

COTTONSEED MARKET: Focus may be shifting slightly from a supply-dominated bearish outlook to a more balanced view of cottonseed fundamentals that accounts for the possibility of weaker demand. Specifically, the dairy industry has appeared less stable during September. Dairy margins have deteriorated for deferred delivery periods. Whereas in August dairies had been expected to enjoy modest but steadily positive margins through at least the beginning of 2018, a combination of the rising likelihood of domestic oversupply and falling international milk prices threatens to unseat those forecasts. Weaker dairies margins in the US imply lower cottonseed demand as managers curtail herd development and postpone expansion.

The effect on cottonseed meal would be similar to cottonseed's, but the impact to cottonseed oil so far seems limited. While demand remains modest for cottonseed oil, crushers are reportedly unconcerned by the possibility of quality problems from Hurricanes Harvey and Irma. Their market activity has remained steady, albeit low, during the storm-dominated news cycle.

Aside from the heavy new-crop cottonseed supplies expected in the next several weeks, bearish cottonseed traders could cite deflationary outlooks in corn and soybean markets as contributors to lower cottonseed prices. The Environmental Protection Agency opened for public comment downward adjustments to fuel volume requirements. If affected, such changes could increase the domestic supply and decrease the price of soybean oil and other cottonseed oil competitors.

Additional pressure comes from recently improving Brazilian weather conditions, which had been exhibiting a dry bias. Domestically, US farmers are unofficially reporting better-than-expected yields from the Corn Belt, potentially portending bearish moves. The fact that corn harvest is roughly a week behind the norm is likely a benefit to ultimate production as it gives the crop a longer maturation period, which could reinforce the bearish corn price outlook. Informa Economics IEG has raised its forecast 2017/18 average farm price for corn to \$3.35 per bushel, a 15-cent discount to its forecast futures value. Informa projects an average soybean 2017/18 farm price between \$8.50 and \$9.50 per bushel given soybeans' expected stocks-to-use ratio. Particularly give Brazil's soybean export values are falling closer to the US's, South American production prospects and US export pace will likely remain features for the trader throughout the year.

USDA's quarterly *Grain Stocks* report was released Friday, September 29, reflecting lower-than-expected stocks of corn and soybeans. Corn stocks were estimated at 2,295 million bushels, 58

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million bushels lower than the average market expectation. Soybean stocks were estimated at 301 million bushels, 37 million bushels below expectations on a 40,000-acre decrease to area and a slight decrease to yield. At 4,296 million bushels, the crop is still a record. The stocks figures resulted in muted price reactions given that end-of-month and end-of-quarter position adjustments would likely have supported the firmer price action. One suppressive feature to the corn market is that the lower stocks figure still represents the largest quantity since 1988. In all, cottonseed faces a number of bearish forces with support coming largely from the multi-year affordability of new-crop cottonseed.

COTTONSEED BALANCE SHEET: From August to September, USDA increased 2017/18 production projections by 389,000 tons. The majority of this increase – 225,000 tons – went to feed, seed, and residual, which USDA now projects at 3.950 million tons. In the two weeks since the September 14 report was released, the deterioration in dairy prices may have pushed some tonnage from feed usage to crush and exports. That possibility prompted Informa to raise feed, seed, and residual by a more modest 195,000 tons month over month. The remaining 30,000 tons in Informa’s balance sheets were split between crush and exports, with the majority going to crush.

Informa’s export forecast at 465,000 tons is 105,000 tons above USDA’s. Admittedly, export demand has been reported as soft so far this year, though that is expected to change as the full pressure of ginning season weighs on the market. Cheaper domestic cottonseed prices are expected to quicken the pace of exports. Now at 2.325 million tons, Informa’s crush projection was raised 125,000 tons compared to its August figure, an increase 25,000 tons greater than USDA’s.

USDA increased 2017/18 ending stocks projections by 61,000 tons to 557,000 tons, slightly above Informa’s forecast. Informa’s 2016/17 carryout remains significantly higher – by 66,000 tons – than USDA’s because Informa believes USDA may not be fully accounting for the seed quality problems in Texas.

