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COTTONSEED MARKET: Markets still lack some definition as the industry exits the spring and early summer lull, but increases in activity over the past two weeks have given some indications of the transition from old to new crop. Prices have continued to be supported despite the widespread belief that large cottonseed stocks remain. In the Southeast, a recent bout of price volatility helped shake loose oilseed held by cash market speculators and give a better impression of the trading values at which product may move.

These values are, nationwide, much lower than last year's. The long-term discounts have helped encourage ration inclusion rates and made possible greater competition among feed ingredient substitutes. International dairy prices that are above domestic values are supporting US dairy production and keeping cottonseed demand supported.

The underlying feed markets exhibited a rally that lasted through the Independence Day holiday. Since then, futures prices for corn and soybean meal have lost about 10 percent of their value. (The exception to the trend has been soybean oil, which has gained about 10 percent since early June.) Weather features most prominently in the outlook for these basic feed commodities. The protracted drought in the Northern Plains is severe, prompting USDA to take emergency measures to make available additional grazing and haying lands to cattlemen. In regions such as the Lubbock North draw area, the scarcity of hay/alfalfa has driven up the price of cottonseed hulls to \$140 per ton.

Futures markets reflect the increased risk to feed supply with greater price volatility for corn and soybean meal during July than during any other month so far this year. The greater volatility is being caused by relatively small adjustments to weather forecasts and the expected impact on ultimate corn and soybean yields. Currently, the concern for the underlying feed markets is the low topsoil moisture levels in Iowa and the borderlands of Missouri and Illinois.

COTTONSEED BALANCE SHEET: The 2016/17 cottonseed marketing year (Aug-July) is expected to end with 412,000 tons in stocks. This is in line with the last five years, though year-over-year gains to cotton acreage and above-average cotton yields are where the majority of the supply-side pressure to cottonseed prices is expected to originate.

Concerning supply, the cotton crop is still believed to be healthy, maintaining the likelihood that cottonseed availability will be high this autumn. Cotton progress and conditions ratings have fallen in recent weeks from their historically lofty levels at the outset of USDA's reporting period, corresponding to a 110,000-ton reduction to projected production compared to June estimates. It has been typical for crop conditions to

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decline throughout the growing season, and it would have been difficult for this year to be an exception as it began at such impressive levels. The current proportion of the crop rated good or excellent is 66 percent, and an index of the overall crop condition is above all recent years' but that of 2015/16.

The proportions of the crops in both the squaring and boll-setting stages are behind the respective five-year average for this period, but healthy rains are forecast for West Texas which should boost vegetative health in that region. The South continues to have sufficient moisture as the country closes to within a month of the start of harvest. Overall, the large year-over-year gains in cotton acreage will account for a lot of the direction to cottonseed prices, which are still projected to be pressured by the projected 12.1 million planted acres.

USDA's projection for US cottonseed imports may feature a downward revision. While 2016/17's imports at 52,000 tons may have been spurred by the high prices during harvest and the months immediately following, 2017/18 does not look like it will feature such price strength. USDA projects small increases to both imports and exports compared with last year. This would make sense if ocean vessel freight rates were projected to continue to fall through new crop, but the tone to the ocean freight market is that the bottom has been reached. The bankruptcy of global shipping giant Hanjin early this year underlined the historically low rates. Without US prices meaningfully above the world market, US imports would tend to be limited.

Concerning cottonseed demand, average dairy margins remain positive but moderate across the country. The low price of cottonseed relative to the levels of recent years has helped expand the demand base. As a benchmark, the Memphis North region is currently featuring a price around \$200 per ton. This is significantly below the approximate levels of last year around \$250 per ton and 2014/15 around \$300 per ton. The high-water mark for July prices in this region were reached in 2013/14 around \$400 per ton, though a comparison of current prices to the prices of substitutes is more likely influencing values than is a comparison to those record levels. Shorter-term discounts are likely helping dairy interest, and the dairy industry's weak but positive margins are expected to persist throughout the current calendar year and well into 2018. The projected demand from dairies should support cottonseed and keep steady competitive pressure on the cottonseed crushing sector.

