

**GINNING REPORT:** At the beginning of December, all cotton running bales ginned totaled 13.2 million bales of cotton. This is above the 3-year average by approximately 3.39 million bales, or 35%. Given the total production estimate from the time of this report, there is more than 5 million bales of cotton yet to gin. For the remainder of the ginning season, the majority of runtime will come from Texas with over 3 million bales yet to gin, while Georgia and California are projected to have 540,000 and 380,000 bales to gin, respectively.

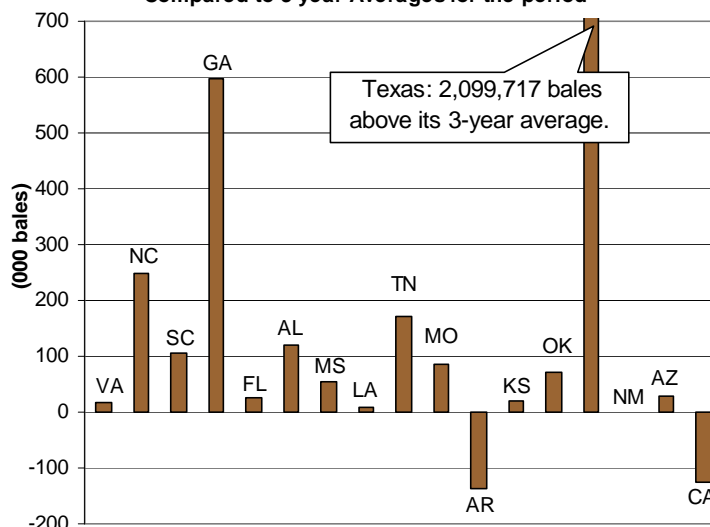
**COTTONSEED MARKET:** Prices have managed to move higher as of the last full week of trading before the holiday break. The strength is based on the fact that during the holidays there will be few participants in the market and there will be less supply coming to market. Volumes trading recently have edged lower.

Offers in the Carolinas climbed several dollars higher compared to earlier in the month. There was an increase in trading as cooler temperatures shocked some end users into buying to make sure they will have enough supply. By the middle of the month, price levels in Georgia moved a couple dollars higher, but with ginning still underway in the state, this is the best buying opportunity for the feed sector. There have been buyers from the Upper Midwest in the market. Northeastern demand remains lackluster and this region is apt to have usage rates the lowest in several years, as this buying opportunity appears to have been missed. After New Years, only a handful of gins are expected to be running in Georgia which raises the likelihood for prices to rebound. There is upside price potential for forward offers too.

Nearby offers in the Mid-South were up a couple dollars, on light volumes. Gins are not active sellers in the market, so the supply moving has been primarily from resellers. At the same time there has been stiff price competition from Georgia, which is limiting trading action. The Mid-South is apt to remain quiet for the balance of the year while gins are taking a hiatus until after the holidays. It is possible that without gins selling, prices will continue to inch higher.

Nearby prices in West Texas have firmed up a couple dollars. Oil mills continue to buy which keeps a floor on the market. Feed merchants are staying on the sidelines and are willing to wait on

Running Bales Ginned Totals as of 12/01/10  
Compared to 3-year Averages for the period



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making purchases. Narrow dairy margins are keeping these buyers out of the market and merchants are apprehensive about taking on additional credit risk. The price spread between spot and the January-March timeframe has flattened and even with this below average premium, feed buyers are willing to wait. The outlook with other feed ingredients does not appear to have a reward for buyers who will take on forward positions at these levels unless milk or other ingredient prices shoot higher.

In the Far West, rail buying interest backed off some on higher quotes. In California, nearby prices moved a couple dollars higher on modest buying action. End user demand has not been strong enough to get prices to climb higher and most of the buying interest is focused on the nearby. As a result of this lack of forward demand, the price spread to deferred offers has narrowed. Compared to past years, the price spread is smaller by half as much or more. Given the difficult economic situation for dairies in the Far West, it does not appear that this nearby-forward price spread will change until the spring.

**COTTONSEED BALANCE SHEET:** Production for the 2010/11 crop was lowered 76,000 tons following the decreases made to cotton projections in the crop production report released last week. Compared to last month, this was the only change. It resulted in ending stock falling lower. The stocks to use ratio at 7.3% is below the 5-year average of 8.7%.

In adopting the cotton production estimate of USDA, the Cottonseed Digest's production forecast was lowered. It still remains above USDA's projection as gins have mentioned that this crop's seed yields are above average and should result in a higher seed-to-lint. Some of the stronger seed yields are expected to come from West Texas and Georgia.

