

July 2010

Volume 14, Issue 07

# Cottonseed Intelligence Monthly

# CIM

**COTTONSEED MARKET:** Crop progress is varied by region, but as of the middle of the month, conditions are well above the 5-year average. Recent rains in West Texas suggest that the crop conditions there will remain favorable. USDA's crop condition report showed the combined percentage of good and excellent being above 50% in all reported cotton states, but North Carolina which had 45% combined. Merchants are optimistic there will be much more cottonseed to trade this year compared to the past several years.

In the Southeast, nearby price ranges continue to edge higher on small volume trading. The price increase is spillover from the price strength in Western markets. Southeast markets remain thin and demand from the delivered markets in the Northeast remains lackluster. Only a little tire kicking on new crop was reported, but nothing of significant tonnage has traded. Gins are not interested in selling for the time being. The spread between old and new crop will need to narrow, and old crop has more downside risk than new crop has upside potential at this time of the year, given favorable crop conditions for cotton and other grains.

Mid-South markets are quiet with most of the remaining old crop supplies called for or in strong hands. Merchants with buying interest are having difficulty finding open offers. Markets west of the river have seen a bit more buying interest from delivered markets. New crop has been a non-issue as end users are patiently waiting for prices to move lower. Gins are thinking new crop values need to go higher based on current prices. However, if conditions remain ideal then abundant supplies could weigh on the prices during the ginning season. Meanwhile, resellers are unwilling to build their position at this time as they are more bearish than bullish.

West Texas nearby offers are holding firm with oil mill being the main seller in the region. Local dairy end user demand hasn't improved and focused on the nearby. It appears that sellers are willing to holdout for buyers to come to them with bids. As the arrival of new crop supplies nears, sellers will be less willing to hold firm on price and start accepting bids. Abundant rains should keep new crop cottonseed yield potential above average. This could mean that current new crop offers might be too high if the supply of cottonseed becomes burdensome. For now dairies are staying on the sidelines. New crop prices are not very well defined due to the lack of buying interest.

California prices continue to hold firm as rail movements have been slow and have kept supplies tight. Some dairies have formulated their ration to other ingredients, and price levels appear to have reached a level high enough to stop any new demand. New crop price levels in California appear to be well defined as market participants are quoting the same number. The only problem is that there aren't any buyers willing to pay that much this early and it may take several more weeks before end users become comfortable enough to start booking.

**COTTONSEED BALANCE SHEET:** The USDA had an offsetting 50,000-ton change with the crush being raised, while the feed, seed and other category was lowered. This increase was likely

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helped by stronger than anticipated crushing results over the past couple months. It appears difficult for oil mills to crush 1.9 million tons especially given that cottonseed prices are at such lofty levels. Crushers should be able to net more money at this point by selling their seed to the feed industry rather than crushing it for oil and meal.

The major change for USDA's balance sheet for new crop was production raised 480,000 tons. This increase is based on a 400,000-acre increase to cotton planting estimates and excellent planting conditions to date, which has raised expectations for less abandonment and above-average harvested acres. Based on this increase in supply, there were increases to the disappearance side of the balance sheet as well. The crush was raised 300,000 tons. At 2.45 million tons, that is a level not seen since the 2007/08 crop year. At such a level, it would suggest that more oil mills will be running and those running will be active more days. Certainly the oil mills in Texas will be able to crush more cottonseed than last year due to abundant supply expectations. Exports were raised 50,000 tons, while the feed, seed and other category was increased 200,000 tons. The increases the net effect was a 70,000-ton decrease to ending stocks. This puts the stocks to use ratio down to 8.4%, which is below the 5-year average of 9.1%.