Crushers' net product value has managed a corrective climb over the past two months (late May to late July), but it remains well below the levels of this time last year. During July 2016, net product value was estimated around \$240 per ton. Currently, it is estimated around \$195 per ton, a discount of about 19 percent. Based on the roughly 25-percent decline to cottonseed prices (basis Memphis North), one might expect to see slightly better demand from oil

mills. However, cottonseed oil has been struggling to find a buyer in some regions, curtailing cottonseed demand. It is risky for mills to book disparate proportions of expected production of cottonseed meal and cottonseed oil. Consequently, the slow pace of oil sales can limit the pace of meal sales. Fewer meal offers can mean higher offer prices, which can lead to lower inclusion rates in rations. The result is a cottonseed processing sector that can be patient to book cottonseed purchases ahead of a large cotton harvest.

Year begins Aug 1	Cottonseed Supply & Demand Estimates (1,000 tons)					
	USDA	USDA	July	July	July	July
	2014/15	2015/16	USDA	IEG	USDA	IEG
Beg. Stocks	425	437	391	391	412	523
Imports	59	16	52	65	55	10
Production	5,125	4,043	5,369	5,369	6,215	6,250
Total Supply	5,609	4,496	5,812	5,825	6,682	6,783
Crush	1,900	1,500	1,775	1,720	2,200	1,800
Exports	228	136	300	290	325	480
Feed, Seed, & Residual	3,044	2,469	3,325	3,292	3,750	3,780
Total Disappearance	5,172	4,105	5,400	5,302	6,275	6,060
End Stocks	437	391	412	523	407	723

Cottonseed FOB Points					
		<i>Bid</i>	<i>Offer</i>	<i>Trade</i>	<i>Yr Ago</i>
Southeast		(\$/ton)			
North Carolina	Spot	184	185-189		220t
	OND	155	162-168		200o
South Carolina	Spot	184	185-189		n/a
	OND	155	165		200o
South Georgia	Spot	182-195	190-198		220t
	OND	155	164		200o
Mid-South		(\$/ton)			
Memphis North	Spot	190-194	196-201		240t
	OND	165-170	175		220t
Missouri Bootheel	Spot		202-205		240t
	OND		175-178		230o
Northeast Arkansas	Spot	197	202		245o
Southwest		(\$/ton)			
West Texas - Lubbock North	Spot	200	206-215		247t
	Ag-Sp		207-208		250o
	OND	170	176-180	175	n/a
	Ja-Sp		197		n/a
West Texas - Plainview North	OND		180		n/a
West Texas - Seminole North	OND	170	177		n/a
Far West		(\$/ton)			
Arizona	Spot	285	290		322b
	JAS	285	295		n/a
	OND	230-237	238-250		n/a
California Corc. No.	Spot	310	315	315	352o
	OND	280	285		330o
	Clock		280-285		340o
Pima California	Clock		258-262	252-256	280o
Specially Processed Products		(\$/ton)			
Easi Flo - Courtland, AL	Ag-Sp		242		n/a
	Oc-Nv		210		n/a
	Dec		217		n/a
	Ja-Ag		225		n/a
b = bid o = offer t = trade n/a = not available					

Cottonseed Dlv. Points				
		<u>Truck</u>	<u>Rail</u>	<u>Yr Ago</u>
Northeast		(\$/ton)		
West New York	Spot	247o		300o
	OND	224o		272o
Southeast Pennsylvania	Spot	232o		281o
	OND	209o		255o
Northeast Ohio	Spot	247o		300o
	OND	224o		272o
Midwest		(\$/ton)		
Michigan (Grand Rapids)	Spot	259o		310o
	OND	234o		282o
Minnesota (Rochester)	Spot	265o		309o
	Ag-Sp	260o		n/a
	OND	235-245o		292o
Wisconsin (Madison)	Ag-Sp	255o		n/a
	OND	230o		285o
Rail - fob track points		(\$/ton)		
California - Rail	Spot		300o	340o
	OND		270-275o	325o
Idaho - Rail UP	Ag-Sp		275o	330o
	OND		260b	316t
	Clock		265o	330o
Washington/Oregon - Rail BN	Ag-Sp		285o	n/a
	OND		270o	335o
	Clock		275o	345o
b = bid o = offer t = trade n/a = not available				

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.

Cottonseed Intelligence Monthly is published monthly Phone: **651-925-1052/Fax 651-925-1061** e-mail: james.bueltel@informaecon.com. Every effort has been made to assure the accuracy of the information and market data which is provided in this publication as a compilation for the use of its readers.

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