



## Weekly Outlook: Prospects for Corn Use from Ethanol Production

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The WASDE forecast of corn use for ethanol production decreased by 50 million bushels in the December report. Ethanol use for corn slightly lags behind last marketing year’s consumption level and requires a fundamental change to the current market dynamics to eclipse the projection.

The projection of corn used for ethanol production of 5.6 billion bushels indicates a slight change from the previous marketing year. The continuation of negative cash margins for ethanol plants saw a weakening of the weekly production recently from previous year totals. Over the last month, production averaged 1.05 million barrels a day, down from the 1.08 million barrels a day over the same period last year. To exceed the current USDA projection, an expansion in gasoline consumption or a continuation of the growth in ethanol export levels witnessed during the 2017-18 marketing year is necessary.

The projection of U.S. retail gasoline price by the Energy Information Agency (EIA) appears set to average \$2.73 per gallon in 2018, 12.8 % higher than the price experienced in 2017. The December EIA Short-Term Energy Outlook projected a decrease in gasoline prices for 2019 to \$2.50 per gallon. The forecast for gasoline consumption stands at almost 143.64 billion gallons in 2019, up from the 142.72 billion gallons consumed in 2018. EIA’s forecast of ethanol production in 2019 is 1.04 million barrels per day. If the EIA projection is correct, a production level of approximately 15.94 billion gallons is in store for 2019, slightly down from 2018 production levels. The renewable fuels volume requirement is set at 19.92 billion gallons for 2019, up from the 19.29 billion gallons required in 2018. The conventional ethanol requirement comes in at 15 billion gallons for 2019, equal to the statutory requirement level for both 2017 and 2018. The uncertainty regarding small refinery exemptions and E-15 policy looks to continue, but the low price of ethanol indicates a continuation of the 10 percent blend rate in 2019. Moderate growth in gasoline consumption next year places forecasts of ethanol use for blending purposes marginally higher than the last marketing year.

Ethanol exports witnessed record levels in the 2017-18 marketing year with exports totaling 1.63 billion gallons. Approximately 28 percent of this total went to Brazil. Canada imported over 20 percent and an expanding market in India imported another 10 percent. The prospect of eclipsing last year’s record

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export total requires continued Brazilian sourcing of U.S. ethanol and increased ethanol exports to other markets. Ethanol export numbers are available from U.S. Census trade data for the marketing year through October. U.S. exports of ethanol thus far sit near 265 million gallons, up 40 percent from the similar period in 2017. Strong demand from Brazil, Canada, the EU, propelled the early strength this marketing year. Expansion of ethanol imports by numerous smaller markets also led to the year over year growth through the first two months. Exports to China provide a minimal contribution to total exports thus far this year, but warming trade relations create the possibility for increased ethanol exports moving forward. In 2019, low ethanol prices and growing demand hold promise to at least meet or eclipse last year's total.

Thus far, grain crushing for fuel alcohol totals are available through October from the USDA Grain Crushing and Co-Products Production report this marketing year. For the first two months, corn use for ethanol came in at 907.6 million bushels of corn, down 0.9 percent from 2017 crush numbers. Using EIA weekly ethanol production data through the end of November, production levels place corn use for ethanol production in a range of 455 to 465 million bushels for the month if corn use maintains the pace attained during the first two months of the marketing year. With a conservative estimate of corn crush in November, total corn consumption for ethanol production through the first quarter of the marketing year comes in slightly below last year's 1.39 billion bushels.

The USDA's reduction of corn use for ethanol by 50 million bushels in the December WASDE report reflects the pace of consumption thus far this marketing year. Lower gasoline prices leading to higher domestic gasoline consumption may provide support for increased corn usage for ethanol production in 2019. Additionally, the continued expansion of ethanol exports appears promising with the low ethanol prices currently in place. Corn use from ethanol production 20 to 30 million bushels larger than current WASDE forecast levels is possible this marketing year.

**Note: This is the last issue of the Weekly Outlook Newsletter for 2018. The next issue will be released on January 2, 2019.**