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USDA ACREAGE REPORT: In the report released June 30th, all cotton plantings were pegged at 15.276 million acres, which is an increase of 7% compared to a year ago. In total, this is an increase of 642,000 acres from the March *Prospective Plantings* report. Production increases were shown in all states, but Mississippi, New Mexico, Arizona and California. The Far West is the only region with less acreage. However, Pima plantings were reported up to 336,000 acres, which is an increase of 24% to the year ago.

The Southwest region had the largest increase over the 5-year average, up 700,000 acres. Texas contributes the lion's share for the region at 6.426 million acres. The larger plantings will be noted as bearish, but abandonment will likely be higher due to hot and dry conditions in Texas. It is still early to estimate abandonment in Texas, but it could easily be around a million acres.

The Mid-South was the region with the second largest increase, up 375,000 acres over the average. Arkansas, with the largest increase compared to a year ago, is showing 100,000 acres more. The Southeast region is up 325,000 acres compared to a year ago. This increase is due to growers shifting away from peanuts, as peanut acres in the region were down nearly 300,000 acres.

COTTONSEED MARKET: Markets have a softer feel following the Fourth of July weekend, with fewer bidders in the market. The increase in the number of sellers pressured to move supplies combined with fewer buyers, is causing prices to move lower. The little trading taking place is mostly on contracted supplies that are overdue and need to move or run the risk of getting washed out. There is still some export interest in the Southeast that is helping support price levels and keeping the availability of supplies tight. With the market trading so thinly, it only takes a couple more eager sellers to give the market a bearish tone. By next month, expectations are for another round of buying that might provide the opportunity for prices to move higher, but most are anticipating that the highs for this year have already been made.

The demand side of the market does not appear to have the muster to drive prices higher. Across the country merchants are mentioning that dairies are now feeling the impact of lower milk prices and are not interested in buying more cottonseed at current price levels. They are not strong buyers of new crop. Dairies seem to be considering limiting the use of cottonseed in their ration. Sellers in the Far West are noticing that still there is a trickle of nearby end user buying that comes to market on a regular basis. Other markets have noticed fewer inquiries for the nearby market. This recent price correction is common and the lower prices may help draw out more buyers.

Price strength in the Far West since the end of June and into July appears to have effectively limited demand. Rail supplies are much more biddable from the PNW to Southern California. Some of this weakness is due to lower prices in the Mid-South. New crop prices have followed suit and come down to the \$200/ton level, but merchants still think this price level is too high and has not reached a level low enough to attract additional demand. West Texas saw more sellers in the market,

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and nearby offers have slid lower. Those needing to buy may not want to wait too long as prices may move higher. Recent rains in the panhandle are also cited as reason for weakness. Supply questions surround new crop, and this has led to some people to book some of their requirements, but forward quotes also have a softer tone.

The Mid-South market is quiet. Gins are dealing with resellers that are slow to pick up loads. With more sellers in the market, this has turned to a buyers' market, only there are too few buyers. This stalemate is expected to continue for the balance of the month. New crop offers have lost a couple dollars, and still are not finding interest from end users. In the Southeast, South Carolina and Georgia nearby prices are holding their own as supplies are tight while export demand lingers. Prices are expected to hold steady for the balance of July with only modest downward pressure. New crop quotes are weaker without trading, the exception to this is Alabama where dryness persists.

COTTONSEED BALANCE SHEET: The July USDA old crop balance sheet released yesterday had exports and the feed, seed and other category upped 15,000 and 30,000 tons respectively. This lowered the ended stocks by 45,000 tons. The new crop balance sheet had many more changes. Imports jumped 75,000 tons, while production dropped 735,000 tons. Both of these moves are related to poor crop conditions in West Texas. The crush was lowered 200,000 tons to bring its level to the lowest since the 2003/04-crop year. The feed, seed and other category dropped 12% compared to the current year. Exports were pared back 35,000 tons. Ending stocks dropped 70,000 tons, but is still above the 5-year average.

