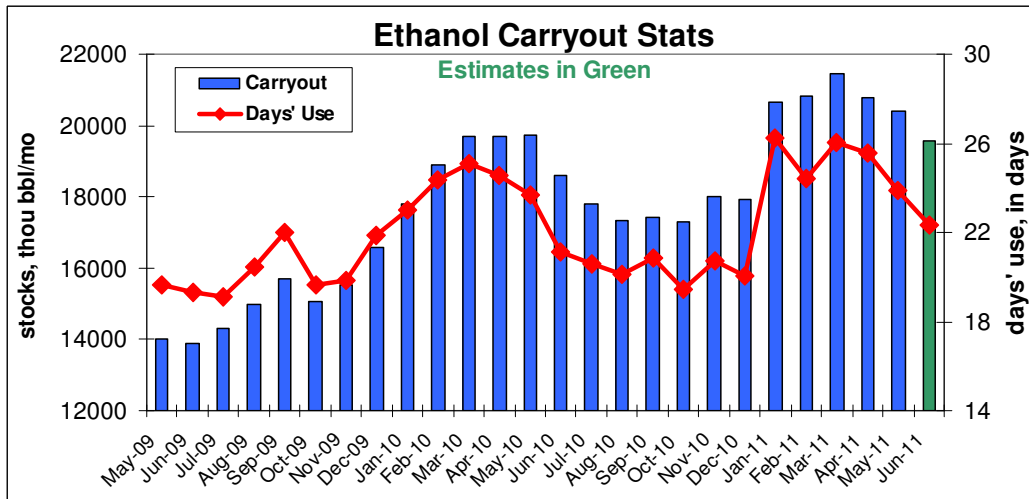


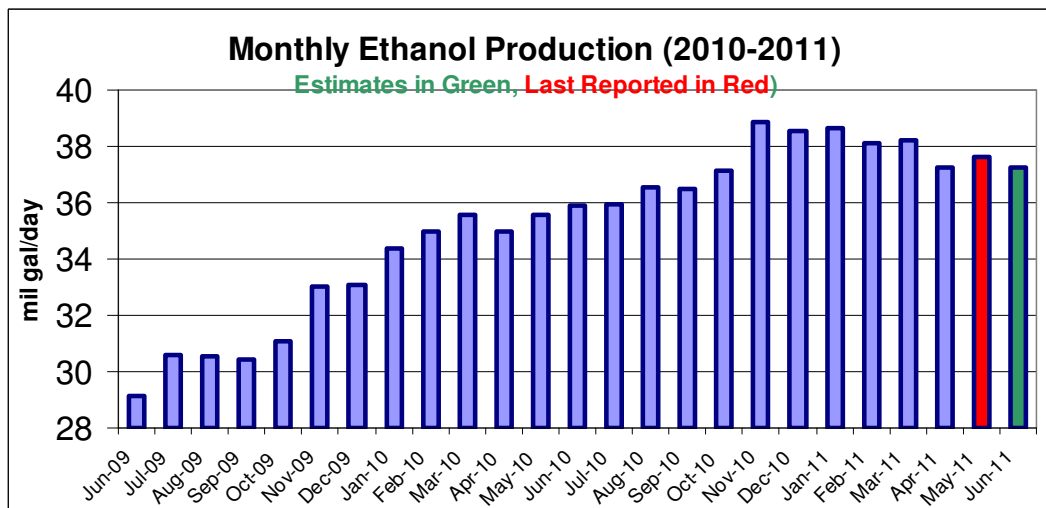


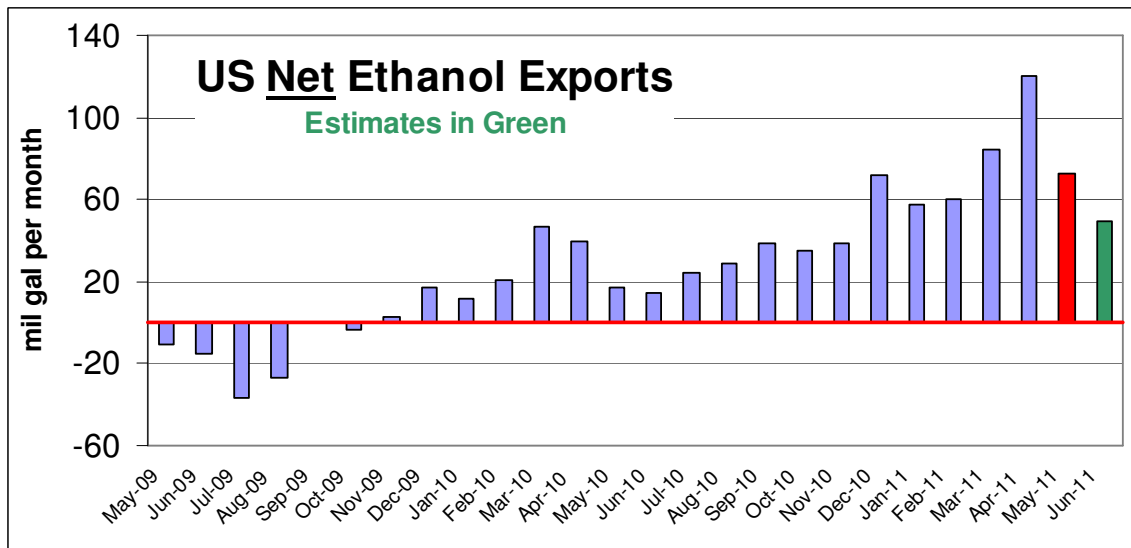
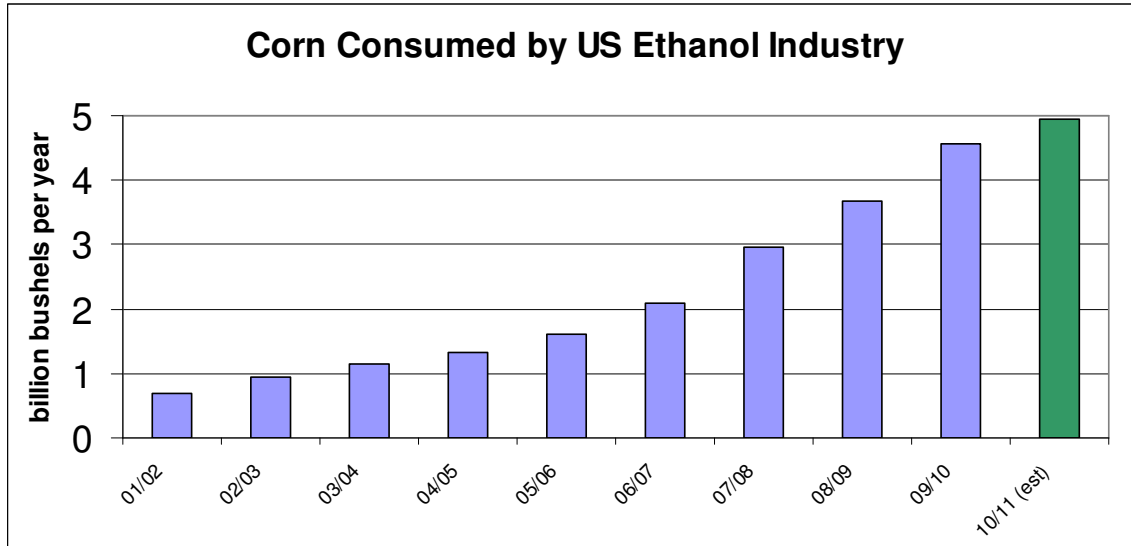
Biofuels Daily – 7/28/11

By Jerrod Kitt



The only surprise in the monthly EIA data for May was found in the inventories, which unexpectedly declined. May ethanol stocks decreased 2% to 856 mil gal; where a 1% increase was expected. Production was close to forecasts, albeit a little light, reported at 1.166 bil gal, where 1.177 bil was forecast. At a 37.6 mil gal/day rate, this represents a +1.0% increase from April, accounting for one