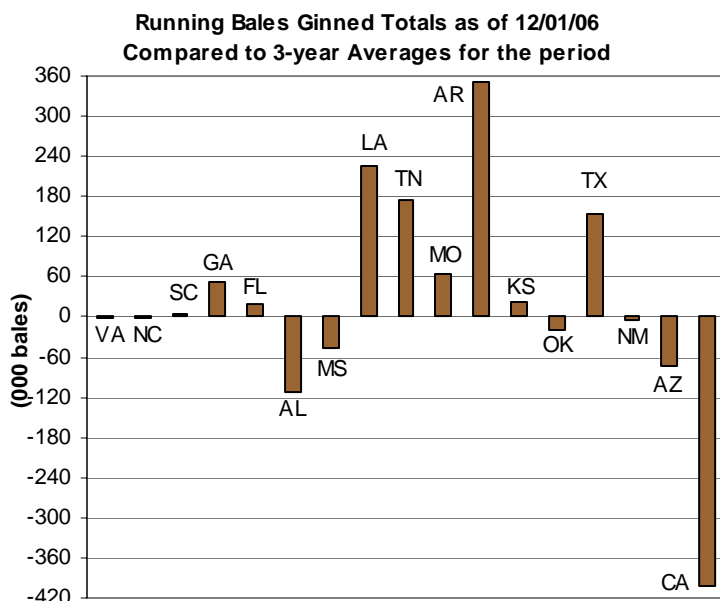


USDA REPORTS: The running bales ginned total as of December 1st was 15.141 million bales. This is an increase of 3.3 million bales since the last report. Texas progress was the largest at over a million bales pushing totals above the 3-year average for the first time this ginning season. With the exception of Alabama, ginning progress in the Southeast is running close to the average. Meanwhile, the Mid-South is expected to remain above the average. At this point, less than three-fourths of the cotton crop has to be ginned based on projected production.

USDA's all cotton forecast at 21.297 million bales was lowered a mere 2,000 bales according to the December Production Report. The most significant change was a 270,000-bale increase to Georgia's production, as minor reductions were made to states in the Southeast and Mid-South. There was a 58,000-bale increase of upland production, while Pima output was cut back by 60,000 bales. The majority of this reduction came out of California. USDA's cottonseed production was pegged at 7.479 million tons, scaled back by 3,000 tons.



COTTONSEED MARKET: Markets have settled down into a holiday mode with less trading taking place. More gins have finished up, or are indicating they will be winding down in the coming weeks or days. The net effect of this is taking offers out of the market and in the case of the Mid-South the market is firmer. The dairy demand side of the market is quiet, as most end users have nearby needs covered. Considering forward needs, end users are willing to wait before buying as they are still optimistic prices will edge lower.

Southeast markets have only modest changes compared to last month. The biggest change is a couple dollar strength in North Carolina. The market is dealing with improved availability, and the realization that there is more supply in Georgia than earlier anticipated. Typical ginning pressure has settled in and some are hinting at weaker prices in the region before year's end. With the Holidays nearing, the lack of trucks may limit trading to the feed industry while crushers will have a great oppor-

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tunity to fill their storage. Prices are expected to edge higher by next month.

In the Mid-South the market has thinned with fewer open nearby offers with more gins done for the year. Spot prices have climbed roughly \$10/ton compared to a month ago. Forward offers were raised a couple dollars. The wider spread between the nearby and forward quotes may be over done, as end users are not interested buying forward positions. For the next several weeks, it appears that prices will remain strong making this a sellers' market.

West Texas bids are a couple dollars lower, yet further downward movement appears to be limited. There is enough buying interest at the current price level, and only if the large-volume buyers exit the market, would prices be at risk to dip lower. The strong carry on the forward offers is expected to keep dairies buying hand-to-mouth. The demand side of the market is an unknown, and if it appears there is less interest usage in dairy rations, then forward prices will edge lower.

Far West markets have softened as rail sellers are interested in turning cars and were willing to trade at lower levels. The nearby market will likely keep a softer tone. California reports there are currently adequate supplies. Supply pipelines have moved up over the past several weeks as rail supplies keep moving into the market, while ginning is taking place. The loss of demand due to high prices is a concern, but sellers are not interested in lowering their offers significantly. There appears to be more risk to the upside as rail rates will be going higher, which is reflected in offers.