On the demand side of the balance sheet, crush is unchanged as runtimes are going well and some oil mills are noting improved demand for oil. The economics of crushing remain favorable which suggests oil mills will run better than last year to maximize profits. Exports were pared back 10,000 tons, as shipments have lagged the 5-year average by over 35,000 tons. The outlook for increased cottonseed supply in Australia is behind the lack of Asian buyers in the US market. If the crop develops without issue there is additional risk that exports will dip lower. Ending stocks fell below USDA's level as feed demand is apt to improve late in the year and is part of the reason for a lower carryout.

<b>Cottonseed Supply/Demand Balance Sheet (000 tons)</b>					
Yrs beg Aug 1	USDA	Dec. / USDA	Dec. / CSD	Dec. / USDA	Dec. / CSD
	2008/09	2009/10E	2009/10E	2010/11F	2010/11F
	Beg. Stocks	643	514	514	342
Imports	0	24	24	0	0
Production	4300	4149	4149	6155	6210
<b>Total Supply</b>	<b>4943</b>	<b>4687</b>	<b>4687</b>	<b>6497</b>	<b>6552</b>
Crush	2240	1900	1900	2500	2520
Exports	191	291	291	450	390
Feed, Seed, & "Other"	1999	2154	2154	3104	3205
<b>Total Disappearance</b>	<b>4429</b>	<b>4345</b>	<b>4305</b>	<b>6054</b>	<b>6115</b>
End Stocks	514	342	342	443	437

<b>COTTONSEED fob points</b>					
<b>PRICES 12-17-10</b>		<b>Bid</b>	<b>Offer</b>	<b>Trade</b>	<b>Yr Ago</b>
<b>SOUTHEAST</b>		<b>(\$/ton)</b>			
<b>No. Carolina</b>	Spot	190b / 195o		208o	
	JFM	200b / 205o		212o	
	Ja-Ag	210o		n/a	
<b>So. Carolina</b>	Spot	190b / 195o		185o	
	JFM	205b / 210o		n/a	
<b>Georgia So.</b>	Spot	170b / 172-175o / 172t		175-178o	
	JFM	200o / 200t		n/a	
	Ja-Ag	205o		203o	
<b>MID-SOUTH</b>		<b>(\$/ton)</b>			
<b>Memphis No.</b>	Spot	215b / 218-220o / 218		220o	
	JFM	220b / 225o		230o	
<b>MO Bootheel</b>	Spot	220o		215t	
	JFM	225o		n/a	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
<b>West Texas</b>	Spot	200b / 205o / 203t		210-212o	
	JFM	215b / 217-220o		220o	
	Ja-Sp	220b / 225o		230o	
<b>FAR WEST</b>		<b>(\$/ton)</b>			
<b>Arizona</b>	Spot.	255b / 265o		235b	
	Ja-Sp	275o		n/a	
<b>Cal. Corc. N &amp; Stockton</b>	Spot	288-290b / 295o / 290t		295-298t	
	JFM	295o / 290t		295o	
	Ja-Ag	292b / 298o		n/a	
<b>SPECIALLY PROCESSED PRODUCTS (\$/TON)</b>					
<b>Easi Flo<sup>™</sup></b>	<b>Courtland, AL</b>	Spot	249o	235o	
<b>FuzZpellets<sup>™</sup></b>	<b>Weldon, NC</b>	Spot	n/a	240o	
<b>Cotton Flo<sup>™</sup></b>	<b>Weldon, NC</b>	Spot	n/a	240o	
<b>b = bid   o = offer   t = trade   n/a = not available</b>					

<b>COTTONSEED dlvd. points</b>					
<b><u>PRICES 12-17-10</u></b>		<b><u>Dump</u></b>	<b><u>Hopper</u></b>	<b><u>Live Floor</u></b>	<b><u>Rail</u></b>
<b>NORTHEAST</b>		<b>(\$/ton)</b>			
W. New York	Spot	247o			
	JFM	257o			
SE Pennsylvania	Spot	230o			
	JFM	240o			
NE Ohio	Spot	247o			
	JFM	257o			
<b>MIDWEST</b>		<b>(\$/ton)</b>			
MI (Grand Rps.)	Spot	257o			
	JFM	267o			
MN (Rochester)	Spot		270-275o	275o	
	Ja-Ag		271-280o	280-285o	
WI (Madison)	Spot		253-260o	260-273o	
	Ja-Ag		265-268o	270-275o	
<b>SOUTHWEST</b>		<b>(\$/ton)</b>			
Texas / Dublin-	Spot		230o		
Stephenville	Ja-Sp		250o		
<b>RAIL - FOB TRACK POINTS</b>		<b>(\$/ton)</b>			
Laredo TX (Mid-Bridge)	Spot				275o
	JFM				275o
California	Dec.				n/a
Idaho (UP)	Dec.				295o
	JFM				297o
WA/OR (BN)	Spot				300o
<b>b = bid    o = offer    t = trade</b>					

**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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