Informa's old crop balance sheet had the crush up 55,000 tons. Meanwhile the feed, seed and other category was lowered by the same amount. This left ending stocks unchanged and at a low level compared to the past several years. Since last month, new crop has a variety of changes thanks to the 500,000-ton increase in supply. The increase to acreage and recent rains and heat should keep crop conditions above average. If tropical storms become an issue later in the season, production will need to be pared back. The Southeast crop could be at the greatest risk as it was a region with one of the largest increases just behind the Southwest. The crush was raised 100,000 tons, but still falls 100,000 tons short of USDA's projection. Given current new crop price levels being mentioned, crushers should be able to have better margins than this past year. Because of the economic incentive, run-times should be higher. Exports were raised 100,000 tons on larger supplies combined with the recent weakness in the dollar and lower freight rates which should aid in getting buying interest from other countries. The feed, seed and other category was raised 200,000 tons. It appears that prices should drop low enough to win over a larger portion of the dairy ration. Ending stocks were upped 100,000 tons raising the stocks-to-use ratio to 10.6%, which is above the average.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	July / USDA	July / Informa	July / USDA	July / Informa
	2008/09	2009/10E	2009/10E	2010/11F	2010/11F
	Beg. Stocks	643	514	514	425
Imports	0	0	24	0	0
Production	4300	4149	4149	6090	6080
<b>Total Supply</b>	<b>4943</b>	<b>4663</b>	<b>4687</b>	<b>6515</b>	<b>6472</b>
Crush	2240	1900	1875	2450	2350
Exports	191	270	260	450	420
Feed, Seed, & "Other"	1999	2068	2160	3110	3080
<b>Total Disappearance</b>	<b>4429</b>	<b>4238</b>	<b>4295</b>	<b>6010</b>	<b>5850</b>
End Stocks	514	425	392	505	622

<b>COTTONSEED fob points</b>				
<b><u>PRICES 7-19-10</u></b>		<b><u>Trade</u></b>		<b><u>Yr Ago</u></b>
<b>SOUTHEAST</b>		<b>(\$/ton)</b>		
No. Carolina (as ginned)	Spot	256o / 256t		205o
	OND	130b / 142-145o		155o
So. Carolina	OND	130b / 140-145o		155o
Georgia So. (as ginned)	Spot	254o / 252t		212-215o
	OND	130b / 140-142o / 139t		150-160t
<b>MID-SOUTH</b>		<b>(\$/ton)</b>		
Memphis No. (as ginned)	Spot	260-265o / 261t		215-220o
	OND	165o		172-175t
	Ja-Jly	182o / 180t		n/a
MO Bootheel (as ginned)	Spot	265o		218t
	OND	160b / 166o		n/a
	Ja-Ag	175b / 180-182o		n/a
<b>SOUTHWEST</b>		<b>(\$/ton)</b>		
West Texas  (as ginned)	Spot	265-268o		220t
	JAS	270o		225o
	OND	156b / 162-165o		180t
	Ja-Jly	172b / 178o		n/a
<b>FAR WEST</b>		<b>(\$/ton)</b>		
Arizona	Spot	300o / 300t		285o
Cal. Corc. N & Stockton	Spot	355-360o		300o
	OND	250b / 260o		275o
<b>SPECIALLY PROCESSED PRODUCTS (\$/TON)</b>				
<i>Easi Flo<sup>tm</sup></i>	Courtland, AL	Spot	295o	240o
<i>FuzZpellets<sup>tm</sup></i>	Weldon, NC	Spot	n/a	265o
<i>Cotton Flo<sup>tm</sup></i>	Weldon, NC	Spot	n/a	265o
b = bid   o = offer   t = trade   n/a = not available				

<b>COTTONSEED dlvd. points</b>					
<b><u>PRICES 7-19-10</u></b>		<b><u>Dump</u></b>	<b><u>Hopper</u></b>	<b><u>Live Floor</u></b>	<b><u>Rail</u></b>
<b>NORTHEAST</b>		<b>(\$/ton)</b>			
<b>W. New York</b>	Spot	348o			
	OND	193o			
<b>SE Pennsylvania</b>	Spot	348o			
	OND	192o			
<b>NE Ohio</b>	Spot	348o			
	OND	193o			
<b>MIDWEST</b>		<b>(\$/ton)</b>			
<b>MI (Grand Rpds.)</b>	Spot	358o			
	OND	205o			
<b>MN (Rochester)</b>	Jly-Ag		305-311o	315-321o	
	OND		213-220o	230-233o	
<b>WI (Madison)</b>	Jly-Ag		301-305o	311-315o	
	OND		203-218o	213-228o	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
<b>Texas / Dublin-Stephenville</b>	Spot.		295o		
	JAS		300o		
<b>RAIL - FOB TRACK POINTS</b>		<b>(\$/ton)</b>			
<b>Laredo TX (Mid-Bridge)</b>	Spot				320o
	OND				No quote
<b>California</b>	Spot				n/a
	OND				
<b>Idaho (UP)</b>	Spot				340b 350o
	OND				235b 242o
<b>WA/OR (BN)</b>	clock				245b 255o
	Spot				355o
	OND				265o
<b>b = bid   o = offer   t = trade</b>					

**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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