November 2017

Volume 21, Issue 11

Cottonseed Intelligence Monthly

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COTTONSEED MARKET: Through a month of slowing price declines, the market stabilized as the massive month-over-month and year-over-year discounts reached in October sunk into the minds of market participants. Despite the historically low prices being traded currently, there could be additional declines in the months ahead as the trade becomes more aware of the limits to quantities demanded at current price levels. In short, the feeding sector may not be willing to absorb the entirety of this year's very large cottonseed supply unless slightly further declines to prices are reached.

The main factors affecting the price outlook are USDA's overestimation of future crushing volumes, constraints on end-user demand from tighter truck logistics, and the high head counts across all major livestock and poultry species. The first two factors have a suppressive effect on the price outlook, while the final factor has a supportive effect.

COTTONSEED BALANCE SHEET: USDA's ERS maintained its 2.400-million-ton crush projection in its latest monthly supply and demand report. This, however, is at odds with NASS' estimate of monthly crushing volumes so far this marketing year. Adding to the skepticism that cottonseed crushers still possess the ability to rival their 2012/13 crush at 2.550 million tons, the slower-than-expected pace of crush this marketing year may suggest that crushers are even lagging their now-lower crush capacity estimates.

On December 1, NASS released its estimate for October cottonseed crush volumes, which totaled a moderate 158,687 tons. This is 12 percent (17,000 tons) above the same month a year prior and eight percent (12,000 tons) above the five-year October average. Higher-than-normal crush volumes are necessary because of this year's large crop, estimated by USDA at 6.758 million tons and by Informa Economics IEG at 6.800 million tons. By either organization's estimate, it would be the highest production since 2006/07, the fifth largest output on record at 7.348 million tons.

October's crush may not be strong enough to compensate for the weaker-than-normal September volume, estimated at 110,881 tons. While September featured the firm prices of the preginning period, October's crusher purchases involved the precipitous drop across many geographies and should have allowed a major boost in crushing margins. The fact that this failed to result in crush volumes at 175,000 tons or greater may suggest either that total crush capacity has fallen since 2012/13 more than was believed or that crushers are not fully incentivized to process near capacity

For weekly cottonseed pricing and commentary contact
Grady Ferguson at grady.ferguson@informaecon.com or 901-202-4443

for other reasons. The former would be meaningful to total usage forecasts and would likely suggest higher carryout projections. The latter could be caused by operational difficulties such as bringing formerly idled plants back online, a situation that could suggest improved efficiency – and crushing volumes – during the rest of the year. Even in the latter situation, however, the volumes lost to crush solely during October could still dent 2017/18 crush projections.

Truck logistics problems resulting from the implementation of Department of Transportation's electronic logging devices (ELDs) could pose another hurdle for the capturing of all of cottonseed's latent demand. Available demand may fall short of latent demand because purchasers will likely have a more difficult time receiving cottonseed loads because operating hours are limited by ELDs. It is estimated that ELDs could reduce truck availability by five to 10 percent, though some market participants have offered projections relating to their local markets as high as 15 to 20 percent. While Informa analysts lean toward the lighter curtailments, even a five-percent reduction in truck availability could have meaningful price impacts. Lost sales to feeders one week are not likely to be made up the next week, nor are they likely to be added to the end of the year. This flagging short-term demand could mean greater supplies are carried later into the year, causing an increase in likelihood of price weakness during the typical firming period of the year's first half. In this scenario, should holders of cottonseed not start unloading product during the first half of 2018, the downside risk to prices during the period immediately preceding 2018/19 ginning grows substantially.

One supportive feature to the cottonseed market is the robust growth seen recently in livestock and poultry markets. While not all of these markets are directly accessible to cottonseed, they are all outlets for feed grains and feed ingredients that provide a solid demand base for whole and processed cottonseed as well as corn and soybean meal.

Record-setting red meat and poultry production levels in 2017 may still allow for higher production levels in 2018, continuing to support feed demand. Levels in 2017 are projected to exceed 2016 levels by 2.7 percent. Across all species, the strong production does not yet appear to have burdened the market enough to significantly temper feed demand growth.

In balance, the bias of the price outlook is still decidedly to the downside. Despite already low prices by historical standards, the size of this year's cottonseed production combined with a low-price environment for competing feed ingredients is unlikely to sustain cottonseed rallies and could lead to further declines in the months ahead.