The old crop balance sheet from Informa Economics had an 80,000-ton offsetting change with crush up and the feed, seed and other category lowered. Ending stocks are held at 600,000 tons, as this appears to be the level that crushers will have on hand at the end of July. New crop production lost 500,000 tons, due to less production in Texas than earlier anticipated. Timely rains could still help some of the marginal dryland fields make a crop, but without precipitation production will need to be lowered once there is a clear idea of actual abandonment. The crush was slashed by 100,000 tons, as the likelihood of stronger seed prices may limit the amount crushed. Likewise, exports and usage in the feed industry were lowered by 20,000 and 380,000 tons, because higher prices will likely restrict use. Ending stocks are unchanged and pegged roughly 20,000 tons below the 5-year average.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	July / USDA	July / Informa	July / USDA	July / Informa
	2004/05	2005/06F	2005/06F	2006/07F	2006/07F
	Beg. Stocks	421	592	592	539
Imports	1	5	2	100	2
Production	8242	8172	8200	7180	7300
Total Supply	8664	8769	8794	7819	7902
Crush	2923	3050	2950	2750	2800
Exports	379	475	464	415	420
Feed, Seed, & "Other"	4770	4705	4780	4125	4240
Total Disap- pearance	8072	8230	8194	7290	7460
End Stocks	592	539	600	529	442

COTTONSEED fob points				
<u>PRICES 7-14-06</u>		<u>Trade</u>		<u>Yr Ago</u>
SOUTHEAST		(\$/ton)		
No. Carolina	Spot	106b / 110-111o		93-95t
	Aug	106b / 112o		n/a
(as ginned)	OND	89b / 94o		95-96t
So. Carolina	Spot	110b / 120o		113o
	OND	90b / 95o		100-103o
Georgia So.	OND	92b / 97o		104-108o
Alabama No.	Spot	127b / 133o / 133t		121t
	Aug	127b / 135o		n/a
	OND	105b / 110o		112t
MID-SOUTH		(\$/ton)		
Memphis No.	Spot	130o / 128-130t		115-120t
	(as ginned)	OND	103b / 105o	
	Ja-Ag	126b		128o
MO Bootheel	July	131-135o		115t
	OND	106o		112t
SOUTHWEST		(\$/ton)		
West Texas	Spot	155-160o / 160t		130t
	(as ginned)	OND	130-135o / 130-135t	
FAR WEST		(\$/ton)		
Arizona	Spot	205o		155-156o
	OND	172b / 175o		160o
Cal Corc. N & Stockton	Spot	215o		190-192o
	OND	190b / 194o		185o
	Clock	200o		195o
SPECIALLY PROCESSED PRODUCTS (\$/TON)				
Easi Flo[™]	Centre, AL	Spot	170o	157o
FuzZpellets[™]	Weldon, NC	Spot	142o	136o
Cotton Flo[™]	Weldon, NC	Spot	147o	137o
b = bid o = offer t = trade n/a = not available				

COTTONSEED dlvd. points					
<u>PRICES 7-14-06</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Jly-Sp	167o			
	OND	150o			
SE Pennsylvania	Jly-Sp	147o			
	OND	130o			
NE Ohio	Jly-Sp	162o			
	OND	145o			
MIDWEST		(\$/ton)			
MI (Grand Rpds.)	Jly-Sp	172o			
	OND	155o			
MN (Rochester)	Spot		178o	183-185o	
	OND		160o	174o	
WI (Madison)	Spot		168o	183-185o	
	OND		148o	166o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot		190o		
	Ag-Sp		190o		
RAIL - FOB TRACK POINTS		(\$/ton)			
California	Spot				202-206o
	Clock				185b 195o
Idaho (UP)	Spot				200-202o
	OND				185o
WA/OR (BN)	Spot				205-207o
	OND				187o
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.