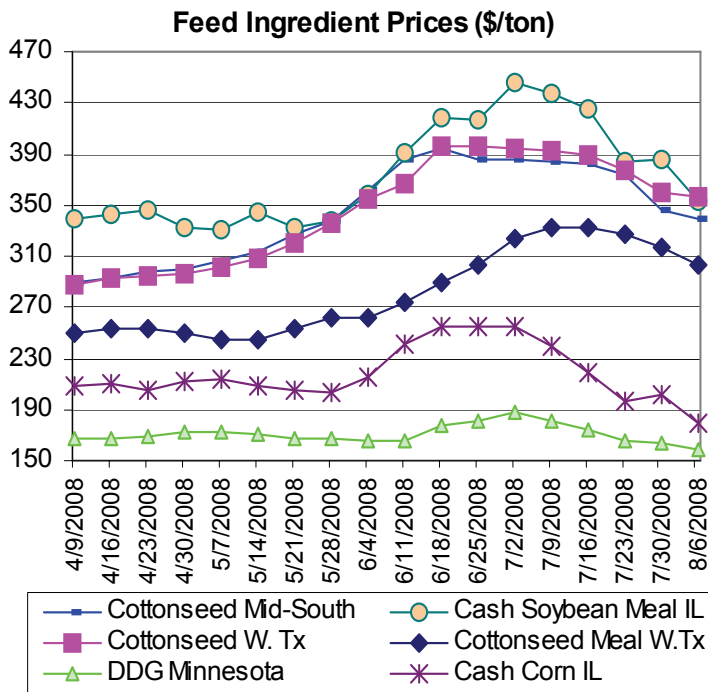


USDA PRODUCTION REPORT: The August USDA Crop Production report projected a 13.766 million bale all cotton crop. This was 942,000 bales below Informa's August estimate released a week earlier. The difference in production stems from less harvested acres. USDA projected 400,000 fewer acres harvested in Texas than Informa. The only state with higher harvested acres compared to Informa, was Georgia with 5,000 more acres. The remaining states were slightly lower or even to Informa's projections. Below average crop conditions are reason for the lower production estimate, yet there is still time for production to be ramped higher providing weather conditions become more favorable. Cottonseed production is pegged at 4.684 million tons, 333,000 tons below the estimate presented last week. The production range among seed merchants ranges from 4.3 to 4.7 million tons. The expectation for lower production is seen as fundamentally bullish, but time and weather could give this crop the chance for a recovery.

COTTONSEED MARKET: Trading on nearby supplies continues to edge lower, but with post-report strength in futures markets, sellers raised offers. Buyers of old crop supplies were not interested in paying higher prices, which has kept markets quiet. Regarding new crop, buying and selling interest has been lackluster limiting the amount trading.

In the Southeast and Mid-South, volumes trading are mainly small with most of the activity for immediate shipment. The majority of trading is still done between resellers. There has been some dairy inquiries for new crop, but nothing has traded, as milk prices remain low. The outlook of thin margins for dairies are preventing them from making forward purchases on cottonseed at such stout price levels. Southeast merchants are anticipating there will be more downside risk to price due to the lack of demand at these price levels. Oil mills are not active buyers, which is seen as keeping the market ill-defined and it is perceived by some a bearish factor. Buyers are expected to continue holding out for prices to move lower, as it has served them for the time being. Any buying that needs to be done will



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wait until prices take a drop, or until new crop supplies hit the market.

The reported trades in the West Texas market at lower levels were from early in the week. Offers were raised, or removed as sellers were anticipating the potential for price strength following grain prices. Dairy demand lost due to high seed prices is a concern of resellers, but with tight supplies, prices remain strong. The California market traded below the \$400-level, but this several dollar price reduction doesn't appear to be large enough to generate more demand. Expectations are that prices will have to drop another \$20-30/ton before dairy demand comes back to cottonseed. Given price levels of forward offers, dairies are looking at alternative feed ingredients and keeping their options open for now.