Cottonseed Supply & Demand Estimates (1,000 tons)

Year begins Aug 1	USDA 2014/15	USDA 2015/16	Sept USDA 2016/17F	Sept IEG 2016/17F	Sept USDA 2017/18F	Sept IEG 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	6,758	6,800
Total Supply	**5,609**	**4,496**	**5,811**	**5,811**	**7,157**	**7,199**
Crush	1,900	1,500	1,769	1,769	2,400	2,200
Exports	228	136	342	342	360	460
Feed, Seed, & Residual	3,044	2,469	3,301	3,301	3,950	4,000
Total Disappearance	**5,172**	**4,105**	**5,412**	**5,412**	**6,710**	**6,660**
End Stocks	437	391	399	399	447	539

Cottonseed fob points						
		Bid	Offer	Trade	Change	Yr Ago
Southeast				***($/ton)***		
North Carolina	Spot	110-115	120-125	115	-7o	185t
	Nv-Dc	110	120	115	n/a	n/a
	JFM		135		n/a	197o
	Ja-Ag	135-140	141-145		-9o	210o
South Carolina	Spot	105	120	118-119	-8o	180o
	Nv-Dc	105	120		n/a	n/a
South Georgia	Spot	120	125-130		-2o	182o
	Ja-Ag	135-139	145-146		-4o	196o
North Alabama	Spot	130	140		-5o	n/a
Mid-South				***($/ton)***		
Memphis North	Spot	120	130	125	-8o	200t
	Nv-Dc	120	130		n/a	n/a
	Ja-Ag		160		1o	218o
Missouri Bootheel	Ja-Ag		160		n/a	220o
Northeast Arkansas	Spot			130-135	n/a	201o
	Nv-Dc			130-135	n/a	n/a
	Ja-Ag		160		unc	220o
Southwest				***($/ton)***		
West Texas - Lubbock North	Spot	155	160-163	160	unc	209o
	Nv-Dc		163		1o	n/a
	Nv-Jn	157	165		5o	n/a
	Dc-Ja	155	160		n/a	n/a
	Ja-Sp		180		5o	225o
Oklahoma	Ja-Sp		170		n/a	225o
Far West				***($/ton)***		
Arizona	Spot		235-240		2o	280o
	Nv-Dc	225	235-240		n/a	n/a
	Ja-Sp	245	255-260		n/a	n/a
California Corc. No.	Spot	270	280	275	unc	310o
	Nv-Sp	265	270		n/a	305o
Pima California	Spot		240		n/a	255o
	Nv-Dc		240		n/a	n/a
Specially Processed Products				***($/ton)***		
Easi Flo - Courtland, AL	Spot		185		unc	245o
	Nov		185		n/a	n/a
	Dec		192		unc	n/a
	Ja-Ag		202		unc	n/a

b = bid o = offer t = trade n/a = not availiable

Cottonseed dlvd. points					
		Truck	Rail	Change	Yr Ago
Northeast		***($/ton)***			
West New York	Spot	180o		-10o	255o
	Nv-Dc	180o		n/a	n/a
	Ja-Ag	205o		-10o	273o
Southeast Pennsylvania	Spot	165o		-10o	238o
	Nv-Dc	165o		n/a	n/a
	Ja-Ag	190o		-10o	256o
Northeast Ohio	Spot	180o		-10o	255o
	Nv-Dc	180o		n/a	n/a
	Ja-Ag	205o		5o	273o
Midwest		***($/ton)***			
Michigan (Grand Rapids)	Spot	190o		-10o	265o
	Nv-Dc	190o		n/a	n/a
	Ja-Ag	215o		-10o	283o
Minnesota (Rochester)	Spot	196o		-6o	265o
	Ja-Ag	215o		unc	275o
Wisconsin (Madison)	Spot	191o		-1o	260o
	Ja-Ag	210o		5o	271o
Rail - fob track points		***($/ton)***			
California - Rail	Spot		260t	n/a	297o
	Nv-Ja		260t	n/a	297o
	Nv-Sp		255b	n/a	295t
	Ja-Sp		255b	n/a	n/a
Idaho - Rail UP	Spot		260b	n/a	283o
	Ja-Sp		262o	2o	n/a
	Clock		260o	n/a	n/a
b = bid o = offer t = trade n/a = not availiable					

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. Published by Informa Economics, 3464 Washington Drive, Suite 120, Eagan, MN 55122.