COTTONSEED BALANCE SHEET: USDA's production estimate was scaled back by 3,000 tons. The largest change was 100,000-ton increase to crush, followed by an 80,000-ton reduction to exports. These changes raised total disappearance by 20,000 tons and lowered ending stocks 23,000 tons. This lowers the stocks to use ratio to 6.7%, which is still above the 5-year average of 6.2%.

Informa's balance sheet had only a 25,000-ton increase to the crush. Increased inquires for cottonseed oil combined with stronger vegetable oil prices and strong pricing for cottonseed meal and hulls have increased the net value of cottonseed for crushers. This may lead oil mills to increasing their crush. Exports are unchanged, as demand from Mexico and Asia is expected to stay stout. Ending stocks are lowered 25,000 tons, bringing the stocks to use ratio only 0.1% above the 5-year average. The expected supply tightness should continue to support price levels. The Feed, Seed and Other category is a wildcard as further reductions to inclusion rates in dairy rations could cause supplies to build creating chances for a bearish price scenario later in 2007.

Cottonseed Supply/Demand Balance Sheet (000 tons)

Yrs beg Aug 1	USDA		Dec. /	Dec. /	Dec. /
	2003/04	2004/05	USDA	USDA	Informa
			2005/06E	2006/07F	2006/07F
Beg. Stocks	347	421	592	602	602
Imports	2	1	0	0	
Production	6665	8242	8172	7479	7408
Total Supply	7013	8664	8764	8081	8010
Crush	2639	2923	3011	2850	2750
Exports	355	379	523	400	495
Feed, Seed, & "Other"	4598	4770	4629	4327	4288
Total Disappearance	6592	8072	8163	7577	7533
End Stocks	421	592	602	504	477

COTTONSEED fob points					
<u>PRICES 12-15-06</u>		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Yr Ago</u>
SOUTHEAST		(\$/ton)			
No. Carolina	Dec	113b / 118o		75-78o	
	Ja-Ag	134b / 140o		90b 93o	
So. Carolina	Dec	110b / 114o		80b 84o	
	Ja-Ag	134b / 139o		95b 103o	
Georgia So.	Dec	110b / 115o / 112t		80b 84o	
	Ja-Ag	134b / 144o		103-104o	
Alabama No.	Spot	115b		93t	
	Ja-Ag	137b / 143o / 140t		105o	
MID-SOUTH		(\$/ton)			
Memphis No.	Spot	120-124t		95b 105o	
	Ja-Ag	140b / 145o		103-105o	
MO Bootheel	Spot	125-126o		103o	
	JFM	133b / 137o		103t	
	Ja-Ag	145o		103b	
Louisiana	Spot	130o		n/a	
SOUTHWEST		(\$/ton)			
West Texas	Spot	155b / 160o		97-100t	
	JFM	173.50o / 168t		n/a	
	Ja-Sp	177b / 185o		115-120o	
FAR WEST		(\$/ton)			
Arizona	Spot	200b / 205o / 200t		145b	
Cal Corc. N & Stockton	Spot	205b / 210o		170o	
	JFM	225o		n/a	
	Ja-Sp	230t		176-178o	
SPECIALLY PROCESSED PRODUCTS (\$/TON)					
Easi Flo[™]	Centre, AL	Spot	170o	138o	
FuzZpellets[™]	Weldon, NC	Spot	158o	110o	
Cotton Flo[™]	Weldon, NC	Spot	158o	111o	
b = bid o = offer t = trade n/a = not available					

COTTONSEED dlvd. points					
<u>PRICES 12-15-06</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Dec	175o			
	Ja-Ag	193o			
SE Pennsylvania	Dec	153o			
	Ja-Ag	180o			
NE Ohio	Dec	166o			
	Ja-Ag	188o			
MIDWEST		(\$/ton)			
MI (Grand Rpds.)	Dec	184o			
	Ja-Ag	202o			
MN (Rochester)	Dec		176-178o	185-192o	
	Ja-Ag		190-192o	199-201o	
WI (Madison)	Dec		165-167o	178-182o	
	Ja-Ag		180-182o	188-189o	
SOUTHWEST		(\$/ton)			
Texas / Dublin-	Spot		190o		
Stephenville	Ja-Sp		205o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	Dec				178t
	Dec				210o
California	Dec				205o
	JFM				206b 209o
Idaho (UP)	Ja-Sp				215-220o
	Dec				210t
WA/OR (BN)	Dec				210t
	Ja-Sp				233-235o
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.