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USDA PRODUCTION REPORT: USDA's August Production report projected all cotton production to be 18.53 million bales, which is up 52% from last year. Compared to USDA's cotton estimate from last month, it was increased 23,000 bales. USDA's forecast was 174,000 bales larger than Informa's previous projection. Likewise, the cottonseed production estimate was increased to 6.269 million tons, an increase of 51% from last year. Compared to USDA's balance sheet from last month this is a 179,000-ton increase. These production ideas are based on continued favorable weather, which should result in less than normal abandonment across the Cotton Belt.

The main reason for the increase is based on much higher production estimates in Texas. USDA anticipates that roughly 1.7 million more acres will be harvested than the previous year. USDA's estimate accounts for less abandonment this year, which compared to Informa's projection relates to 300,000 more acres harvested. Timely rains and more heat units than last season will improve yields compared to the year ago. The net effect of this is a projected increase of 3.88 million bales compared to last year.

The forecast for the Southwest region had the largest increase compared to last year's production results with more than 4 million bales anticipated, which is an increase of 81%. This also exceeds the 5-year average by 36%. The Mid-South region is up 41% from last year, however it falls short of the 5-year average by 31%, or 1.7 million bales. Strong production from the '05 and '06 crop years are keeping the average stout. Far West cotton production is forecasted up 33% thanks to increases in plantings and harvested acres.

COTTONSEED MARKET: Markets are quiet and the lack of trading activity has prevented sellers from radically changing their offers. The wide price spread between old and new crop supplies continues to loom on the horizon. Recently only limited progress was made in the reconciliation of this price spread as the nearby trades were done at slightly lower levels. The lack of available supply for the nearby continues to support current price levels.

Mid-South and Southeastern markets are quiet with limited nearby supplies available to trade. Each week there are a few loads that have found their way to market. At the same time, buyers are difficult to find. In the Mid-South there was a bit more new crop trading but volumes are not significant. Merchants are anxious for nearby prices to tumble, but it may require a couple more weeks of patients before that occurs.

With the large crop in the fields of West Texas buyers are willing to wait for lower prices. Nearby grain prices strength has sellers willing to hold out for buyers to come to them. There are fewer sellers in the market as one oil mill no longer is an active seller. Early reports on quality out of the Southern Valley have been positive, but it has yet to impact price levels in Lubbock. By next month these new crop supplies will likely weight on the market.

In the Far West, supply tightness continues to be the main feature. Only limited supplies are

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available for the nearby. Offered levels edged slightly lower this week. Until supplies become available, the market will remain uneventful with little trading. It will likely be several more weeks until supply pipelines start flowing. Due to this supply tightness, prices will likely remain choppy.

COTTONSEED BALANCE SHEET: USDA's old crop balance sheet had a variety of changes. On the supply side imports of 24,000 tons appeared. Total disappearance was raised by 24,000 tons with the Feed, Seed and Other category being raised by that amount. There was a 10,000-ton offsetting change with the crush lower and exports being raised. Ending stocks were left unchanged.

New crop cottonseed production was raised 179,000 tons, which would be an increase of over 2 million tons from last year. If realized, this would bring cottonseed production 157,000-tons above the 5-year average. The crush was raised 100,000 tons based on the increased availability of cottonseed. Exports remained unchanged. The Feed, Seed and Other category was increased 34,000 tons, and the total was pegged 66,000 tons below the 5-year average. Ending stocks rose 45,000 tons, and the stocks to use ratio is at 9%, which is on par with the 5-year average.

Informa's balance sheet for old crop had the crush raised 5,000 tons, on stronger than anticipated results during June. Exports were raised 28,000 tons as supplies moving to Mexico and Asia exceeded expectations. The Feed, Seed and Other category lost 23,000 tons as availability of seed to delivered markets have been tighter than anticipated and prices have prohibited usage. Ending stocks dropped 10,000 tons, and are projected to be at a 7-year low. The majority of the seed carried over will likely be owned by oil mills.

