

COTTONSEED MARKET: During January, cottonseed prices lost the support of the competing feed markets but hardly sunk back to their ginning-season lows. While they traded lower than during the height of feedlots' late-December scramble for cottonseed, prices have remained steady, largely due to feeders having satisfied their first-quarter needs during late-December. Cottonseed meal markets continue to exhibit marked support even as cottonseed markets remain pressured by the largest estimated production in over ten years.

A significant indicator of the market's forward price expectations, carry weakened throughout January. Some regions, such as North Carolina, completely lost their carry for a few weeks as near-term demand outweighed storage costs and expectations of the typical usage pace through the rest of the marketing year. Cottonseed delivered to the West Coast is featuring a similar forward curve with Idaho rail values trading nearly flat from January through September. Unfortunately for trading operations, there is an expectation of low price volatility for the next few months. The expectation also reduces the price risk premium that tends to buoy deferred values and stimulate a portion of carry. The dominant features to the cottonseed price outlook are the burdensome 2017/18 production, the revelations of the severity of the multi-year decline in crushing capacity, the underlying support from the feeding industry, and the potential for another cotton bumper crop in 2018/19.

COTTONSEED BALANCE SHEET: The balance-sheet developments during January suggest slightly greater price pressure on cottonseed in the latter half of the marketing year. The greater price pressure stems from an increasing realization that USDA has been overestimating US crush capacity and the potential for another large cotton and cottonseed crop in 2018/19.

In January, USDA's ERS made a slight 58,000-ton reduction to 2017/18 production estimates, which was not quite outweighed by upward adjustments to usage projections. Informa Economics IEG matched USDA's downward revision to old-crop production, while both organizations maintained their carryin and import estimates at 399,000 tons and zero tons, respectively. The decrease in estimated production did not meaningfully alter Informa's price outlook, as Informa's carryout projections remained the largest since 2010/11. Informa expects cottonseed carryout at 514,000 tons, 90,000 tons above USDA expectation at 424,000 tons. This drives the divergence in the two organizations' price outlooks. USDA balanced its reductions to production with a 50,000-ton increase in ex-

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port projections to 450,000 tons and a 100,000-ton decrease in crush projections to 2.300 million tons. While the increase in exports brings USDA very close to Informa's existing 460,000-ton projection, its decrease to crush does not yet satisfy Informa's much-lower crush expectation. Informa believes at least 300,000 tons of US crushing capacity has been lost since a 2.500-million-ton crush was achieved in 2012/13, capping 2017/18 crush capacity at 2.100 million tons. USDA would need to lower its crush forecast by an additional 200,000 tons to meet Informa's projection. Unless the government does this, its feed usage forecasts will remain exaggerated and its carryout projection will remain too low. The consequence will be a government-implied price projection that overestimates traded values.

In its January report, USDA's NASS released November crushing volumes estimated at 174,179 tons. This is below the pace needed to reach USDA's 2017/18 crush forecast and caused Informa to further reduce its 2017/18 crush forecast by 100,000 tons to 2.100 million tons. From near the outset of the marketing year, crusher have been underperforming expectations with respect to volumes. While it appears likely that some plants – especially those that have been coaxed by handsome margin prospects into restarting this year – did experience some operational difficulties, those disruptions could not fully explain the slower-than-expected crushing pace. It now appears that the losses to US crush capacity is greater than was thought at the outset of 2017/18.

Cottonseed crushing margins rebounded in January, as was expected following the early December hike in cottonseed prices. The higher cottonseed prices combined with continued strong demand for protein meal domestically and abroad to allow cottonseed meal prices to gain 11 percent in the Midsouth and a powerful 23 percent in West Texas. The net product value of cottonseed products, which combines potential revenue for meal and oil with calculated expenses of crushing, rose 10 percent over the same period. Net product value underperformed gains to cottonseed meal values because of the persistently tepid demand for cottonseed oil.

Given cotton futures' strong performance since mid-October, cotton producers may provide another year of high acreage in 2018/19. With nearby futures reaching as high as 84 cents per pound, the returns are attractive, and farmers are likely to respond with a second year of ample planted acreage. Particularly if futures prices remain attractive through February – crop insurance's price determination window – the cottonseed industry could be facing another year of large supplies. This adds to the likelihood that late-season cottonseed prices could repeatedly test their price floor.

