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# Cottonseed Intelligence Monthly

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**COTTONSEED MARKET:** As the marketing year begins to turn over, cottonseed supplies slowly slip into the market in southern Texas. The earliest values reported were as low as \$120/ton in mid-July from a co-operative in southern Texas, excluding any implied end-of-season rebates. More recently, south Texas has featured \$145 then \$165/ton in Lubbock North without the influence of rebates. While Lubbock North spot values have been vacillating in the low \$200s and have recently been the firmest in a year, they remain below the values for this period during any of the past few years. The consistent rains in the panhandle have helped an already large crop bolster its yield. In contrast to the overly hot Arizona and California summer, plenty of West Texas rain has fallen, occasionally just in time. While the onset of new crop is not expected to cause the same precipitous crash in values that was observed in 2014, it is still expected to invite lower prices. With lower corn and soybean meal prices projected for harvest, there could be less new-crop support to cottonseed.

In the near term however, some offers are being raised due to concern over quality issues that may come from Hurricane Harvey, which has since become a tropical depression. Although essentially all of the cotton in Texas's Gulf region had been harvested by the time the hurricane made land, harvested cotton left in the fields has been subjected to high winds and water levels.

The overarching market force continues to be the size of the upcoming cottonseed crop, which USDA's latest report increased by roughly a quarter million tons from its previous projection to 6.479 million tons. Particularly given declining markets for underlying feed ingredients, there is expected to be considerable pressure into the thrust of harvest.

The corn market continues to lose support, sliding from a recent high around \$4.15/bu to around \$3.45 for its December contract as of August 30. August featured a bearish monthly USDA report reflecting a yield projection that was reduced less than was expected. Corn yield forecasts fell 1.2 bushels per acre to 169.5 instead of the average trade estimate, which was at 166.2. This led to a 2017/18 production forecast at 14.2 billion bushels and a 2017/18 carryout projection at 2.37 billion bushels. While the 2016/17 carryout estimate was slightly below the average market expectation, the 2017/18 ending stocks level was 270 million bushels above the average expectation. The resulting decline to futures prices has only been partially offset by firming interior basis levels as farmers become less willing to sell into the decline.

USDA's August report, which contained the first survey-based yield projections, also reflected

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a larger-than-expected soybean yield at 49.5 bushels per acre. This exceeded the highest trade guess of popularly published analytics teams, the average expectation of which was 47.5. November soybean futures fell sharply on the news but have since stabilized. Soybean and soybean meal futures are expected to continue their decline as new crop becomes available.

**COTTONSEED BALANCE SHEET:** In its latest cottonseed supply and demand report, USDA increased cottonseed production projections by 264,000 tons. Favorable growing conditions for cotton have encouraged higher cottonseed production expectations and caused a rift in intercrop-year cottonseed prices. The relative tightness in old-crop cottonseed supplies was reflected in USDA's reduction of its 2016/17 carryout estimate by 10,000 tons to 402,000 tons. In contrast, the abundance of new-crop cottonseed has caused an increase in 2017/18 carryout projections of 89,000 tons to nearly 500,000 tons. If realized, this would be the largest carryout since 2010/11, which featured an enormous 618,000-ton ending stocks level. The increase in production projections caused a decrease from 55,000 tons of imports to zero. Annual imports have not been eliminated since the large 2010/11 crop caused them to drop to zero. The expected production gains net of the decrease in imports caused an increase to overall supplies of roughly 200,000 tons.

The greater forecast supplies are expected to boost new-crop usage by 110,000 tons. About half of the increase to supply is forecast to go to crush, whose projection increased by 100,000 tons to 2.30 million tons. This would be the highest crush volume since 2012/13. Aiding the month-over-month increase to crush projections, vegetable oils are expected to be in greater demand domestically, though USDA's August crush projections would not predict that crush would rise as strongly as production over the 2012/13-to-2017/18 period. Over that period, production would increase more than about 14 percent while crush would actually decline eight percent, using the latest projections. The growth in usage during the period has come from dairies, which increased cottonseed feeding by roughly 20 percent to a 2017/18 forecast at 3.725 million tons.

Dairy feed demand is expected to remain steady and moderate through early calendar year

2018. Dairy margins remain positive though modest, and dairies' cottonseed usage continues to be largely a matter of relative pricing among feed ingredient substitutes. The increased crush forecast provides a small obstacle to the expansion of feed demand expectations, but sufficient dairy demand will likely remain to satisfy the 3.725-million-ton usage expectation for feed, seed, and residual.