COTTONSEED BALANCE SHEET: USDA lowered its new crop production by 406,000 tons. The market hasn't seen such low production since the 1989/90 crop year. The crush was scaled back 100,000 tons. The Feed, Seed and Other category had the largest reduction of 256,000 tons, which puts it at a 20-year low. Ending stocks were lowered 50,000 tons. This puts the stocks-to-use ration at a snug 6.2% compared to last year's estimated level of 6%, which was a half percentage point below the average for the past 5 years.

In adopting the new crop cotton production expectations from USDA, cottonseed production was lowered. There is still the potential for upward corrections and our production expectation is 24,000 tons above USDA's. If the harvested acres and production is correct, ideal weather conditions will be needed to raise our production outlook.

Cottonseed crush was pared back 50,000 tons given tight seed supplies and basis holding stout, meanwhile oil bookings have been slow coming and might signal weaker demand. At this time, crushers have not been aggressive buyers. The Feed, Seed and Other category has the largest reduction of 345,000 tons. Weak milk prices and comparatively strong cottonseed prices are preventing dairies from booking forward supplies. It appears that dairy inclusion rates will be minimal. Merchants have mentioned that plenty of their dairies are threatening excluding cottonseed completely and using other grain byproducts. Ending stocks were lowered 8,000 tons, but are within a couple thousand tons of the 5-year average.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	Aug. / USDA	Aug. / Informa	Aug. / USDA	Aug. / Informa
	<u>2006/07</u>	<u>2007/08E</u>	<u>2007/08E</u>	<u>2008/09F</u>	<u>2008/09F</u>
	Beg. Stocks	602	489	489	400
Imports	0	5	4	50	25
Production	7348	6589	6588	4684	4708
Total Supply	7950	7083	7081	5134	5383
Crush	2680	2750	2650	2600	2625
Exports	616	635	628	350	320
Feed, Seed, & "Other"	4165	3298	3153	1884	1095
Total Disappear- ance	7461	6683	6431	4834	4895
End Stocks	489	400	650	300	488

COTTONSEED fob points				
<u>PRICES 08-15-08</u>		<u>Trade</u>		<u>Yr Ago</u>
SOUTHEAST		(\$/ton)		
No. Carolina	Spot	340b / 345o		172o
(as ginned)	OND	285-290o		152o
So. Carolina	Spot	350b / 355o		165o
(as ginned)	OND	295o		159o
Georgia So.	Spot	345b / 355o		160o
(as ginned)	OND	290o		140-150t
MID-SOUTH		(\$/ton)		
Memphis No.	Spot	340-345o / 335-337t		168o
(as ginned)	OND	310b / 305t		160b
	Ja-Ag	325b		173o
MO Bootheel	Spot	345o		165o
SOUTHWEST		(\$/ton)		
West Texas	Spot	335o / 320-325t		171-172t
(as ginned)	OND	315b / 320o / 315-320t		162.50o
FAR WEST		(\$/ton)		
Arizona	OND	370o		221t
Cal Corc. N	Spot	398t		240-250t
& Stockton	OND	405o		232t
	Clock	410o		240o
SPECIALLY PROCESSED PRODUCTS (\$/TON)				
<i>Easi Flotm</i>	Courtland, AL	Spot	413o	205o
<i>FuzZpelletstm</i>	Weldon, NC	Spot	No quote	209o
<i>Cotton Flotm</i>	Weldon, NC	Spot	No quote	209o
b = bid o = offer t = trade n/a = not available				

COTTONSEED dlvd. points					
<u>PRICES 08-15-08</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	415o			
	OND	330o			
SE Pennsylvania	Spot	400o			
	OND	315o			
NE Ohio	Spot	405o			
	OND	322o			
MIDWEST		(\$/ton)			
MI (Grand Rpts.)	Spot	400o			
	OND	340o			
MN (Rochester)	Spot		400-405o	410o	
	OND		355o	365-370o	
WI (Madison)	Spot		395-400o	405o	
	OND		350o	360-370o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot		420o		
	OND		No quote		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	Spot				410o
	OND				398o
California	Spot				No quote
Idaho (UP) (new crop)	Spot				435o
	OND				415o
WA/OR (BN)	Spot				447-450o
	OND				425o
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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