

**COTTONSEED MARKET:** Trading has slowed as of the middle of December in the Mid-South and Southeast in direct relationship with the amount of ginning done. The Southeast region is winding down their ginning campaign. Gins are willing to stay clear of the market as they are anticipating that prices will stay on a typical upward trend as has been the case in past years. This year the usual upward price trend may be difficult to achieve given the abundance of other feed ingredients which are competitively priced. This year the loss of export demand for distillers dried grains is expected to continue to weigh on cottonseed prices as distiller dried grains will make up a higher percentage of the feed ration which will likely displace some cottonseed. West Texas cottonseed supplies are ample and this should limit upside price potential following the year-end holidays.

In looking at the post ginning price increase over the past 5 years the average price for the January-August timeframe compared to its prior ginning season timeframe (October-December) average price has been higher in 3 of the past 5 years. This was consistent for Southeast, Mid-South, West Texas and California markets. Last year all markets had ginning prices higher than the average price for the January-August timeframe. This also was the case for the 2011/12 crop year when feed ingredient supply was ample and milk prices were in the \$16/cwt range.

To take the Mid-South as an example, those years when the January-August price was higher, it averaged over \$50/ton higher than the October-December average. For the years when the October-December average was higher it was up by only \$10/ton. The current market situation with a combination of a million-ton larger cottonseed crop and ample competitively priced feed ingredients could end up preventing cottonseed prices from climbing much above gin-run price levels during the remain months of the crop year.

Supply pipelines to delivered markets look to be at comfortable levels. The movement of rail supplies continue at a steady pace. Thus far this season the train turnaround times have been quicker than some anticipated. The forecast of subzero temps in the upper Midwest and winter weather typically means that rail movements will slowdown, but most location have sufficient supply.

Forward offers are flat and dairies are not willing to book forward given the abundance of supply in the market. The current outlook is for mostly favorable growing conditions in the southern hemisphere which holds the potential for more corn and soybeans in the world market. This could apply more downward pressure on feed ingredients and cottonseed as well.

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**COTTONSEED BALANCE SHEET:** The USDA's December balance sheet for the 15/16 crop year is unchanged from last month. The 16/17 crop year had production raised 114,000 tons, which raised cottonseed output to be the highest in the past 3 years. Imports were raised 15,000 tons to match our estimate. The increase in production was added to the feed, seed and other category raising it to the highest level in 10 years. Ending stocks were raised 15,000 tons, which matches the amount that imports were increased. The net change to the stocks-to-use ratio was a tenth of a percentage point increase from last month. The stocks-to-use ratio is less than a percentage point above the 5-year average.

The Cottonseed Digest 15/16 balance sheet remains unchanged from last year. For the 16/17 crop year production was raised 115,000 tons on an increase in the cotton crop's yield outlook. Cottonseed production would be roughly 8% above the 5-year average which equates to 373,000 tons above the average. Projected production may need to be raised next month if the West Texas cotton crop continues to exceed expectations.

The crush and export categories are unchanged since results are in line with forecasts for the time being. Dairy end user buying is not as strong as expected and as a result the feed, seed and other category was lowered 20,000 tons. The abundance of feed ingredients and stiff price competition from distillers dried grains suggest that dairies will continue to keep cottonseed inclusion rates below-average levels unless cottonseed prices drop lower and competes for higher inclusion rates.

Ending stocks were raised 135,000 tons resulting in large ending stocks not seen since the 1990/91 crop year. This results in a historical high stocks to use ratio of 13%. Compared to the 10-year average of 9%. Supply will likely continue to weigh on prices for the next several months unless there is a rally in feed ingredient prices which seems unlikely, or there is a significant downward price correction for cottonseed to attract additional demand and cause cottonseed prices to rebound.

| Cottonseed Supply/Demand Balance Sheet (000 tons) |             |             |               |              |               |              |
|---|-------------|-------------|---------------|--------------|---------------|--------------|
| Year begins Aug 1                                 | USDA        | USDA        | Dec /<br>USDA | Dec /<br>CSD | Dec /<br>USDA | Dec /<br>CSD |
|   | 2013/14     | 2014/15     | 2015/16E      | 2015/16E     | 2016/17F      | 2016/17F     |
| Beg. Stocks                                       | 492         | 425         | 437           | 437          | 391           | 399          |
| Imports   | 198         | 59          | 16            | 24           | 50            | 50           |
| Production  | 4203        | 5125        | 4043          | 4043         | 5274          | 5255         |
| <b>Total Supply</b>                               | <b>4893</b> | <b>5609</b> | <b>4496</b>   | <b>4504</b>  | <b>5715</b>   | <b>5704</b>  |
| Crush   | 2000        | 1900        | 1500          | 1515         | 1900          | 1640         |
| Exports   | 219         | 228         | 136           | 136          | 250           | 240          |
| Feed, Seed, & "Other"                             | 2250        | 3044        | 2469          | 2454         | 3145          | 3155         |
| <b>Total Disappearance</b>                        | <b>4468</b> | <b>5172</b> | <b>4105</b>   | <b>4105</b>  | <b>5295</b>   | <b>5035</b>  |
| End Stocks  | 425         | 437         | 391           | 399          | 420           | 669          |

