



## Weekly Outlook: Corn Used for Ethanol Update

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On March 2, the latest USDA Grain Crushing report provides an estimate of corn used for ethanol production in January. In the February WASDE report, the USDA raised corn used for ethanol production by 50 million bushels, to 5.425 billion bushels, for the 2019-20 marketing year on a stronger pace of production in January. Since the release of the February WASDE, the Energy Information Agency (EIA) released a short-term energy outlook that lowered domestic gasoline consumption for 2020 due to impacts from the coronavirus. Depending on the effect from the virus on the summer driving season, the current projection for corn used for ethanol may be under question unless ethanol exports pick up dramatically.

The EIA projection of U.S. retail gasoline price during the second and third quarters of 2020 appears set to average \$2.57 per gallon, fifteen cents lower than the price experienced in 2019. The forecast for gasoline consumption averages 9.46 million gallons per day in the second and third quarter, down slightly from the 9.461 million gallons per day consumed over the same period in 2019. Given the forecast scenario put forth by the EIA, gasoline consumption looks set to decline during the second half of the marketing year. EIA's forecast for ethanol production in the second and third quarters is 1.04 and 1.02 million barrels per day, respectively. Those ethanol production levels sit slightly lower than 2019 levels of 1.05 and 1.02 million barrels per day. If the EIA projection is correct, the production level of ethanol sits lower for the 2020 driving season and directly relates to the lower level of gasoline consumption.

The pace of ethanol production this marketing year picked up rapidly from the tepid start seen in September and October. Grain crushing for fuel alcohol totals are available through December from the USDA. For the first four months of the marketing year, corn use for ethanol came in at 1.775 billion bushels of corn, down three percent from 2018-19 grain crush numbers. Using EIA weekly ethanol production data through January, production levels place corn use for ethanol production near 475 million bushels for the month if corn use maintains the conversion rate seen in the last two months of 2019. With an estimate of corn crush through January, total corn consumption for ethanol production through the first five months of the marketing year comes in at 2.25 billion bushels. Last year from February through August, corn use for ethanol totaled 3.105 billion bushels. To reach the USDA projection, corn use over the remaining seven months needs to equal 3.175 billion bushels. Thus far, ethanol production in February averaged 1.042 million barrels a day, up from the 1.019 million barrels a day over the same period last year. A major question for corn used in ethanol is if this pace maintains as we move deeper

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into 2020 and the full impact of the coronavirus spread becomes known. If gasoline consumption follows EIA projections, an increase in exports looks necessary to meet or exceed the USDA forecast.

Ethanol exports appear set for two consecutive marketing years of reduced levels. During the 2018-19 marketing year, exports totaled near 1.55 billion gallons. Lower export volumes to Brazil drove much of the reduction from the previous marketing year total of 1.63 billion gallons. Ethanol export numbers are available from U.S. Census trade data through December. U.S. exports of ethanol thus far sit near 473 million gallons, down thirteen percent from a similar period last marketing year. The largest markets once again comprised Brazil, Canada, and India through December. Brazil sits at a lower percentage of exports with 18.4 percent. Canada comprises 25 percent, while India sits near ten percent. Low sugar prices saw expanded ethanol production from sugar in Brazil. In combination with increased corn ethanol production in the country, the prospects for ethanol exports to Brazil for the remainder of the marketing year look weaker than last marketing year's 390 million gallons.

Ethanol exports to China remain noticeably absent. The potential for an uptick in ethanol exports to China during the last quarter of the marketing year remains a possibility. At 208 million gallons, the 2013-14 marketing year witnessed the highest export total to China since 2010. While it does not seem feasible that China imports ethanol at that level under current virus issues, a moderate expansion of exports to China for U.S. ethanol may occur under the phase one trade deal. The pace of ethanol exports places the 2019-20 marketing year on course to fall short of the previous year's total unless substantial buying emerges this year.

Corn use from ethanol production faces the prospects of reductions during the 2019-20 marketing year without a fundamental change in current market demand projections. Lower gasoline prices could lead to higher domestic gasoline consumption this summer if the impact from the coronavirus remains limited. The growth of ethanol exports appears limited unless China emerges as a buyer.

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<https://www.youtube.com/watch?v=TkM58eK9ry0>