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 Rabobank: Ethanol Corn Use to Grow 10/02/09 4:11:07 PM [Printer Friendly Version](#)

## Improved Margins Likely to Lead to Increased Production

 By Todd Neeley  
DTN Staff Reporter

OMAHA (DTN) -- If improved U.S. ethanol profit margins keep their momentum into 2010, the amount of corn used for ethanol will likely take a significant jump, according to new analysis from Rabobank Agri Commodity Markets Research.

Rabobank said if U.S. ethanol production stays at its current 11.5 billion gallons, corn usage for ethanol will increase from about 3.7 billion bushels in 2008-2009 to around 4.3 billion bushels in 2009-2010.

"Industry sources indicate that capacity utilization has improved substantially in recent months and mothballed plants are gradually being brought back online," said the Rabobank report.

"In addition, construction projects for new plants that had been abandoned are being resurrected, with 15 new or expanded plants due to come online over the coming marketing year."

Estimates from the Renewable Fuels Association are that about 1.5 billion gallons of new production capacity is set to come online and create extra demand for about 555 million bushels of corn, according to Rabobank.

"While we believe that realizing this extra capacity and corn demand is still uncertain, it does demonstrate the demand potential that exists should ethanol margins remain positive," the report said.

In recent months, U.S. ethanol producers have started to jump-start plants that shut down during the past year.

For instance, Valero Energy Corp., which purchased seven former VeraSun Energy Corp. plants in March, has since restarted production at full speed at all of those plants.

In recent weeks a cooperative of farmer-owned ethanol plants called Guardian Energy purchased a 110-million-gallon ethanol plant in Janesville, Minn., with plans to restart production there yet this fall. The plant is one of the 17 plants previously owned by VeraSun.

In addition, El Dorado, Ark.-based Murphy Oil Corp. Thursday bought another former VeraSun 110-million-gallon plant in Hankinson, N.D., for about \$92 million.

While margins have improved, Rabobank said price moves in corn, natural gas or crude oil "can significantly alter marginal returns and, therefore, the willingness of plant operators to increase production."

The study said though there are many other variables that drive demand for grains, "improved biofuel demand will help limit downside price potential and establish a floor for prices above long-term averages."

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(CZ/ES\SK)

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