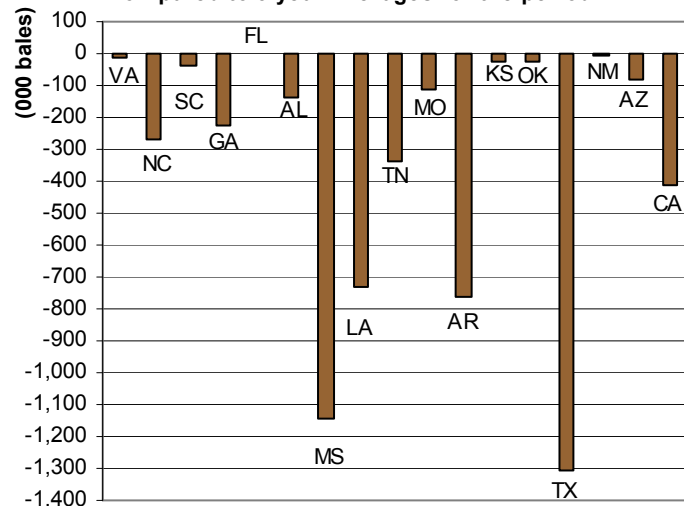


USDA REPORTS: The running bales ginned total as of December 1st was 8.946 million bales. Since the last report, the total grew by over 2 million bales. Compared to the 3-year average, this year's results lag by over 5.6 million bales. At this point, the Mid-South will continue to fall behind the average. Ginning progress in Texas has been moving along at a quick pace as dry conditions have been beneficial. By season's end, Texas will be over two million bales behind their 3-year average.

USDA's all cotton production forecast was 13.613 million bales in its December production report. This marks a reduction of 29% to last year's output. Compared to last month's report, this was an increase of 85,000 bales. The total was 115,000 bales above Informa's December projection. The largest differences between reports were with Mississippi and Alabama, as USDA foresees larger production of 110,000 and 50,000 bales respectively. USDA's cottonseed production was elevated by 29,000 tons to 4.628 million tons. Based on lower production estimates, Informa's cottonseed production was dropped to 4.65 million tons, but is 23,000 tons above USDA's.

Running Bales Ginned Totals as of 12/01/08
Compared to 3-year Averages for the period



COTTONSEED MARKET: During the last half of December, offers have firmed as markets are thin with apparently stronger reseller buying interest than ginner selling interest. The slowdown ahead of the holidays is behind the firmer tone in the market. Expectations are that by January, there will be very little trading activity and there might be reason enough for a rollback on pricing. The lack of demand from dairies combined with gins coming back to the market after having a two week holiday break may cause softer prices next month.

In the Southeast, over 90% of ginning is completed at this point and there are fewer locations for buyers needing to get a nearby truckload. Resellers are mentioning that Georgia and Alabama continue to keep a premium compared to the Carolinas. Forward offers in all markets have such a large premium that trading is not expected to take place until prices edge lower. The stout premium suggests gins are comfortable with the amount they have yet to sell and are willing to holdout for the market to come up to their price ideas. If softness continues in competing feed ingredients, sellers may need to lower their price ideas before trading can take place.

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Recent trading reported in the Mid-South has been only on small volumes, and gins have been the main sellers. Most of the buying activity is coming from resellers needing to find an extra truckload and this has helped drive prices higher. Forward offers were difficult to pin down and there is only limited buying interest through August. Resellers were reported showing new crop offers amongst themselves, and selling interest from gins has been minimal at this time. Gins are not expected to participate until they have a better sense of their supply situation.

In West Texas, offers for quick-ship supplies were difficult to find early in the week, which helped motivate buyers to raise bids. The reason for the price increase has been put on pre-holiday buying. Local dairy demand remains lackluster. Forward trading took place and once offers moved higher, buying interest withdrew from the market. With gins running through January, more downside risk in the state is anticipated.

The California market is quiet for year's end as dairies have not been making forward cash purchases. Once the market works through the as-ginned seed supplies on hand, sellers are optimistic that prices will rebound. Over the past decade, prices have strengthened in January 80% of the time, but this year it might be different because of price competition from other ingredients.

COTTONSEED BALANCE SHEET: USDA's only change this month was a 29,000-ton increase in production. This reflects the 85,000-bale increase noted in their December crop production report. This production increase is related to the rise in ending stocks by the same amount. This brings the stocks to use ratio up to 6.6%, which is a tenth of a percent above the 5-year average.

Compared to last month, Informa's balance sheet imports were lowered 10,000 tons and production dropped 67,000 tons, based on a more conservative outlook on production and demand. While shipping freights have become more favorable for the movement of supply, demand does not appear to be strong enough and more reductions to imports may yet need to be made, especially if the dollar weakens.

