

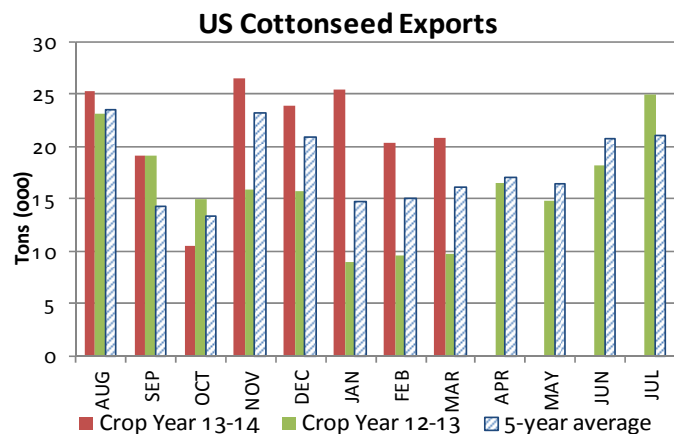
COTTONSEED MARKET: Prices are mixed at the middle of May as old crop trading remains limited due to tight supply. The lack of old crop cottonseed supply should limit downward price risk for the next several weeks. Southeast nearby prices rebounded after drifted lower early in the month while small volumes in the Mid-South traded several dollars higher. West Texas prices have held steady and appear to be the most competing source of cottonseed for western rail buyers. Local dairies continue to hold off on making additional purchases and supplies are being railed out of the state. The tight supply situation and price strength in the Mid-South is changing the normal price spread relationship to neighboring markets. For the balance of the crop year the Mid-South market will be priced at a premium over the West Texas and Southeast markets.

There are concerns that if growing conditions for corn, beans and cotton become favorable there will be downward pressure on prices. Nonetheless, cottonseed price will still be used to ration limited nearby supply, so prices will need to be strong enough to discourage usage through the summer months. An improved outlook for new crop has the potential to keep the price spread between nearby and new crop offers more than a hundred dollars.

The outlook for cotton plantings is below 11 million acres, only a modest increase of 4% compared to last year. The on going drought in the Southwest has many traders concerned there will be another year of tight cottonseed supply, which will likely support prices above the 5-year average price level. Current OND offers are more than \$60/ton above the 5-year average monthly price for the OND timeframe in the Mid-South, and over \$80/ton higher for the West Texas market. This could be a great level to sell, if new crop grains have average yields as that would likely prevent cottonseed from going as high as it did this year.

COTTONSEED BALANCE SHEET: The only change to the 2013/14 balance sheet of the Economic Research Service of the USDA's was an increase of 10,000 tons to imports. The May Crop Report had lowered Production to 4.203 million tons, but this didn't appear in the balance sheet. The other categories were unchanged, so ending stocks were increased 10,000 tons. Next month the balance sheet will have additional changes.

This is the first month of a balance sheet for the 2014/15 crop year. USDA's production is projected to be 4.82 million tons, which is an in-



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crease of 9% above last year's results. The increase is based on increased cotton acres. With the increase in supply, all demand categories were raised. The largest increase was made to the Feed, Seed and Other category up 135,000 tons.

Since cottonseed production typically doesn't change after the May report, the Cottonseed Digest 2013/14 balance sheet adopted USDA's May Production report total. This relates to a reduction of 226,000 tons from last month. This drop in supply results in the Feed, Seed and Other category being lowered 142,000 tons. The tight supply situation will likely keep cottonseed prices well supported for the balance of this crop year. The current Mid-South net product value for crushers continues to hold strong and this should limit any downside price risk if other competing feed ingredients begin to move drastically lower. Ideal growing conditions would be necessary for any nearby lower-price scenario to develop.

Cottonseed production for 2014/15 in the Cottonseed Digest balance sheet is 69,000 tons below USDA's level. Drought concerns for West Texas and California are the main features that will likely limit new crop cottonseed production. Also only modest imports are expected from Australia due to a reduction in their projected cotton acres. However, if the seed booked for the current crop year doesn't ship in time, some of that tonnage may need to be shifted from the 2013/14 balance sheet.

