

COTTONSEED MARKET: The price outlook for cottonseed is dominated by a continuation of the steady and affordable price levels seen so far this marketing year. Across the US, cottonseed prices have remained steady since the ginning season. This follows several years of declines to prices, outside of annually seasonal strength and weakness. While the technological developments announced at Texas A&M University may have the power to dramatically widen the industry's demand base by providing non-cattle feeders access to ultra-low gossypol cottonseed, market-level price impacts would still be years away. Currently, large 2017/18 production and large 2018/19 acreage expectations are keeping cottonseed prices low and steady. The latter has had the additional impact of flattening the forward curve, reducing the spot-to-September carry to zero in some regions.

US spot prices around \$200 per ton are near their lowest levels since late calendar year 2007 and well off their highs of over \$450 recorded during summer 2014. The tertiary impacts of low market carry include an easing of end-user buying interest, as end users tend to view a lower risk premium in a flat forward curve. That has tamped down new-crop transaction volumes, which had experienced a momentary increase during February.

The price floor is not far below current prices and is set almost exclusively by feeders' costs of procuring alternative feed ingredients. The cottonseed crushing sector is likely to continue to run at or near capacity for the at least the next several months. Crushers are benefiting from strong meal prices, even though oil prices have been a drag on crushing margins for many months. Exports may exceed year-ago levels but are unlikely to take a much-larger-than-normal share of consumption.

Bearish developments to the cottonseed market largely serve to increase the likelihood that prices revisit the levels between current values and those of the price floor. They do not, however, increase the expected dollar-per-ton discounts to future transactions. Regardless of this year's bountiful supply, it is infeasible that cottonseed values could fall to pre-2007 levels while corn remains above \$3.00 per bushel and soybean meal above \$200 per ton. This is because of the feeding sector's nearly indefatigable consumptive power and its subsequent ability to purchase large quantities of cottonseed, should cottonseed become much more economically attractive. As a result, the cottonseed price outlook is currently strongly influenced by its competing-feeds price floor. Competing feeds prices are currently buoyed by South American developments, as Argentine drought is expected to lose Argentina more soybeans than Brazil is expected to gain.

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COTTONSEED BALANCE SHEET: The developments to the cottonseed balance sheet during February include a long-overdue reduction by USDA to 2017/18 crush forecasts. In light of the lower-than-expected 172,655-ton December crush volume announced by NASS on February 1, Informa Economics IEG had reduced its crush forecast by 100,000 tons to 2.000 million tons early in February. USDA followed this with a 300,000-ton decrease to its crush forecast, bringing it in line with Informa's figure. Even after the reduction to 2.000 million tons, crushers are still 35,000 tons behind the pace needed to reach their projected annual quantity, after adjusting for seasonal differences in crushing pace. For this reason, it is possible that Informa further reduces its crush projection, but that possibility is balanced by the prospect that crushers have a stronger second-half marketing year after their operational difficulties in the first half of 2017/18.

USDA increased its feed, seed, and residual projection by 300,000 tons to 4.250 million tons in February, completely offsetting its reduction to crush. By not moving any tonnage to carryout, it maintained its ending stocks projection at 424,000 tons, which is 140,000 tons below Informa's expectation at 564,000 tons.

At its annual Outlook Forum, USDA released its 2018/19 cotton acreage expectations at 13.3 million acres, in line with Informa's 13.4-million-acre projection. In conjunction with February's solid cotton futures performance that roughly averaged 77-cents-per-pound during the crop insurance price determination window, these cotton area expectations suggest another strong year for cottonseed production volumes is likely ahead. Historically, such cotton acreage would tend to result in roughly 6.5 million tons of cottonseed output. This, in turn, would tend to result in just over a million tons of cottonseed meal and approximately 375,000 tons of cottonseed oil. If realized, this cottonseed production forecast would represent a four-percent reduction from the previous year. Aside from 2017/18, however, it would still be the highest production level since 2007/08.

Including balance-sheet and non-balance-sheet considerations, the outlook for cottonseed prices remains neutral to slightly bearish with the expectation being for a narrow trading range

through at least the summer. This may make it difficult for resellers to capitalize on price fluctuations and delay some end-user purchases, but the low market carry could help buyers absorb more of the ample supplies later in the year. Still, the supply-side pressure is likely to cap gains to prices given another large cotton crop is likely.

Cottonseed Supply & Demand Estimates (1,000 tons)						
Year begins Aug 1	USDA 2014/15	USDA 2015/16	USDA 2016/17F	IEG 2016/17F	USDA 2017/18F	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	6,725	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	2,000	2,000
Exports	228	136	342	342	450	460
Feed, Seed, & Residual	3,044	2,469	3,301	3,301	4,250	4,100
Total Disappearance	5,172	4,105	5,412	5,412	6,700	6,560
End Stocks	437	391	399	399	424	564

<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		140-142		0o	195o
South Carolina	Spot		140-142		n/a	196o
South Georgia	Spot			155	unc	193o
<i>Mid-South</i>		<i>(\$/ton)</i>				
Memphis North	Spot			156-165	n/a	185t
Missouri Bootheel	Spot		160-165		n/a	186o
Northeast Arkansas	Spot		158		n/a	186o
	Mr-Sp		164		n/a	n/a
	OND	155	165	161	n/a	175t
<i>Southwest</i>		<i>(\$/ton)</i>				
West Texas - Lubbock North	Spot		180-188		6o	201t
	Mr-Sp			195	n/a	n/a
<i>Far West</i>		<i>(\$/ton)</i>				
Arizona	Spot	250	265		5o	272o
	Fb-Mr			260	n/a	n/a
	Fb-Sp	260	270		unc	n/a
California Corc. No.	Spot	268	275	275	7o	291o
	Mr-Sp		285		n/a	293o
	Ap-Ag			275	n/a	n/a
Pima California	Spot		245		unc	270t
	Mr-Jn		245		n/a	273o
<i>Specially Processed Products</i>		<i>(\$/ton)</i>				
Easi Flo - Courtland, AL	Spot		200		unc	235o
	Ap-Sp		200		n/a	n/a
	Nv-Dc		195		5o	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>
Northeast		(\$/ton)			
West New York	Spot	200-205o		2o	264o
	Ap-Ag	205o		unc	n/a
	OND	200o		unc	n/a
Southeast Pennsylvania	Spot	185-190o		2o	249o
	Ap-Ag	190o		unc	n/a
	OND	185o		unc	n/a
Northeast Ohio	Spot	200-205o		2o	264o
	Ap-Ag	205o		unc	n/a
	OND	200o		unc	n/a
Midwest		(\$/ton)			
Michigan (Grand Rapids)	Spot	210-215o		2o	274o
	Ap-Ag	215o		unc	n/a
	OND	210o		unc	n/a
Minnesota (Rochester)	Spot	216o		-4o	245o
	Ap-Ag	225o		n/a	n/a
	OND	225o		unc	235o
Wisconsin (Madison)	Spot	211o		1o	235o
	Ap-Ag	223o		n/a	n/a
	OND	220o		unc	230o
Rail - fob track points		(\$/ton)			
California - Rail	Spot		260-270o	5o	285t
	Ap-Sp		268t	n/a	n/a
Idaho - Rail UP	Mr-Sp		258o	8o	n/a
Washington/Oregon - Rail BN	Spot		265-275o	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, dairymen 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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