



Ethanol Industry Rebalances

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Key Points:

- **Following 18 months of record earnings, the U.S. ethanol industry has rebalanced in 2015. As energy prices collapsed in late 2014, so did ethanol prices and plant margins. However, ethanol's supply/demand has been well balanced in 2015, and producers have maintained positive earnings.**
- **The EPA's proposed blending requirements will set a floor beneath the current 10 percent ethanol blend level, but will not push blenders beyond the "blend wall" or incentivize higher blend levels (i.e., E15, E30, and E85).**
- **U.S. and global corn supplies are expected to remain ample into 2016/17, and corn futures prices are forecast to average near or below \$4.00. Subdued corn input costs make it possible for plants to generate positive margins despite ethanol prices that have tested 5-year lows.**
- **If corn prices remain near current levels as expected, earnings will be determined by the prices of gasoline, ethanol, and distillers grains. Most analysts project that crude oil will remain below \$60/barrel through 2016, which would limit the upside potential for ethanol prices.**
- **Ethanol prices have gained support from record ethanol exports. Brazil has increased its domestic ethanol blending level to 27 percent, which has impeded its industry's ability to export product to foreign markets. U.S. producers will continue to benefit from Brazil's recent pullback from the export market.**
- **Ethanol plant operators have also greatly benefited from a resurgence of DDG exports to China in 2015. China has accounted for 60 percent of U.S. DDG exports in 2015. However, these exports could be at risk in 2016 if China follows through with anticipated grain policy changes.**
- **In summary, ethanol margins will face headwinds and tailwinds in the coming 12 to 18 months. On balance, margins are expected to remain modestly positive on average, with ethanol price volatility translating into temporary swings higher and lower.**