New crop crush was raised 150,000 tons compared to the current year's, and it remains 153,000 tons below the 5-year average. A larger soybean crop in the Fall, has the potential to pressure vegetable oil prices lower, which could be a negative influence on cottonseed crushing economics.

Exports were raised 20,000 tons compared to the current crop year. Less supply on the world market has the potential to bring more demand to the US. The Feed, Seed and Other category was raised on increased supply and expected growth in dairy cow numbers.

Cottonseed Supply/Demand Balance Sheet (000 tons)

Year begins Aug 1	USDA	USDA	May / USDA	May / CSD	May / USDA	May / CSD
	2011/12	2012/13E	2013/14E	2013/14E	2014/15F	2014/15F
Beg. Stocks	618	430	492	507	443	372
Imports	72	0	100	162	0	62
Production	5370	5666	4406	4203	4820	4751
Total Supply	6059	6096	5008	4872	5263	5185
Crush	2400	2500	2200	1970	2100	2120
Exports	133	191	200	230	250	250
Feed, Seed, & "Other"	3096	2913	2365	2300	2500	2385
Total Disappearance	5629	5604	4565	4500	4850	4755
End Stocks	430	492	433	372	413	430

COTTONSEED fob points				
<u>PRICES 05-23-14</u>		<u>Trade</u>		<u>Yr Ago</u>
Southeast		(\$/ton)		
North Carolina	Spot	402		2850
	June	408o / 407		n/a
	OND	265b / 2700		2350
South Carolina	Spot	4100		n/a
Georgia So.	Spot	405-410b / 4150		302t
	June	407b / 4150		305t
	OND	265b / 2700		2360
No. Alabama	Spot	4450		n/a
Mid-South		(\$/ton)		
Memphis No.	Spot	450t		302t
	OND	310-3130		2800
MO Bootheel	Spot	4550		3080
NE Arkansas	Spot	451t		305t
	OND	310b / 3150		2800
	Ja-Ag	325b / 3330		n/a
Southwest		(\$/ton)		
West Texas: LN	Spot	4400		380t
	OND	335b / 3400		3170
	Ja-Ag	345b / 3550		n/a
West Texas: SN	Spot	4300		n/a
Far West		(\$/ton)		
Arizona	Spot	470b / 4800 / 475t		375b
Cal. Corc. No.	Spot	5200		405t
	OND	420-4300		3650
	Ja-Ag	345b / 3550		n/a
Pima California	Spot	5000		375t
	Nv-Dc	4000		n/a
	Clock	4100		n/a
Specially Processed Products (\$/ton)				
<i>Easi Flotm</i>	Courtland, AL	Spot	485	3450
		JJA	490	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					
<u>PRICES 05-23-14</u>		<u>Truck</u>	<u>Rail</u>	<u>Δ +/-</u>	<u>Yr Ago</u>
Northeast		(\$/ton)			
W. New York	Spot	4670		-20	3470
	OND	3300		-10	n/a
SE Pennsylvania	Spot	4490		-10	3300
	OND	3120		unc	n/a
NE Ohio	Spot	4670		-20	3470
	OND	3300		-10	n/a
Midwest		(\$/ton)			
MI (Grand Rps.)	Spot	4770		-20	3570
	OND	3400		-10	n/a
MN (Rochester)	Spot	5000		-50	3740
	My-Ag	5100		-50	3790
WI (Madison)	Spot	4950		-100	3690
	My-Ag	5100		unc	3740
Southwest		(\$/ton)			
Texas / Dublin- Stephenville	Spot	4500		unc	3950
Rail - fob track points		(\$/ton)			
California	OND		410-4200	50	n/a
Idaho (UP)	Spot		510t	n/a	395t
	JAS		5200	n/a	n/a
	Clock		4200	n/a	n/a
WA/OR (BN)	Spot		5300	100	3900
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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