more day in May. The US ethanol industry consumed an estimated 417 million bushels of corn in May (assuming a 2.8 gal/bu grind), up 5.8% from May 2010. With 3 months left in the 10/11 crop year, the ethanol industry has consumed about 3.7 bil bu of corn, implying 4.93 bil bu if you use the same rate projected forward. The grind goes up to 5.1 bil bu, assuming a 2.7 gal/bu conversion.





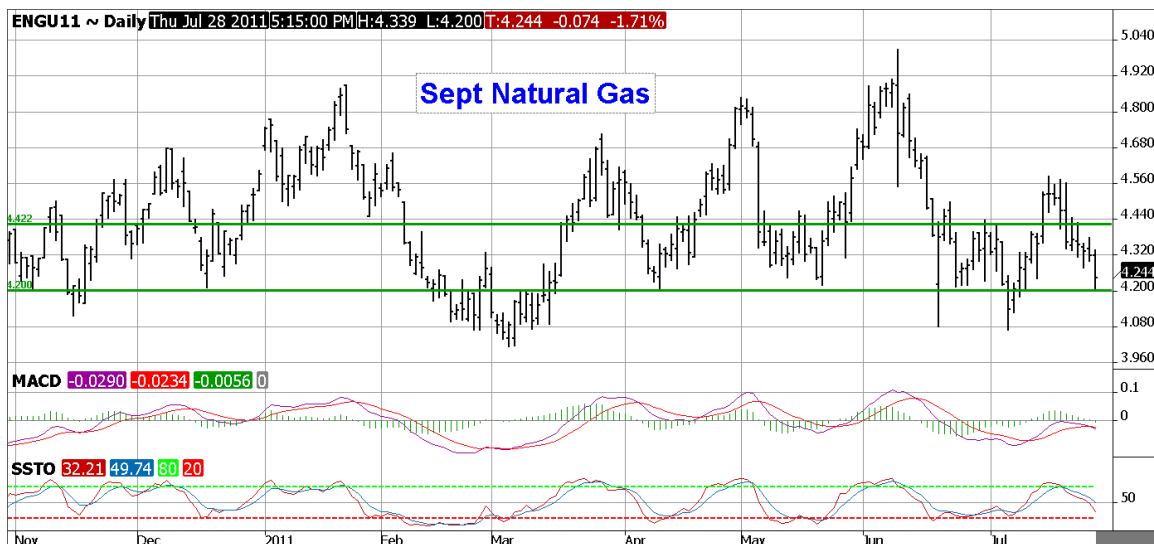
US Imports of ethanol remain near zero in May, while exports of ethanol were pegged at 73 mil gal; the EIA confirmed exports exceeded imports for the 19th consecutive month.

