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COTTONSEED MARKET: Informa's price outlook is for near-term support for cottonseed with greater downside potential as new crops arrives. The near-term upside risk is concentrated in July and August, when the thinness of pre-ginning trades tends to cause increased price volatility and greater price risk. As ginning begins, there may be slightly more crushing capacity than there was at the immediate outset of 2017/18 ginning due to greater operational foresight by processors. Annual crushing capacity will only be very slightly larger in 2018/19, driven almost entirely by the early-season volume gains. With no plans to revive any abandoned crushing plants and no long-term financial reason to build additional plants, it is unlikely 2018/19 crush will contribute much more to cottonseed demand than it did during 2017/18. Despite this constraint, cottonseed meal prices are expected to decline in new crop, driven lower by its marginal substitutability with cottonseed.

Cottonseed prices in the benchmark Midsouth region rose \$11 per ton to \$178 in May, the highest levels since September. September's price strength was formed immediately before ginning a crop that nationally totaled the largest in over a decade. The Midsouth reached a floor around \$145 during the ginning-season glut but has been slowly recovering, placing an increasingly normal carry into the forward curve.

Corcoran North prices in California did not participate in the bullishness of other US markets, trading in an historically narrow band of roughly \$270 to \$280. This was not expected, as California weather was hot and dry during important growing periods last summer. One explanation is the lethargy in the dairy market, which has been suffering for months from oversupply.

Markets along the West Coast were the first to react to the growing concerns about overly dry conditions in the Southern Plains, losing most or all of their carry and occasionally turning to an inverse. West Texas markets remain supported around \$228, having climbed throughout the marketing year from the lowest values since February 2007 at \$164. The \$64 – or 39 percent – rise in values have been driven by strong feed demand from large cattle, hog, and poultry head counts in the US and the prospect of a much smaller-than-expected cottonseed production level in fall 2018. There is no change on the horizon for the serious drought conditions present in the Southern Plains, so near-term price support is still expected.

As new crop arrives, values for October-December deliveries are expected to relax from their current levels. October-December deliveries traded in May around \$164 in the Midsouth, \$141 in

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North Carolina, \$148 in South Georgia, \$278 in California, and \$204 in West Texas. More recently, the atypical price firmness in Georgia seems to be abating as delivery periods become more distant, a possible sign that the private negotiations supporting the market this year may expire by 2018/19. During 2017/18 to date, Georgia spot prices which may typically trade a few dollars lower than those of North Carolina have been trading at a \$10-to-\$15 premium to North Carolina spot values. This unusual premium persists in current spot-market prices, with North Carolina offered around \$152 and Georgia offered around \$170.

COTTONSEED BALANCE SHEET: USDA released its first supply and demand estimates of the year for 2018/19, reflecting an expectation of a 6.145-million-ton cottonseed crop, 1.900-million-ton crush, and a 3.895-million-ton feed, seed, and residual usage. Based on trend-adjusted lint-to-seed ratios of the past several years and cotton production expectations at 22.7 million bales, Informa expects 2018/19 production 750,000 tons higher at 6.895 million tons. Production would come from 12.8 million harvested acres yielding 854 pounds per acre. The risk to this forecast is the Southern Plains drought, which threatens West Texas's acreage and vegetative health. The 40 percent that Texas is expected to contribute to national production may be reduced if precipitation during the key growing periods is not received. Georgia, which is expected to produce 13 percent of the national total, appears safe and may produce a greater proportion. During late May, heavy rains from Subtropical Storm Alberto fell on the Southeast, causing concerns of overly wet conditions for cotton's second largest producing state. While the southeastern-most states constitute 28 percent of US cotton production, it is often the case that the hype of damaging heavy rains proves false and that the extra moisture ultimately boosts yields. The high price of cotton, which gained over nine cents per pound in May to easily break above 90 cents, strongly encourages any seed that may have been washed out to be replanted.