| <b>COTTONSEED fob points</b>   |               |                        |      |               |
|--|---------------|------------------------|------|---------------|
| <i>PRICES 12-16-16</i>   |               | <i>Trade</i>           |      | <i>Yr Ago</i> |
| <b>Southeast</b>   |               | <b>(\$/ton)</b>        |      |               |
| North Carolina   | Spot          | 190-195o               |      | 260o          |
| South Carolina   | Spot          | 181o                   |      | n/a           |
| Georgia So.  | Spot          | 175-182b / 187o / 185t |      | 242t          |
|  | JFM           | 190b / 195-200o        |      | n/a           |
|  | Ja-Ag         | 195b / 205o            |      | 260o          |
| <b>Mid-South</b>   |               | <b>(\$/ton)</b>        |      |               |
| Memphis No.  | Spot          | 200-205o / 200t        |      | 280o          |
|  | Ja-Ag         | 203b / 210-212o        |      | n/a           |
| MO Bootheel  | Spot          | 200b / 205o            |      | 282o          |
| NE Arkansas  | Spot          | 200b / 205o            |      | 280o          |
| <b>Southwest</b>   |               | <b>(\$/ton)</b>        |      |               |
| West Texas: LN   | Spot          | 205o / 205t            |      | 261t          |
|  | JFM           | 207b / 210o            |      | 270t          |
|  | Ja-Sp         | 215b / 215-220o        |      | 278o          |
| West Texas: SN   | Spot          | 208-210o               |      | 260t          |
| Oklahoma   | Spot          | 200b / 205o            |      | 245o          |
|  | Ja-Ag         | 210b / 220o            |      | n/a           |
| <b>Far West</b>  |               | <b>(\$/ton)</b>        |      |               |
| Arizona  | Spot          | 270b / 280o / 270t     |      | 342o          |
| Cal. Corc. No.   | Spot          | 303-305o / 295-300t    |      | 375o          |
|  | Ja-Sp         | 303-305o               |      | 368o          |
| Pima California  | Spot          | 260-263o               |      | 302o          |
|  | Ja-Sp         | 263o                   |      | 332o          |
| <b>Specially Processed Products (\$/ton)</b>   |               |                        |      |               |
| <i>Easi Flo<sup>tm</sup></i>   | Courtland, AL | Spot                   | 245o | 315o          |
|  |               | Ja-Ag                  |      | 322o          |
| <b>b = bid o = offer t = trade n/a = not available</b><br><b>West Texas: LN=Lubbock North, PN=Plainview North, SN=Seminole North</b> |               |                        |      |               |

| <b>COTTONSEED dlvd. points</b>                         |       |                 |             |               |
|--|-------|-----------------|-------------|---------------|
| <u>PRICES 12-16-16</u>                                 |       | <u>Truck</u>    | <u>Rail</u> | <u>Yr Ago</u> |
| <b>Northeast</b>                                       |       | <b>(\$/ton)</b> |             |               |
| <b>W. New York</b>                                     | Spot  | 254o            |             | 323o          |
|  | JFM   | 267o            |             | 327o          |
|  | Ja-Ag | 273o            |             | 331o          |
| <b>SE Pennsylvania</b>                                 | Spot  | 237o            |             | 305o          |
|  | JFM   | 250o            |             | 310o          |
|  | Ja-Ag | 256o            |             | 314o          |
| <b>NE Ohio</b>   | Spot  | 254o            |             | 322o          |
|  | JFM   | 267o            |             | 327o          |
|  | Ja-Ag | 273o            |             | 331o          |
| <b>Midwest</b>   |       | <b>(\$/ton)</b> |             |               |
| <b>MI (Grand Rpd.)</b>                                 | Spot  | 264o            |             | 332o          |
|  | JFM   | 277o            |             | 337o          |
|  | Ja-Ag | 283o            |             | 341o          |
| <b>MN (Rochester)</b>                                  | Spot  | 263-265o        |             | 349o          |
|  | Ja-Ag | 268-270o        |             | 349o          |
| <b>WI (Madison)</b>                                    | Spot  | 259o            |             | 349o          |
|  | Ja-Ag | 264o            |             | 349o          |
| <b>Southwest</b>                                       |       | <b>(\$/ton)</b> |             |               |
| <b>Texas / Dublin-<br/>Stephenville</b>                | Spot  | 240o            |             | 290o          |
| <b>Rail - fob track points</b>                         |       | <b>(\$/ton)</b> |             |               |
| <b>California</b>                                      | Spot  |                 | 288-290o    | 360o          |
|  | Ja-Sp |                 | 295o        | 359o          |
| <b>Idaho (UP)</b>                                      | Spot  |                 | 295o        | 350o          |
|  | Ja-Sp |                 | 290o        | n/a           |
| <b>WA/OR (BN)</b>                                      | Spot  |                 | 308o        | 360o          |
| <b>b = bid o = offer t = trade n/a = not available</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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