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Cottonseed Intelligence Monthly

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COTTONSEED MARKET: Markets have been mixed with only light nearby trading. During the first half of July buying interest has slowed down. Some of this is related to Independence day and the decline in dairy margins recently as Class III Milk futures have softened and corn and soybean futures have rallied. The outlook for a significant improvement in dairy margins for the next few months doesn't seem likely. This holds the potential for lackluster demand from dairy buyers as they will likely keep to the sidelines and only cover immediate needs.

The Mid-South cottonseed prices relative to cash corn have become more competitive compared to a month ago as the relative price dropped roughly 25 percentage points based on the recent strength in corn prices. Meanwhile, the relative price to distillers dried grains rose only slightly meaning cottonseed as become less competitive because the distillers dried grains price has not climbed as much as cottonseed prices have during the past couple months. This suggests that distillers dried grains are more competitive in feed rations this month compared to previous months and distillers dried grains could see inclusion rates increase.

West Texas prices have been choppy starting in July and pressured lower as an oil mill turned seller. By the middle of the month selling interest turned less aggressive resulting in a bounce in prices. Without a well-defined open offer, remaining resellers raised their offers. However, trading remains light and offers are not as deep. Meanwhile, gins are content sitting on the sidelines as they are anticipating that resellers may need to cover their commitments before the arrival of new crop supplies, which will likely be delayed once more this year due to planting being held up because of wet fields this spring.

Far West markets have been quiet as hot weather late in June and during early July likely put a crimp on demand. The lack of clarity regarding supply and flow of nearby supply from West Texas will likely keep prices choppy for the balance of the summer. If rail movement becomes slower than anticipated, truck prices will climb. Recently, California demand has weakened for the nearby and forward positions of milk futures have fallen over the past few weeks which has limited buying interest. Meanwhile, rallying grain futures suggest that dairy margins in coming months could turn negative.

At the beginning of July, nearby North Carolina offers have been lower than Georgia's as dairy demand in Florida has been slightly stronger than anticipated. The premium that Georgia is getting will continue as long as dairy demand remains stout, which may not last throughout the summer months. New crop offers are unchanged because gins are still in a wait-and-see mode. Export demand at current price levels has been soft. Gins are uncertain about their supply potential and will likely continue to hold off on putting on additional sales until they are sure that they have a better idea of new crop production. New crop trading will likely be quiet for the balance of July.

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COTTONSEED BALANCE SHEET: USDA's 2014/15 balance sheet for July was unchanged compared to last month. Production for 2015/16 was lowered 55,000 tons. The Feed, Seed and Other category was lowered 50,000 tons. Ending stocks were lowered 5,000 tons to lower the stocks to use ratio to 8.1% the lowest level since the 2011/12 crop year when the ratio was 7.6%.

The Cottonseed Digest 2014/15 balance sheet had a 12,000 ton decrease to exports. Prices have been higher than anticipated and when combined with the strength of the US dollar and abundant grain supplies in the world market, exports are anticipated to be lower. Crush results continue to lag average levels and were less than expected resulting in a 20,000 ton decline. This amount of supply was shifted to the Feed, Seed and Other category. Oil mills have begun to sell their cottonseed holdings as this provides them a better opportunity for profits due to poor crushing economics. Ending stocks were raised 12,000 tons, which raised beginning stocks for new crop.

Production for 2015/16 was lowered 145,000 tons, as plantings will be lower than earlier projected. West Texas crop conditions remain favorable and are an unknown factor which has the potential to raise production expectations. Total supply was lowered 133,000 tons, after taking into account the increase in beginning stocks.

The ongoing trend of lackluster cottonseed oil demand and continued weak crusher margins results in the crush being lowered 50,000 tons. The feed, seed and other category was lowered 50,000 tons as well. Class III milk prices continue to struggle to hold their own and with the recent increase in grain futures, dairy margins will be squeezed. This will likely result in lower inclusion rates in coming months. Ending stocks for 2015/16 were lowered 33,000 tons. This lowers the stocks to use ratio to 9.1% which is a tenth of a percentage point below the current year's ratio and is in line with the 5-year average.

Cottonseed Supply/Demand Balance Sheet (ooo tons)						
Year begins Aug 1	USDA	USDA	July / USDA	July / CSD	July / USDA	July / CSD
	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15E</u>	<u>2014/15E</u>	<u>2015/16F</u>	<u>2015/16F</u>
Beg. Stocks	430	492	425	425	475	474
Imports	182	198	100	79	0	30
Production	5666	4203	5125	5125	4740	4350
Total Supply	6278	4893	5650	5629	5215	4854
Crush	2500	2000	1900	1722	1800	1550
Exports	191	219	250	233	225	200
Feed, Seed, & "Other"	3094	2250	3025	3200	2800	2700
Total Disappearance	5786	4468	5175	5155	4875	4450
End Stocks	492	425	475	474	390	404

COTTONSEED fob points				
<u>PRICES 07-17-15</u>		<u>Trade</u>		<u>Yr Ago</u>
<i>Southeast</i>		(\$/ton)		
North Carolina	Spot	285b / 2900		330t
	OND	235b / 2400		215t
Georgia So.	Spot	2950		3350
	OND	235b / 2400		215t
No. Alabama	OND	256t		n/a
<i>Mid-South</i>		(\$/ton)		
Memphis No.	Spot	310-3120		360t
	OND	365b		248t
MO Bootheel	Spot	3160		360t
	OND	2700		2600
NE Arkansas	Spot	3120		n/a
	OND	2700		250t
<i>Southwest</i>		(\$/ton)		
West Texas: LN	Spot	3250 / 315-320t		3870
	JAS	3350		n/a
	OND	272b		n/a
	Ja-Sp	3060		n/a
West Texas: SN	Spot	3250		270t
Oklahoma	Spot	3300 325t		n/a
<i>Far West</i>		(\$/ton)		
Arizona	Spot	3850		4500
Cal. Corc. No.	Spot	4300 / 425-428t		4720
	Jly-Ag	4300		n/a
	Nv-Dc	3900		n/a
	Clock	390-3950		3700
Pima California	Spot	3600		4650
	OND	3650		n/a
<i>Specially Processed Products (\$/ton)</i>				
<i>Easi Flo™</i>	Courtland, AL	Spot	3600	4150
		Oc-Nv	3050	2950
b = bid o = offer t = trade n/a = not available West Texas: LN=Lubbock North, PN= Plainview North, SN= Seminole North				

COTTONSEED dlvd. points				
PRICES 07-17-15		Truck	Rail	Yr Ago
Northeast		(\$/ton)		
W. New York	Spot	355-3640		3970
	OND	310-3150		2850
SE Pennsylvania	Spot	3450		3770
	OND	293-2960		2670
NE Ohio	Spot	3640		3970
	OND	3150		2850
Midwest		(\$/ton)		
MI (Grand Rpd.)	Spot	3740		4070
	OND	3250		2950
MN (Rochester)	Spot	383-3850		4290
	Jly-Ag	3850		n/a
WI (Madison)	OND	333-3420		3220
	Spot	3750		4140
	Jly-Ag	3770		n/a
	OND	3250		3100
Southwest		(\$/ton)		
Texas / Dublin- Stephenville	Spot	3650		4500
Rail - job track points		(\$/ton)		
California	Spot		4150	n/a
	Nv-Dc		3800	n/a
	Clock		3850	3600
Idaho (UP)	Spot		3950	4500
	OND		3650	3420
WA/OR (BN)	JAS		4150	n/a
	OND		3800	3650
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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