USDA sharply reduced its 2017/18 production estimate by 303,000 tons to 6.422 million tons. Strong 2018/19 production would provide a slight, 20,000-ton reduction in ending stocks from

2017/18, which are expected to be 547,000 tons. Both years feature Informa ending stocks projections that are in line with those since 2011/12 after being adjusted for usage. Informa holds more bearish ending stocks projections than does USDA, which explains most of Informa's new-crop bearishness.

	Cottonseed Supply & Demand Estimates (1,000 tons)						
	Year begins Aug 1	USDA 15/16	USDA 16/17	USDA 17/18 F	IEG 17/18 F	USDA 18/19 F	IEG 18/19 F
Beg. Stocks		437	391	400	400	450	547
Imports		16	51	0	0	0	10
Production		4,043	5,369	6,422	6,422	6,145	6,895
Total Supply		4,496	5,811	6,822	6,822	6,595	7,452
Crush		1,500	1,769	1,900	1,850	1,900	1,900
Exports		136	342	475	425	425	525
Feed, Seed, & Residual		2,469	3,300	3,997	4,000	3,895	4,500
Total Disappearance		4,105	5,411	6,372	6,275	6,220	6,925
End Stocks		391	400	450	547	375	527

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		150	150	2t	165t
	Jn-Jly		150-153		n/a	n/a
	OND	140	145		n/a	152t
South Carolina	Spot		150	150	n/a	160t
	Jn-Jly		150-153		n/a	n/a
	OND	140	-145		n/a	155o
South Georgia	Spot	155-164	170-172		1o	160t
	Jn-Jly		171		n/a	n/a
North Alabama	Jn-Jly		165		n/a	n/a
<i>Mid-South</i>		<i>(\$/ton)</i>				
Memphis North	Spot		178		n/a	187o
	Jn-Sp		178	174	n/a	n/a
	OND	165	171		n/a	n/a
Missouri Bootheel	Spot		178		-2o	190t
	JJA		178		3o	n/a
Northeast Arkansas	Spot		185		n/a	n/a
	JJA		185		7o	n/a
	Ja-Ag		185		n/a	n/a
<i>Southwest</i>		<i>(\$/ton)</i>				
West Texas - Lubbock North	Spot		228		n/a	192b
	Jn-Sp		235		2o	192o
	OND		217-218		12o	174o
<i>Far West</i>		<i>(\$/ton)</i>				
Arizona	Jun			275	n/a	n/a
	Jn-Jly	270	275		1o	n/a
	Ag-Sp	270			n/a	n/a
Pima California	Jn-Sp		252	245	2o	n/a
<i>b = bid o = offer t = trade n/a = not available</i>						

Cottonseed dlvd. points					
		<u>Truck</u>	<u>Rail</u>	<u>Change</u>	<u>Yr Ago</u>
Northeast		(\$/ton)			
West New York	Spot	216o		1o	240o
	JJA	219o		n/a	240o
	OND	205o		n/a	218o
Southeast Pennsylvania	Spot	200o		1o	222o
	JJA	203o		n/a	222o
	OND	189-190o		n/a	203o
Northeast Ohio	Spot	215-216o		0o	240o
	JJA	219o		n/a	240o
	OND	205o		n/a	218o
Midwest		(\$/ton)			
Michigan (Grand Rapids)	Spot	225-226o		0o	250o
	JJA	229o		n/a	250o
	OND	215o		n/a	228o
Minnesota (Rochester)	Spot	239-240o		2o	245o
	JJA	243o		2o	245o
	OND	225o		unc	228o
Wisconsin (Madison)	Spot	230o		unc	240o
	JJA	235o		5o	240o
	OND	215o		unc	223o
Rail - job track points		(\$/ton)			
California - Rail	My-Sp		275o	n/a	n/a
	OND		275o	1o	n/a
Idaho - Rail UP	My-Sp		265-268t	n/a	n/a
b = bid o = offer t = trade n/a = not available					

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, 7900 International Drive, Ste 650, Minneapolis, MN 55425.

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