Informa's new crop production was raised 197,000 tons. The ideal conditions in Texas are the main reason for the increase as expectations for below average abandonment could result in historically high yields, which could result in even larger production, if conditions remain ideal. The crush was increased as vegetable oil prices provide enough incentive for crushers to maximize their output and procuring cottonseed this fall should be easier than last year. Another positive for the oil mills is that the quality of the seed should be better, unless harvest delays become an issue. Exports were increased 20,000 tons and the year-over-year increase of 50% is inline with the increase of cottonseed production. The Feed, Seed and Other category was raised 80,000 tons to a level of usage similar to the 2007/08 crop year. Lower prices are expected this fall, which should provide a boost to usage. Ending stocks were lowered 13,000 tons, yet still is high compared to the previous couple years. The supply situation should become comfortable once new crop is available.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	Aug / USDA	Aug / Informa	Aug/ USDA	Aug / Informa
	2008/09	2009/10E	2009/10E	2010/11F	2010/11F
	Beg. Stocks	643	514	514	425
Imports	0	24	24	0	0
Production	4300	4149	4149	6269	6277
Total Supply	4943	4687	4687	6694	6659
Crush	2240	1890	1880	2550	2450
Exports	191	280	288	450	440
Feed, Seed, & "Other"	1999	2092	2137	3144	3160
Total Disappearance	4429	4262	4305	6144	6050
End Stocks	514	425	382	550	609

COTTONSEED fob points				
<u>PRICES 8-20-10</u>		<u>Trade</u>		<u>Yr Ago</u>
SOUTHEAST		(\$/ton)		
No. Carolina	Spot	230b / 234o		190o
(as ginned)	OND	135b / 138o		140o
So. Carolina	OND	135b / 138o		140o
Georgia So.	Spot	230b / 239o		180t
(as ginned)	OND	130b / 137o / 137t		140o
MID-SOUTH		(\$/ton)		
Memphis No.	Spot	250b / 255o / 250-255t		192t
(as ginned)	OND	165b / 167o		175o
MO Bootheel	Spot	258-260o		190t
(as ginned)	OND	160b / 166t		176o
	Ja-Ag	184-185o		n/a
SOUTHWEST		(\$/ton)		
West Texas	Spot	260b / 262-265o		205t
(as ginned)	OND	165-170o		167-170o
	Ja-Sp	180-185o		182o
FAR WEST		(\$/ton)		
Arizona	Spot	320t		265o
	OND	215b / 225o		240o
Cal. Corc. N	Spot	365o		268t
& Stockton	OND	257o		245o
	Clock	267o		255o
SPECIALLY PROCESSED PRODUCTS (\$/TON)				
<i>Easi Flo</i> [™]	Courtland, AL	Spot	290o	220o
<i>FuzPellets</i> [™]	Weldon, NC	Spot	n/a	n/a
<i>Cotton Flo</i> [™]	Weldon, NC	Spot	n/a	n/a
b = bid o = offer t = trade n/a = not available				

COTTONSEED dlvd. points					
<u>PRICES 8-20-10</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	270o			
	OND	170o			
SE Pennsylvania	Spot	285o			
	OND	185o			
NE Ohio	Spot	285o			
	OND	185o			
MIDWEST		(\$/ton)			
MI (Grand Rpds.)	Spot	295o			
	OND	195o			
MN (Rochester)	Spot		298-300o	308-313o	
	OND		213-218o	223-228o	
WI (Madison)	Spot		290-294o	300-305o	
	OND		203-208o	214-218o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot.		255o		
	OND		195o		
	Ja-Sp		210o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	OND				222b 232o
	Spot				n/a
Idaho (UP)	Spot				335o
	OND				245t 247o
WA/OR (BN)	Clock				257o
	Spot				345o
	OND				255o
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.