Refiner/Blender Consumption of ethanol in May seen at 1.05 bil gal, roughly unchanged from April and near record highs, reflecting attractive blending profitability. Compared to last year, ethanol blending is up 3%, which is pretty impressive considering overall gasoline demand was down 4% over the same period. The unexpected ethanol inventory draw can be construed as supportive, but likely only reflects export staging. For example, implied disappearance in the prior report (April) was unexpectedly light. In April, the trade was looking for a stocks draw of 5% to 6% due to record exports, but got only 3%. In this report (May), the market was expecting a 1% stocks increase, but got a 1% decrease instead. Averaged out, the stocks data in April and May make sense and reflect the time necessary for the data to catch up and “digest” the record ethanol export outflow.

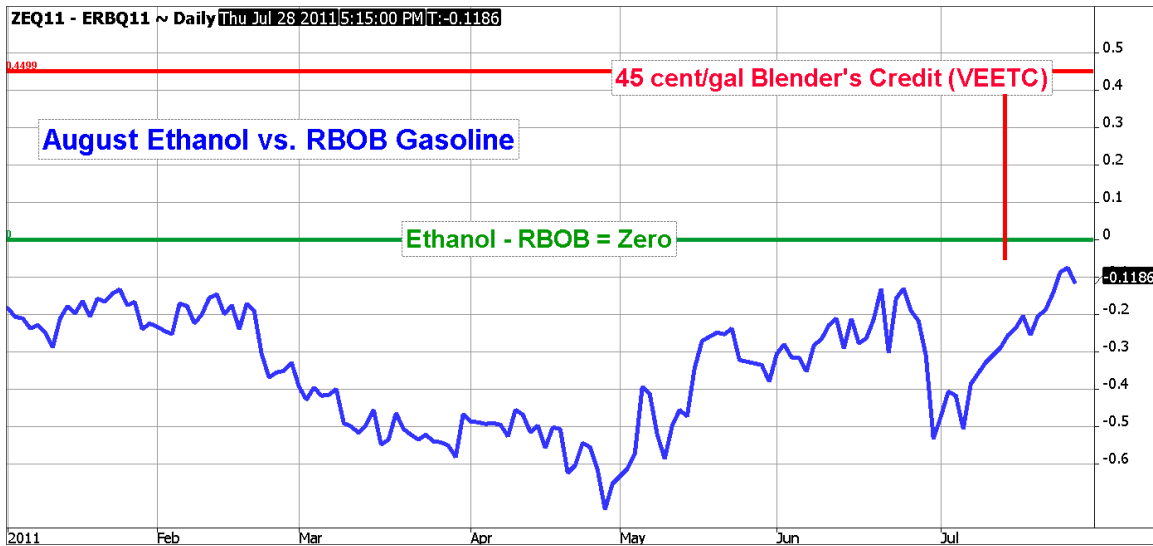
Monthly Ethanol – spot ethanol values set back significantly ahead of first notice day Friday for the August futures contract, posting the largest decline in three weeks, down 7 cents. Argo was off a similar amount, while other cash markets saw little trade, possibly waiting to see if there would be any deliveries. Open Interest stood at 395 in Aug as of last night’s close. Other futures months today, particularly Nov forward, only declined 1-2 cents. Green Plains Renewable, one of the largest ethanol producers, reported a 14 cent/shr profit in 2Q.



Sept Natural Gas – the market probed three week lows today, following a +43 bcf inventory build, as reported by the EIA. The build was larger than +40 forecast, despite the heat wave that likely inspired a lot of electricity (cooling) demand. There has been a sharp increase in domestic crude oil drilling, which produces natural gas as a by-product, over-whelming demand. Nat gas inventories stand at 2.714 tcf, 2.3% below the five-year average, and 6.9% below 2010 levels.



Ethanol vs. RBOB – ethanol futures are priced at a 10 cent discount to gasoline, the narrowest seen thus far in 2011. Blender margins have been reduced to the point where they are only making a profit due to the 45 cent/gal tax credit. Excluding the credit, domestic users of ethanol would likely reduce discretionary ethanol use. With the credit, they are still making about 5 cents on an E-10 blend. Negotiations to cut the 2012 deficit & raise the debt ceiling are on-going; optimism over the Senate ethanol compromise (early end to VEETC in exchange for some funding for blender pumps) appears to be fading.



Spot Ethanol Profitability (in cents/bu) – spot margins have set back slightly so far this week. The reality on the ground is a little more subdued than indicated on the chart below. An average ethanol plant can expect to make 70-80 cents/bu, including fixed costs, or 25 cents/gal. Deferred margins are positive through 2012, but significantly less than the spot due to futures backwardation.

