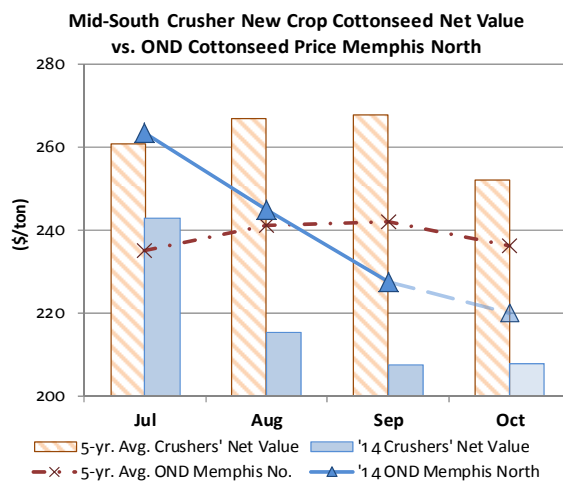


COTTONSEED MARKET: Wet weather during the first half of October across West Texas, the Mid-South, and Southeast slowed harvest and ginning activity. In addition, grain futures settled higher several days early in the month which can be taken as supportive for feed prices. However, once grain harvest commences grain futures are apt to return to drifting lower. The slower than expected arrival of new crop supply has resulted in nearby short positions. Resellers were buying nearby supply to cover sales commitments. But during the last half of the month, more gins are expected to be up and running and supply pipelines should start to fill allowing resellers to take delivery of contracted supplies. The nearby supply tightness in the Mid-South and Southeast should subside and spot trading will be light once buyers can draw on contracted supplies.

West Texas spot prices firmed up in early October as some buyers were willing to pay up in order to insure they had supplies to move. Local nearby dairy demand continues on an even keel and for now they are not interested in adding to their forward ownership. Merchants have shown more interest in buying forward, but for the time being, gins are not interested in selling more forward. Dairies are expected to come back to the market and cover more of their forward requirements once ginning is underway. Given the large crop this year, gins may be more inclined to accept lower bids once they have a better idea how large the crop is and that they don't need to be concerned about coming up short of supply. Oil mill bids are from \$10 to \$50/ton below what the resale market is willing to pay for gin-run seed. This provides a bottom for the market. Pricing beyond December is difficult to pin down due to the lack of selling interest. Because of the late start to ginning and the larger crop than a year ago, ginning in West Texas should easily run into January.

The graph shows the Memphis North cottonseed offer for the October-December timeframe has been consistently higher than the value of cottonseed for a typical Mid-South crusher. The crusher net value of cottonseed during the past few months has been roughly \$40/ton below the 5-year average. The lower net value is related to abundant soybean supplies this year and the resulting lower prices of the soybean complex. This suggests that oil mill bids will need to be below the \$200/ton level to insure their profitability. Cottonseed oil sales remain lackluster and crushing may be less than earlier anticipated this year. If the gin-run cottonseed prices drop more than \$20/ton in coming months, then it is possible that crushing economics will turn positive and clear supply from the market and support cottonseed prices later in 2015.



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Rail markets have been quiet at the beginning of October as well due to the lack of new crop supply in the market. Rail car sales have slowed due to uncertainty of seed supply and limited availability of rail cars. Also, rail car turnaround times are an unknown which is the reason why sellers are willing to hold off on putting on more sales to insure they don't oversell.

California spot prices have edged lower during October as the arrival of new crop supplies are expected shortly. Gins in the state are looking to store the majority of their supply and hold off on selling until later in the season when prices seasonally increase or when spot supplies are tight and prices spike. Dairies are expected to come back to the market and take on more ownership once new crop supplies pressure prices lower.

COTTONSEED BALANCE SHEET: The USDA's 2013/14 balance sheet is unchanged from last month, while the USDA 2014/15 balance sheet had minor adjustments. Production was lowered 95,000 tons. Imports were zero last month, but were raised to 50,000 tons this month. The net result was a 45,000-ton reduction to the supply side of the balance sheet. This amount was taken out of the Feed, Seed and Other category with ending stocks remaining unchanged. The stocks to use ratio was raised modestly to 8.3%, which is only a half of a percent below the 5-year average.

The Cottonseed Digest's old crop balance sheet was unchanged. 2014/15 production was lowered 183,000 tons. The sizable reduction is based on expectations for fewer harvested acres and a lower seed to lint ratio than what was used in previous months due to higher lint yields. Exports were raised 13,000 tons on a vessel that arrived in August. Later this crop year, Australian imports are not expected due to the outlook for less production and a lower US feed price structure that won't be able to attract supply.