<i>Year begins Aug 1</i>	Cottonseed Supply & Demand Estimates (1,000 tons)					
	USDA	USDA	Sept	Sept	Sept	Sept
	2014/15	2015/16	USDA	IEG	USDA	IEG
	2016/17F	2016/17F	2017/18F	2017/18F	2017/18F	2017/18F
Beg. Stocks	425	437	391	391	399	399
Imports	59	16	51	51	0	0
Production	5,125	4,043	5,369	5,369	6,725	6,725
Total Supply	5,609	4,496	5,811	5,811	7,124	7,124
Crush	1,900	1,500	1,769	1,769	2,300	2,100
Exports	228	136	342	342	450	460
Feed, Seed, & Residual	3,044	2,469	3,301	3,301	3,950	4,050
Total Disappearance	5,172	4,105	5,412	5,412	6,700	6,610
End Stocks	437	391	399	399	424	514

<u>Cottonseed fob points</u>						
		<u>Bid</u>	<u>Offer</u>	<u>Trade</u>	<u>Change</u>	<u>Yr Ago</u>
<i>Southeast</i>		<i>(\$/ton)</i>				
North Carolina	Spot		138	135	-4o	201o
	Ja-Fb	135	140		n/a	n/a
	Mr-Ag	140	148		n/a	n/a
South Carolina	Spot	135		140	-4b	200o
	Ja-Fb	135		140	n/a	n/a
South Georgia	Spot	155	160		2o	n/a
	Feb		160		n/a	n/a
<i>Mid-South</i>		<i>(\$/ton)</i>				
Memphis North	Spot	145	152		2o	202o
	Feb		153		n/a	n/a
	Fb-Mr	151	156		n/a	n/a
	Fb-Ag	150	160		n/a	205o
Missouri Bootheel	Spot		155		2o	202o
	Feb		155		n/a	n/a
	Fb-Ag	152-153	162-163		0o	205o
<i>Southwest</i>		<i>(\$/ton)</i>				
West Texas - Lubbock North	Spot		165		-10o	210o
	Ja-Sp		190		6o	n/a
	Fb-Mr	165	170-173		n/a	214o
	Ag-Sp		185		n/a	n/a
	OND	160			n/a	n/a
Oklahoma	Feb			160	n/a	n/a
<i>Far West</i>		<i>(\$/ton)</i>				
Arizona	Spot	245	255	245-255	-2t	278t
	JFM	245	255	245-255	-2o	n/a
	Ja-Sp	245	260		-5o	n/a
California Corc. No.	Spot			267-272	n/a	301t
	Ja-Sp		270		n/a	n/a
Pima California	Spot	245			n/a	275o
	Ja-Fb			242	n/a	n/a
	Mr-Sp			250	n/a	n/a
<i>Specially Processed Products</i>		<i>(\$/ton)</i>				
Easi Flo - Courtland, AL	Spot		195		-10o	242o
	Fb-Ag		200		-5o	n/a
<i>b = bid o = offer t = trade n/a = not available</i>						

Cottonseed dlvd. points					
		Truck	Rail	Change	Yr Ago
Northeast		(\$/ton)			
West New York	Spot	195t		-2o	254o
	Ja-Fb	200o		n/a	n/a
	Mr-Ag	208o		n/a	n/a
Southeast Pennsylvania	Spot	180t		-2o	237o
	Ja-Fb	185o		n/a	n/a
	Mr-Ag	193o		n/a	n/a
Northeast Ohio	Spot	195t		-2o	254o
	Ja-Fb	200o		n/a	n/a
	Mr-Ag	208o		n/a	n/a
Midwest		(\$/ton)			
Michigan (Grand Rapids)	Spot	205t		-2o	264o
	Ja-Fb	210o		n/a	n/a
	Mr-Ag	218o		n/a	n/a
Minnesota (Rochester)	Spot	221o		-34o	263o
	Fb-Ag	230o		5o	n/a
Wisconsin (Madison)	Spot	211o		-3o	260o
	Fb-Ag	221o		3o	n/a
Rail - fob track points		(\$/ton)			
California - Rail	JFM		252-261t	n/a	n/a
Idaho - Rail UP	Spot		250b	n/a	290o
	JFM		250b	n/a	n/a
	Ja-Sp		255o	n/a	n/a
<i>b = bid o = offer t = trade n/a = not available</i>					

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, dairy men in this group will migrate up into Groups 1, 2 or 3.

Cottonseed Intelligence Monthly is published monthly. Phone: 901-202-4443. E-mail: grady.ferguson@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. Information has been obtained by Informa Economics from sources believed to be reliable. However, because of the possibility of human or mechanical error, Informa does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Published by Informa Economics, 3464 Washington Drive, Suite 120, Eagan, MN 55122.

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