On the demand side of the market, exports dropped 100,000 tons, which is off by a third from last month. Export progress for the first quarter of the crop year is down 36% compared to the year ago. If exports continue at the current pace, the projected total will be met. The crush total is unchanged, but the results for October were lower than expected. On average, first quarter results were below last year's pace by 18,000 tons. If this amount of reduction continues for the balance of the year, the crush will be inline with the 2.475 million tons projected. If oil prices are kept under downward price pressure, it is possible that the crush will need to be lowered if economic conditions don't show signs of improvement. Feed, seed and other was modestly raised 19,000 tons. Soft dairy prices are expected to keep demand weak and limit the strength of typical upward price pressure later in the year. Total disappearance was lowered 81,000 tons. Ending stocks were raised 4,000 tons making the stocks to use ratio over 11%, a level not seen since the 1990-91 crop year.

Cottonseed Supply/Demand Balance Sheet (000 tons)					
Yrs beg Aug 1	USDA	USDA	Dec. /	Dec. /	Dec. /
	<u>2005/06</u>	<u>2006/07</u>	<u>USDA</u>	<u>USDA</u>	<u>Informa</u>
	<u>2007/08E</u>	<u>2008/09F</u>	<u>2008/09F</u>	<u>2008/09F</u>	
Beg. Stocks	592	602	489	643	643
Imports	0	0	3	50	25
Production	8172	7348	6588	4628	4717
Total Supply	8764	7950	7080	5321	5385
Crush	3010	2680	2703	2600	2475
Exports	523	616	599	350	320
Feed, Seed, & "Other"	4630	4165	3135	2042	2061
Total Disappearance	8163	7461	6437	4992	4856
End Stocks	602	489	643	329	529

COTTONSEED fob points				
<u>PRICES 12-19-08</u>		<u>Trade</u>		<u>Yr Ago</u>
<i>SOUTHEAST</i>		(\$/ton)		
No. Carolina	Spot	188b / 195o		253o
	Ja-Ag	199b / 207o		265o
So. Carolina	Spot	180b / 190o		242o
	Ja-Ag	200b / 210o		260o
Georgia So.	Spot	200b / 205o		235o
	Ja-Ag	205b / 212o		n/a
Alabama No.	Spot	215b / 222o		240t
<i>MID-SOUTH</i>		(\$/ton)		
Memphis No.	Spot	220-225o		230t
	JFM	215t		236t
	Ja-Ag	225o		239-240o
MO Bootheel (as ginned)	Spot	220-225o		233t
	2009	210-215o		190t
<i>SOUTHWEST</i>		(\$/ton)		
West Texas	Spot	222b / 225o		200t
	JFM	235t		215-220o
	Ja-Sp	240b / 245o		230o
(as ginned)	2009	215b / 230o		n/a
<i>FAR WEST</i>		(\$/ton)		
Arizona	Spot	270b / 275o 275t		242-245o
Cal Corc. N & Stockton	Spot	295-300o / 290-295t		285-288t
	JFM	305o		290t
<i>SPECIALY PROCESSED PRODUCTS (\$/TON)</i>				
<i>Easi Flo™</i>	Courtland, AL	Spot	260o	285o
<i>FuzZpellets™</i>	Weldon, NC	Spot	n/a	288o
<i>Cotton Flo™</i>	Weldon, NC	Spot	n/a	288o
b = bid o = offer t = trade n/a = not available				

COTTONSEED dlvd. points					
<u>PRICES 12-19-08</u>		<u>Dump</u>	<u>Hopper</u>	<u>Live Floor</u>	<u>Rail</u>
NORTHEAST		(\$/ton)			
W. New York	Spot	254o			
	Ja-Ag	262o			
SE Pennsylvania	Spot	232o			
	Ja-Ag	242o			
NE Ohio	Spot	253o			
	Ja-Ag	263o			
MIDWEST		(\$/ton)			
MI (Grand Rps.)	Spot	262o			
	Ja-Ag	270o			
MN (Rochester)	Spot		280-284o	285-290o	
	Ja-Ag		284-290o	290-295o	
WI (Madison)	Spot		275-278o	275-283o	
	Ja-Ag		278-284o	285-290o	
SOUTHWEST		(\$/ton)			
Texas / Dublin- Stephenville	Spot		260o		
	Ja-Ag		285o		
RAIL - FOB TRACK POINTS		(\$/ton)			
Laredo TX (Mid-Bridge)	Spot				275o
	Ja-Ag				
California	Spot				285o
	Ja-Ag				
Idaho (UP)	Spot				293b 303o
	Ja-Sp				318o
WA/OR (BN)	Spot				305b 310o
	Ja-Sp				325o
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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