	Cottonseed Supply & Demand Estimates (1,000 tons)					
	Year begins Aug 1		July	July	July	July
	USDA	USDA	USDA	IEG	USDA	IEG
	2014/15	2015/16	2016/17F	2016/17F	2017/18F	2017/18F
Beg. Stocks	425	437	391	391	402	523
Imports	59	16	52	65	0	0
Production	5,125	4,043	5,369	5,369	6,479	6,350
<b>Total Supply</b>	<b>5,609</b>	<b>4,496</b>	<b>5,812</b>	<b>5,825</b>	<b>6,881</b>	<b>6,873</b>
Crush	1,900	1,500	1,775	1,720	2,300	2,200
Exports	228	136	335	290	360	480
Feed, Seed, & Residual	3,044	2,469	3,300	3,292	3,725	3,780
<b>Total Disappearance</b>	<b>5,172</b>	<b>4,105</b>	<b>5,410</b>	<b>5,302</b>	<b>6,385</b>	<b>6,460</b>
End Stocks	437	391	402	523	496	413

<b>Cottonseed fob points</b>						
		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Change</u>	<u>Yr Ago</u>
<b>Southeast</b>		<b>(\$/ton)</b>				
North Carolina	Spot	178-180	182-183	180	-1o	220t
	OND	135-140	142-145		-6o	198o
South Carolina	Spot	178	182		1o	n/a
	OND	135	142		-8o	n/a
South Georgia	Spot	188	192-200		-2o	228o
	OND	135-140	142-148		-8o	185t
<b>Mid-South</b>		<b>(\$/ton)</b>				
Memphis North	Spot		200		2o	242o
	OND		160		n/a	222o
Missouri Bootheel	Spot	190	195		-3o	243t
	OND	150	158-163	158	-4t	222o
Northeast Arkansas	Spot	190	195-199		-4o	241t
	OND	150	158		-8o	222o
<b>Southwest</b>		<b>(\$/ton)</b>				
West Texas - Lubbock North	Spot	200-208	209-210		-1o	252o
	Sep		205		n/a	250o
	OND	160-162	163-169		-3o	227o
	Ja-Ag	170	175		n/a	n/a
	Ja-Sp	180	186-187		0o	240o
	Clock		182		2o	n/a
West Texas - Seminole North	Nv-Fb		165		n/a	n/a
<b>Far West</b>		<b>(\$/ton)</b>				
Arizona	Spot	280	290		-2o	312b
	Ag-Sp	280	290	285	-2o	n/a
	OND	235	245		2o	295o
California Corc. No.	Spot	330	350	340	5t	361o
	Sep		310		n/a	n/a
	OND	270	275		unc	320o
	Clock	270	280		2o	330o
Pima California	Spot		320		n/a	255b
	Clock	235	245		n/a	n/a
<b>Specially Processed Products</b>		<b>(\$/ton)</b>				
Easi Flo - Courtland, AL	Spot		242		unc	280o
	Oc-Nv		200		unc	n/a
	Dec		207		unc	n/a
	Ja-Ag		215		unc	n/a

**b = bid o = offer t = trade n/a = not available**

<u>Cottonseed dlvd. points</u>					
		<u>Truck</u>	<u>Rail</u>	<u>Change</u>	<u>Yr Ago</u>
<b>Northeast</b>		<b>(\$/ton)</b>			
West New York	Spot	243o		-1o	293o
	OND	204o		-6o	263o
Southeast Pennsylvania	Spot	228o		1o	275o
	OND	189o		-6o	245o
Northeast Ohio	Spot	243o		-1o	293o
	OND	204o		-6o	263o
<b>Midwest</b>		<b>(\$/ton)</b>			
Michigan (Grand Rapids)	Spot	253o		-1o	303o
	OND	214o		-6o	273o
Minnesota (Rochester)	Spot	258o		-2o	307o
	OND	223o		unc	287o
	Ja-Ag	235o		unc	304o
Wisconsin (Madison)	Spot	252o		-5o	299o
	OND	218o		unc	279o
	Ja-Ag	230o		unc	299o
<b>Rail - fob track points</b>		<b>(\$/ton)</b>			
California - Rail	Sep		290o	n/a	340o
	OND		265o	unc	320o
	Oc-Mr		265o	n/a	n/a
	Clock		265-270o	-2o	325o
Idaho - Rail UP	Clock		265o	5o	315o
Washington/Oregon - Rail BN	Clock		275o	n/a	n/a
<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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