Large cotton acreage and overall favorable growing conditions remain the largest feature to the cottonseed price outlook. As of writing, 17 percent of the cotton crop has been harvested and 67

percent of the bolls have opened. As with corn, a longer closed-boll period could benefit production by allowing more time for maturation. End-of-crop yield risk is not over-large as harvest is ahead of the pace of any of the past five years. At roughly 11.5 million acres and 21.758 million bales, the US will likely be flush with cottonseed.

Year begins Aug 1	Cottonseed Supply & Demand Estimates (1,000 tons)					
	USDA	USDA	Sept	Sept	Sept	Sept
	2014/15	2015/16	USDA	IEG	USDA	IEG
Beg. Stocks	425	437	391	391	399	465
Imports	59	16	51	65	0	0
Production	5,125	4,043	5,369	5,369	6,868	6,850
Total Supply	5,609	4,496	5,811	5,825	7,267	7,315
Crush	1,900	1,500	1,764	1,760	2,400	2,325
Exports	228	136	342	290	360	465
Feed, Seed, & Residual	3,044	2,469	3,306	3,310	3,950	3,975
Total Disappearance	5,172	4,105	5,412	5,360	6,710	6,765
End Stocks	437	391	399	465	557	550

Cottonseed fob points						
		<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			190-210	-15t	215o
	OND	130-132	135-140	135	-6o	195o
	Ja-Ag	145-151	157		-3o	212o
South Carolina	Spot			190	n/a	n/a
	OND	130	133-135	135	-11o	190o
	Ja-Ag	149	135		-25o	n/a
South Georgia	Spot		195		-15o	208o
	OND	130	135-138	135	-8o	185t
	Ja-Ag	149	153		-12o	205o
<i>Mid-South</i>		<i>(\$/ton)</i>				
Memphis North	Spot		230		15o	238o
	Oct		215		n/a	n/a
	Oc-Nv		150	150	-11o	n/a
	OND		150-155		n/a	210o
	Nv-Dc		165		n/a	n/a
	Ja-Ag		165-175		-4o	237o
Missouri Bootheel	OND		152-153		n/a	215o
Northeast Arkansas	Spot		230-235		4o	238o
	OND		153-158		0o	213t
<i>Southwest</i>		<i>(\$/ton)</i>				
West Texas - Lubbock North	Spot		200	200	-5t	262o
	Oct		195		45o	n/a
	OND		150-158		-5o	217t
	Ja-Ag	175	175		3o	n/a
<i>Far West</i>		<i>(\$/ton)</i>				
Arizona	Spot	280	290		unc	n/a
	OND	225	235-240	230	-2o	305o
California Corc. No.	Nv-Sp		265		n/a	322o
Pima California	Spot		220-230		-95o	245o
	Oc-Mr		235		n/a	n/a
<i>Specially Processed Products</i>		<i>(\$/ton)</i>				
Easi Flo - Courtland, AL	Spot		265		unc	290o
	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

Cottonseed dlvd. points		Truck	Rail	Change	Yr Ago
Northeast		(\$/ton)			
West New York	Spot	255o		-25o	277o
	OND	200o		-5o	262o
	Ja-Ag	215o		-5o	282o
Southeast Pennsylvania	Spot	240o		-25o	260o
	OND	185o		-5o	245o
	Ja-Ag	200o		-5o	265o
Northeast Ohio	Spot	255o		-25o	277o
	OND	200o		-5o	262o
	Ja-Ag	215o		-5o	282o
Midwest		(\$/ton)			
Michigan (Grand Rapids)	Spot	265o		-25o	287o
	OND	210o		-5o	272o
	Ja-Ag	225o		-5o	292o
Minnesota (Rochester)	Spot	265o		-20o	298o
	OND	216o		-2o	279o
	Ja-Ag	233o		unc	299o
Wisconsin (Madison)	Spot	260o		-25o	292o
	OND	211o		-2o	270o
	Ja-Ag	228o		unc	290o
Rail - fob track points		(\$/ton)			
California - Rail	Nv-Dc		255t	n/a	305o
	Nv-Sp		255o	n/a	310o
Idaho - Rail UP	Spot		270o	n/a	310o
	Nv-Dc		250o	-5o	300o
	Nv-Sp		255o	-10o	305o

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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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