td>
</tr>
<tr>
<td></td>
<td>Jn-Ag</td>
<td>225b</td>
<td>234o</td>
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</tbody>
</table>

*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.