

May 2009

Volume 13, Issue 05

Cottonseed Intelligence Monthly

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COTTONSEED MARKET: Trading activity has turned lighter at the middle of the month, yet this hasn't seemed to prevent sellers from raising offers. On May 13th, news of the largest ever CWT buyout program of over 100,000 cows and the possibility of another round in the months ahead have provided hope for a turn around in dairy economics. However, the Class III price for the nearby months have not climbed significantly even though this is seen as a bullish development. It will take several more weeks before farm audits will be completed and the cows will be removed from production. The mid-month focus is on the tight supply situation in the Far West and has resulted in raised price expectations across the country. With these elevated prices, the concern for merchants is lost demand and how that could potentially have a negative impact on price later in the summer. For the time being, it appears that given the support from corn and soybean futures, there will be only limited risk for prices falling later in the summer.

Dairies in the Far West are not removing cottonseed from their rations as quickly as some had anticipated. The current tight supply situation is seen as evidence of their continued usage of cottonseed. Current price levels are above what end users would be willing to pay for cottonseed, as it would be difficult for dairies to turn a profit at such price levels. Resellers are the main buyers as they are having to buy in order to cover contractual commitments. New crop in the region is a non-topic, as neither gins nor dairies are willing to participate and price ideas are not very well tested.

Prices in West Texas are inclined to climb following the upward movement in the Far West. The lack of rain in the state is another supportive factor as gins will be holding on to supply as long as they are anticipating higher prices since they are not confident in the outlook for new crop supply. Dairies continue to sit on the sidelines, using only what was booked earlier in the season. Most trade taking place has been between resellers. There appears to be more interest in summer quotes, but the several-dollar premium on offers appears to be more than what buyers are willing to pay. If West Texas gets favorable rains over the next month, then prices have the potential to fall. It appears there will be higher rates of abandonment in the Southern Valley and Coastal Bend regions compared to the past couple years.

The Mid-South market is quiet as only minimal trading has taken place, while prices have climbed. The supply in the region feels snug, as the seed in storage is owned by entities not willing to trade at these price levels. Expectations are for more upside price potential, before this seed will be up for sale. Abundant rain and wet fields have kept growers from planting cotton. This situation has kept gins on the sidelines. If it does not dry out in a timely fashion, there is the possibility that cotton acres will be shifted to soybeans. Regarding new crop prices, the planting situation has supported prices and most of the selling taking place is on reseller profit taking. Gins have been absent from the market, but with prices getting close to the \$200-level, it is possible they will reconsider selling.

Nearby offers in the Southeast climbed above the \$200-mark. The lack of end user demand could mean that once the reseller buyers exit the market prices will fall. Planting progress is behind in

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the region as well due to wet weather. However, there is a bit more optimism for the possibility of cotton acreage not being down as much compared to last year as anticipated in other regions. New crop offers appear to be attractive for end users, but trading hasn't been reported.

COTTONSEED BALANCE SHEET: USDA's old crop balance sheet had a variety of changes. Production was lowered 129,000 tons matching the results shown in the Crop Production report. Imports were erased dropping the supply side to the market by 50,000 tons. For the demand side of the balance sheet, exports shed 50,000 tons, the Feed, Seed and Other category lost 130,000 tons. These changes were offsetting and resulted in ending stocks at the same level. Informa's old crop balance sheet adopted USDA's production, which was a 186,000-ton drop from last month. Imports were zeroed out as well. Regarding demand, the crush was lowered 25,000 tons, as the outlook for runtimes has been scaled back further. The Feed, Seed and Other category was unchanged as demand is expected to remain lackluster. Ending stocks were lowered 133,000 tons, but remained above the USDA's level by 48,000 tons.

May is the first month with new crop on the balance sheet. USDA's production was a surprisingly high being pegged 430,000 tons above last year's level. Crush was surprisingly strong and closer to the 5-year average than the previous year's total. Exports exceed last year's estimate by 175,000 tons. The Feed, Seed and Other category is pegged at a level not seen since the 1986/87 crop year. Informa's production output is forecasted to exceed last year's level by a mere 147,000 tons, which implies growing conditions across the Cotton Belt will need to be average. From this point forward, the outlook may need to be whittled lower. The Feed, Seed and Other category is projected to dip below the 2 million ton level because of fewer cows in the Western region and narrow margins for producers. The stocks to use ratio is inline with the 3-year average, and results in ending stocks at a low level similar to the old crop level.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	May / USDA	May / Informa	May / USDA	May / Informa
	<u>2007/08</u>	<u>2008/09E</u>	<u>2008/09E</u>	<u>2009/10F</u>	<u>2009/10F</u>
Beg. Stocks	489	643	643	330	378
Imports	3	0	0	0	30
Production	6589	4300	4300	4730	4447
Total Supply	7080	4943	4943	5060	4855
Crush	2706	2400	2370	2650	2375
Exports	599	200	165	375	170
Feed, Seed, & "Other"	3132	2013	2030	1700	1945
Total Disappearance	6437	4613	4565	4725	4490
End Stocks	643	330	378	335	365

COTTONSEED fob points				
<u>PRICES 05-15-09</u>		<u>Trade</u>		<u>Yr Ago</u>
SOUTHEAST		(\$/ton)		
No. Carolina	Spot	200b / 205o		330o
	JAS	204b / 208o		n/a
(as-ginned)	OND	160b / 165o		290o
	So. Carolina	Spot	202b / 206o	
(as-ginned)	JAS	202b / 209o		n/a
	OND	160b / 165o		290o
Georgia So.	Spot	197b / 206-210o		310o
	JAS	202b / 209o		n/a
(as-ginned)	OND	160b / 165o		280o
MID-SOUTH		(\$/ton)		
Memphis No.	Spot	220b / 225o		321-324t
	Jn-Jly	230o		331o
(as ginned)	Oc-Nv	190b / 200-205o / 195-198t		306t
MO Bootheel	Spot	223t		325o
SOUTHWEST		(\$/ton)		
West Texas	Spot	250b / 254-257o / 253t		315o
	Jn-Sp	257b / 260o		325o
(as-ginned)	OND	193b / 200-205o		305o
FAR WEST		(\$/ton)		
Arizona	Spot	265b / 265t		330t
Cal Corc. N	Spot	326t		375t
& Stockton	JAS	330o		n/a
SPECIALLY PROCESSED PRODUCTS (\$/TON)				
Easi Flo[™]	Courtland, AL	Spot	250o	367o
FuzZpellets[™]	Weldon, NC	Spot	n/a	347o
Cotton Flo[™]	Weldon, NC	Spot	n/a	347o
b = bid o = offer t = trade n/a = not available				

COTTONSEED dlvd. points					
<u>PRICES 05-15-09</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	252o			
	OND	217o			
SE Pennsylvania	Spot	240o			
	OND	205o			
NE Ohio	Spot	252o			
	OND	217o			
MIDWEST		(\$/ton)			
MI (Grand Rpds.)	Spot	262o			
	OND	235o			
MN (Rochester)	Spot		260-273o	279-283o	
	My-Ag		245-248o	253-255o	
WI (Madison)	Spot		253-263o	265-273o	
	My-Ag		228-236o	238-246o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot		280o		
	My-Ag		285o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	Spot				285-295o
	Jn-Ag				305o
California	Spot				310t 318o
Idaho (UP)	Spot				313t
	MY-Sp				315o
	OND				275o
WA/OR (BN)	Spot				315o
	My-Sp				320o
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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