The new crop crush was lowered 100,000 tons as one crushing plant in the Mid-South is not expected to run this season. Crushing economics have been difficult and oil buying interest remains lackluster. Oil buyers are holding off on making purchases because soybean oil prices are not expected to have much upside potential due to abundant soybean supplies globally. Oil users have benefited by holding off on buying and it appears that they will continue to wait in anticipation for lower prices. The Feed, Seed and Other category was lowered 30,000 tons. Dairy margins have been favorable the past few months and they have had the opportunity to lock in profits in forward months. Margins should remain positive with Class III milk futures holding above \$17/cwt through March combined with lower feed costs. The net effect of these changes was a 40,000 ton decrease in ending stocks. This lowers the stock to use ratio to 7.7% which is a percentage point below the 5-year average.

Cottonseed Supply/Demand Balance Sheet (ooo tons)						
Year begins Aug 1	USDA	USDA	October / USDA	October / CSD	October / USDA	October / CSD
	2011/12	2012/13	2013/14E	2013/14E	2014/15F	2014/15F
Beg. Stocks	618	430	492	507	425	289
Imports	72	182	198	200	50	33
Production	5370	5666	4203	4203	5369	5324
Total Supply	6059	6278	4893	4910	5844	5646
Crush	2400	2500	2000	2052	2400	2300
Exports	133	191	219	219	290	300
Feed, Seed, & "Other"	3096	3094	2250	2350	2705	2640
Total Disappearance	5629	5786	4468	4621	5395	5240
End Stocks	430	492	425	289	449	406

COTTONSEED fob points				
<u>PRICES 10-17-14</u>		<u>Trade</u>		<u>Yr Ago</u>
Southeast		(\$/ton)		
North Carolina	Spot	200-203o / 199-200		262t
	OND	190b / 198o / 195-196		235t
	Ja-Ap	210		n/a
	Ja-Ag	212b / 218o		248t
South Carolina	OND	190b / 200o		230b
	Ja-Ag	220o		n/a
Georgia So.	Spot	185b / 203o / 200		245o
	OND	190b / 198o / 195		225t
Mid-South		(\$/ton)		
Memphis No.	Spot	220		272t
	OND	220b / 225o / 220		267o
	Ja-Ag	240b / 245-250		n/a
MO Bootheel	Spot	235o		280o
	OND	230o		271o
NE Arkansas	Spot	235		n/a
	OND	230o		270o
Southwest		(\$/ton)		
West Texas: LN	Spot	320-325o / 315		302t
	OND	170-215b / 220o		291t
Far West		(\$/ton)		
Arizona	OND	330o		n/a
Cal. Corc. No.	Spot	410b / 415o		402t
	Clock	365o		n/a
Pima California	Spot	360		375o
	Nv-Mr	320o		n/a
	Ja-Jn	330o		n/a
Specially Processed Products (\$/ton)				
<i>Easi Flotm</i>	Courtland, AL	Spot	300	n/a
		Ja-Ag	285	n/a
b = bid o = offer t = trade n/a = not available West Texas: LN=Lubbock North, PN= Plainview North, SN= Seminole North				

COTTONSEED dlvd. points				
<u>PRICES 10-17-14</u>		<u>Truck</u>	<u>Rail</u>	<u>Yr Ago</u>
Northeast		(\$/ton)		
W. New York	OND	262-2630		2970
	Ja-Ag	278-2820		n/a
SE Pennsylvania	OND	243-2460		2800
	Ja-Ag	261-2630		n/a
NE Ohio	OND	2620		2970
	Ja-Ag	2820		n/a
Midwest		(\$/ton)		
MI (Grand Rpd.s.)	OND	274-2830		3070
	Ja-Ag	292-2950		n/a
MN (Rochester)	OND	300-3050		n/a
	Ja-Ag	310-3220		n/a
WI (Madison)	OND	2950		n/a
	Ja-Ag	305-3100		n/a
Southwest		(\$/ton)		
Texas / Dublin- Stephenville	Spot	2500		3150
Rail - fob track points		(\$/ton)		
California	Ja-Ag		3400	n/a
Idaho (UP)	OND		315b	3650
	Ja-Sp		3300	n/a
WA/OR (BN)	OND		3250	3750
	Clock		3350	n/a
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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