



Weekly Outlook: Prospects for Corn Use in Ethanol

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Poor ethanol plant margins, plants idling production, and continued haggling over small refinery exemptions provide the background for ethanol production moving into the 2019-20 marketing year. Corn use for ethanol production during the 2019-20 marketing looks set to recover slightly from the weak levels seen during the 2018-19 marketing year.

Based on ethanol production estimates provided by the U.S. Energy Information Administration, U.S. fuel ethanol production during the 2018-19 corn marketing year totaled 15.572 billion gallons. At around 500 million gallons below the previous marketing year, ethanol production came in down 3.1 percent. Exports sit on pace to total lower than last year’s 1.636 billion gallons. Ethanol stocks over the marketing year increased by 332 million gallons despite lower production. The final *Grain Crushings and Co-Products Production* report for the marketing year comes out on September 1. Ethanol production and recent conversion ratios indicate that corn used for fuel ethanol production totaled approximately 5.366 billion bushels, down 4.3 percent from use during the previous year. Reported use of sorghum for fuel ethanol production during the 2018-19 corn marketing year totaled near 100 million bushels, compared to 60 million bushels during the previous year. Combined corn and sorghum use during the past year were 3.5 percent lower than reported use during the last year.

Ethanol production thus far in the 2018-19 marketing year sits 4.4 percent lower than last year over the same period. USDA’s current projection totals 5.45 billion bushels for the marketing year. Numerous factors look to influence corn use for ethanol production during the current marketing year. Domestic gasoline consumption, the rate of consumption of higher ethanol blends, and the extent of fuel ethanol exports remain vital components. Domestic gasoline consumption depends on the price of crude oil and gasoline prices. EIA’s recent short-term energy outlook projects gasoline consumption over the next marketing year up slightly with national average gas prices up to \$2.76 per gallon in 2020, up from the \$2.65 per gallon seen in 2019. If those price forecasts turn out to be correct, gasoline consumption would be expected to remain relatively flat over the next marketing year.

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EIA's projection for ethanol production in 2019-20 sits at 15.961 billion gallons with considerable strength in the second half of the marketing year. Approval of E-15 blending year around may provide the support for this projection. A slight increase in the consumption of higher blends may occur if prices stay competitive. Higher blend consumption will not likely add substantially to total domestic ethanol consumption this year. Sorghum use for ethanol production appears set to remain unchanged due to trade issues with China despite a slightly smaller crop projection for 2019. An increase in ethanol production efficiency would undercut any increase in feedstock consumption this year. If recent conversion ratios stay in place, corn use for ethanol under EIA ethanol production forecasts comes in near the 5.45 billion bushels projected by the USDA.

Ethanol exports for the 2018-19 marketing year show no growth over the last marketing year. Ethanol export numbers are available from U.S. Census trade data for 2019 through July. For the 2018-19 marketing year, U.S. exports of ethanol are at 1.437 billion gallons, down 4.9 percent from the similar period over the 2017-18 marketing year. The reduction is due to lower export levels to Brazil and China. Chinese imports of U.S. ethanol are minimal thus far in the marketing year. A continuation of the current trade war mitigates any chances of expanded exports to China over the next year.

Brazilian ethanol imports from the U.S. are down 17 percent from last year through July. During the 2017-18 marketing year, U.S. ethanol exports totaled 1.636 billion gallons, with exports to Brazil comprising 28.4 percent of the total. Increased ethanol production from sugar, the continuation of the 20 percent tariff rate quota on Brazilian ethanol imports, and a burgeoning corn ethanol industry in Brazil may see this trend continue over the next marketing year. Recent adjustments to the tariff in Brazil maintained the 20 percent tariff level but increased the quota to export levels greater than 198.1 million gallons per year, up from approximately 160 million gallons. U.S. ethanol exports will require continued expansion in other markets to meet or exceed the export levels attained during the 2018-19 marketing year.

While negotiations on small refinery exemption continue to play out, the prospect of substantial growth in corn use for ethanol this marketing year seems limited. Barring a significant change in policy surrounding the RFS, a trade deal, or an unexpected jump in gasoline consumption, the prospects for corn use in ethanol appear set to match current USDA projections of 5.45 billion bushels at best.