

September 2010
Volume 14, Issue 09

Cottonseed Intelligence Monthly

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COTTONSEED MARKET: As of the middle of September the nearby market continues to be sketchy as location and availability of trucks plays a major role in what price level can be reached. The volume of nearby trading remains minimal along the lines of one or two truckloads, just enough to tide end users over until lower priced new crop supplies become accessible. The process of transition between old and new crop is underway in the Southeast and Mid-South. There are a handful of gins running in these regions. The old crop premium is disappearing, as availability of new crop supply improves. New crop offers are moving higher, which is based on price support from competing feed ingredients.

Dry weather in the Southeast has helped the crop mature quickly. Growers that have applied defoliant are able to rapidly start harvesting. Georgia has only roughly 15% of gins running by mid-September, but by the end of the month, the majority of gins should have enough modules on their yard to commence ginning. Once there are more gins running, new crop offers are apt to drift lower. Since last month nearby offers have dropped \$30/ton, while new crop offers have climbed roughly \$15/ton. Oil mills haven't been very aggressive buyers and it appears that dairies are willing to wait for prices to edge lower as well before booking supplies. There have been a few more inquiries from Northeast dairies, but demand has been weak.

Nearby prices have progressively edged lower in the Mid-South. Compared to the last installment a month ago, price ranges have dropped from \$35-50/ton. Sellers with a truckload still available are more willing to sell at levels that are more reflective of old crop pricing. Merchants have had an increase in tire kicking from dairies, but the dairies are willing to wait until more gins are running in anticipation of lower prices. Gin-run offers were raised several dollars as of the middle of the month following the strength of corn, but nothing has traded. Ginning pressure will likely cause prices to drift lower over the course of the next few weeks.

The West Texas market is quiet for nearby and new crop. Local users are aware of the large supply potential of the crop and are hopeful that prices will go lower. The lack of forward booking on the part of dairies is also tied to the fact that banks are less willing to extend lines of credit and dairies are still working through the tough economic situation they had over the past several months. It may take three or more weeks, but once more nearby supply is available prices are apt to drift lower. Oil mills have taken on some supply, but are not overly aggressive in the market at this point in time. They foresee that with the large crop they will have sufficient supply for their crush. Demand for cottonseed oil hasn't been very robust recently and that is another factor preventing crushers from being aggressive buyers.

Far West markets have been quiet for most of the month. In California, rail supplies remain snug and offers are holding firm. Sellers have been eager to raise offers in lieu of the strength in corn futures. However, there hasn't been follow through buying from dairies. It is possible for offers to eventually drift lower provided the cottonseed production greatly surpasses expectations. Price

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strength of other corn based feed ingredients could potentially provide price support and limit the downward price pressure of supply.

COTTONSEED BALANCE SHEET: USDA's old crop balance sheet had changes on the demand side as final statistics came in over the past several weeks. Based on US Census results, the crush was raised 10,000 tons, compared to last month. Exports were raised 11,000 tons, and a similar increase was posted last month. The Feed, Seed and Other category had the largest increase, up 62,000 tons compared to last month. The net effect of these changes resulted in ending stocks dropping 83,000 tons.

For new crop, USDA raised cottonseed production by 103,000 tons, on positive crop conditions compared to last month. Due to the smaller carry over from old crop, the net increase in supply was only 20,000 tons. On the demand side, the crush had the largest increase compared to last month up 50,000 tons. The Feed, Seed and Other category was raised 20,000 tons. The result of these changes lowered ending stocks by 50,000 tons. The stocks-to-use ratio is similar to last year at 8%.

The Cottonseed Digest's balance sheet for old crop had only minor revisions. The crush was raised 20,000 tons, on stronger than anticipated runtimes from oil mills. Exports were inched higher, 3,000 tons. The feed, seed and other category was upped 17,000 tons. Ending stocks are inline with the results from US Census.

New crop production was raised 195,000 tons on favorable growing and crop conditions. There is still potential for more upside if the top of the crop manages to mature before harvest. The crush was raised 100,000 tons, with economics for crushers appearing to be favorable. Exports were left unchanged; due to inquiries not being as robust as in previous years. The feed, seed and other category was raised 95,000 tons, as expectations are set for increased usage compared to year ago levels. Ending stocks dropped 10,000 tons, but is still the largest since the 07/08 crop year. This results in a stocks-to-use ratio of 9.6%.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	Sept. / USDA	Sept. / CSD	Sept. / USDA	Sept. / CSD
	<u>2008/09</u>	<u>2009/10E</u>	<u>2009/10E</u>	<u>2010/11F</u>	<u>2010/11F</u>
	Beg. Stocks	643	514	514	342
Imports	0	24	24	0	0
Production	4300	4149	4149	6269	6472
Total Supply	4943	4687	4687	6694	6814
Crush	2240	1900	1900	2550	2550
Exports	191	291	291	450	440
Feed, Seed, & "Other"	1999	2154	2154	3144	3225
Total Disappearance	4429	4345	4345	6144	6215
End Stocks	514	342	342	550	599

COTTONSEED fob points				
<u>PRICES 9-17-10</u>		<u>Trade</u>		<u>Yr Ago</u>
SOUTHEAST		(\$/ton)		
No. Carolina (as ginned)	Spot	200-215o		184o
	OND	150b / 158o		140o
So. Carolina	Spot	210t		182o
	OND	150b / 158o		140o
Georgia So. (as ginned)	Spot	200-215t		179-180o
	OND	150b / 158 150t		134o
MID-SOUTH		(\$/ton)		
Memphis No. (as ginned)	Spot	200-220o / 220t		192-194o
	OND	175b / 180o		165-168o
	Ja-Ag	190-194o		172t
MO Bootheel (as ginned)	Spot	220o		195o
	SON	180o		170o
SOUTHWEST		(\$/ton)		
West Texas (as ginned)	Spot	260-262o		223-225o
	OND	175-177b / 180o / 175-177t		160-165t
	Ja-Sp	195b / 197o		180o
FAR WEST		(\$/ton)		
Arizona	Spot	320t		255o/t
	OND	225o / 225t		215o
	Clock	240t		n/a
Cal. Corc. N & Stockton	Spot	355o		300o
	Nv-Dc	265-270o		245o
	Clock	280o		255o
SPECIALLY PROCESSED PRODUCTS (\$/TON)				
<i>Easi Flo[™]</i>	Courtland, AL	Spot	260o	220o
<i>FuzZpellets[™]</i>	Weldon, NC	Spot	n/a	250o
<i>Cotton Flo[™]</i>	Weldon, NC	Spot	n/a	250o
b = bid o = offer t = trade n/a = not available				

COTTONSEED dlvd. points					
<u>PRICES 9-17-10</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	280o			
	OND	202o			
SE Pennsylvania	Spot	264o			
	OND	186o			
NE Ohio	Spot	280o			
	OND	202o			
MIDWEST		(\$/ton)			
MI (Grand Rpd.)	Spot	290o			
	OND	212o			
MN (Rochester)	Spot		270-278o	280-289o	
	OND		226-230o	236-240o	
WI (Madison)	Spot		267-272o	275-283o	
	OND		216-220o	226-230o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot.		225o		
	OND		195o		
	Ja-Sp		215o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	OND				240b 250o
	Spot				n/a
Idaho (UP)	Spot				310b 315o
	OND				255-260o
WA/OR (BN)	Spot				325o
	OND				270o
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.