

# Ethanol Production Slows a Bit

By Chad Spearman

The Energy Information Administration recently released the monthly U.S. supply and demand numbers for December 2008. Ethanol production averaged 656,000 barrels per day, declining by 1.8% compared to November and increased 33% compared to December 2007. Through 2008, month-to-month production increases averaged 2.5% and annual production totaled 9.25 billion gallons per year, increasing 42% compared to 2007. The annual increase was the largest annual production increase since 1983.

Ethanol imports, which were negligible in October and November, increased sharply on a daily average basis to 15,000 barrels per day in December. Demand averaged a record high 704,000 barrels per day in December, up 4% from November and up 35% compared to December 2007. In the months ahead, gasoline consumption is expected to remain flat to below year-ago levels as a result of the deepening recession which is expected to weigh on ethanol demand.

Monthly stocks averaged 459,000 barrels per day in December, declining 10% compared to November and up 35% compared to a December 2007. Stocks relative to demand rose to burdensome levels back in September, just before energy prices began their next leg down. However, during the fourth quarter monthly stocks levels declined significantly as demand growth outpaced production growth and imports declined.



## Production Outlook and Corn Usage

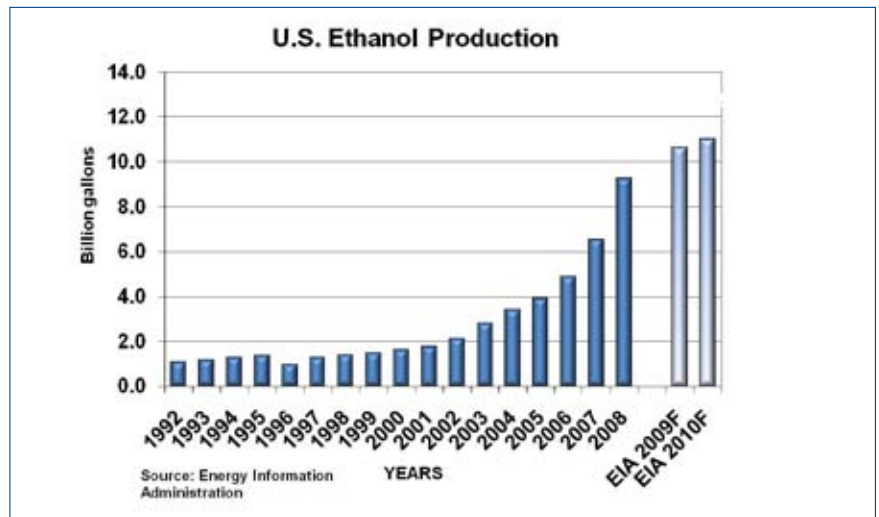
Corn used for ethanol is currently projected to total 3.6 billion bushels

in the 2008/09 corn marketing year (from Sept. 1, 2008 through Aug. 31, 2009), increasing 19% compared to last year. The estimate assumes that only slight production growth will continue in the months ahead and would quickly be revised higher given some improvement in the economy and/or higher gasoline prices relative to ethanol prices.

The USDA recently released a preliminary estimate of corn used for ethanol in 2009/10 at 4.1 billion

bushels, for an increase of 14% compared to 2008/09. Another government agency, the Energy Information Administration, expects ethanol production to total 10.6 billion gallons in 2009 and 11 billion gallons in 2010. Implied corn usage based on their monthly ethanol production estimate and a yield of 2.8 gallons/bushel totals 3.78 billion bushels of corn for the 2009/10 corn marketing year.

Bottom Line: In May, the USDA will release its first official supply and demand balance sheet for the 2009/10 corn marketing year. Based on current conditions, corn used for ethanol will likely be forecast between 3.75 and 4.1 billion bushels. This includes a wide range of 350 million bushels of corn, which will ultimately have a large impact on ending stocks and prices.



## World Beef Production Stable

Global beef production is expected to dip less than 1% in 2009, according to USDA's Foreign Agricultural Service. Still, it will mark the first decline in nine years. Modest increases in Brazil, China and India were more than offset by declines in the EU-27, Argentina, Australia and Russia.

Exports are forecast to rise nearly 2%. The United States is projected to own a 12% market share of beef exports among the world's major traders. That figure has grown steadily from 3% in 2004 as the country rebounds from the

BSE incident at the end of 2003. U.S. exports are projected to be near 1 million tons this year, half of what world leader Brazil will ship. Exports from Australia and New Zealand will fall 3 to 4% for several reasons, including increased competition from the United States in South Korea and Japan.

The smaller herd in the United States means lower beef production, which along with a stronger dollar will strengthen imports. Russia, Japan and the European Union also are expected to see an increase in beef imports.