



NEWS RELEASE

Increase in Ethanol Production Likely to Outpace Near-Term Demand

Output growth expected to exceed domestic and export demand for U.S. ethanol as producers reinvest strong 2016 profits into facilities and additional production capacity

DENVER, Colo. (August 17, 2017)— According to a new report from CoBank’s Knowledge Exchange Division, the ethanol market will soon face worsening slim-to-negative profit margins, which could potentially push the industry toward consolidation. However, producers that are well-capitalized with strong balance sheets and cash reserves will be in the best position to weather the softening market.

The report, “Ethanol’s Growth Path: Output and Export Uncertainties Both Rising,” outlines how an ethanol market fueled by corn prices at multi-year lows coupled with reinvestment into production capacity will push supply past demand growth.

“Forecasts indicate that total ethanol production by 2020 will have increased by approximately 850 – 900 million gallons, compared to 2017 levels,” said Tanner Ehmke, CoBank senior economist. “Without a substantial increase in domestic demand or exports to clear excess supplies, ethanol producers are facing a downturn over the medium term. Those who have access to multiple transportation markets and have invested in new technology will be leaner and more cost efficient enabling greater flexibility to endure prolonged periods of low prices.”

Multiple Variables Complicate Demand Picture

Domestic demand for gasoline blended with ethanol has been strong over the last 18 months, as low fuel prices resulted in consumers driving more. A second bright spot for ethanol has been continually rising ethanol blend rates at the pump. While E-10 (gas containing 10 percent ethanol) remains the dominant fuel blend, consumers are increasingly buying higher blends like E-15 (15 percent ethanol).

However, the longer-term picture for ethanol in gasoline is less optimistic. In 2017, export weakness and lower distillers grains (DDGS) prices have hurt margins.

Exports of ethanol, particularly to Brazil and China, have been strong over the last year, but that picture has changed significantly and the outlook for future ethanol exports suggests a continued decrease over the foreseeable future.

China has effectively ceased ethanol imports from the U.S. following its implementation of a 30 percent tariff on U.S ethanol. Exports to Brazil are also expected to erode as Brazilian sugar refiners come back online following a sugar crop failure in 2016, which led to the country’s heavy reliance on ethanol imported from the U.S.

Growth of U.S. exports to new markets such as India, Mexico and Indonesia, where governments are seeking to improve air quality, is possible, but will likely take time to fully materialize.

Who Will Weather the Storm

While a market correction is anticipated over the next two years, it is not expected to be as severe as prior corrections. Tight margins, limited profitability and consolidations are anticipated for the ethanol industry in the near future. However, ethanol producers who survived the last market correction have become wiser about the vagaries in the market and hedge their inputs and products—corn and ethanol—via the futures markets.

“More idling of production is expected in the next 18 – 24 months and aging facilities could be retired,” adds Ehmke. “Financially weak and less efficient producers who have limited access to dependable corn supplies and transportation risk being consolidated. But given the recent profitability, those producers with favorable cash positions and technology-driven efficiencies will have greater flexibility to endure prolonged periods of low prices or higher production costs.”

A brief synopsis of the report, “Ethanol’s Growth Path: Output and Export Uncertainties Both Rising,” is available on the [CoBank YouTube channel](#). The full report is available to media upon request.

About CoBank

CoBank is a \$125 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at www.cobank.com.

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