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## 'Christmas' in October for Ethanol

*Rise in Cost of Energy Drives Up Margins; Support for Depressed Corn Prices*

By IAN BERRY

CHICAGO -- Renewed life in the ethanol industry is drawing the attention of Chicago Board of Trade traders and analysts, giving the corn market a boost.

Ethanol producers, which spent much of the past couple of years operating in the red, lately have been enjoying wide profit margins, and as a result have been seeking more corn and ramping up production.

Just last week, with energy prices advancing, ethanol processing margins jumped to a dollar a bushel, almost doubling what they were the previous week, said Rich Feltes, vice president of research for MF Global.

"They have every incentive to get their hands on every bushel of corn, and run these plants 24/seven, and push out as much ethanol as they can, pay down their debt," Mr. Feltes said. "This is Christmas time for ethanol plants."

Producers are "clamoring" for cash corn, said Bill Gentry, a broker/analyst with Risk Management Commodities in Lafayette, Ind. He said that has probably removed a lot of grain from the commercial pipeline. He said he has noticed more truck activity related to ethanol for the past six to eight weeks.

The improved ethanol outlook is due to expectations of a large corn crop that has lowered corn prices relative to crude oil and ethanol, Rabobank said in an October report. Friday, the U.S. Department of Agriculture estimated the U.S. corn crop at 13.018 billion bushels and corn used for ethanol at 4.2 billion bushels.

From early June to early October, CBOT corn prices fell 28.5% while crude oil was roughly flat and ethanol futures increased 2%, the bank said.

Since July 6, CBOT December ethanol has jumped 20.5% while December corn is only 5.2% higher.



The improved ethanol demand is helping boost corn prices, though it is probably only the third-most-important factor in the rally, behind weakness in the U.S. dollar and concerns about how cold, wet weather will affect the crop, said Arlan Suderman, an analyst for Farm Futures.

December corn's close of \$3.6225 a bushel Friday was up more than 30 cents from Monday's intraday low and up more than 50 cents from a Sept. 21 low.

"I would say that what is happening in the ethanol industry now is definitely a contributing factor," Mr. Suderman said. "We're certainly bringing some production that had been mothballed back online."

Rabobank said that, as the market shifts its attention from the crop to the demand side, ethanol demand will "help limit downside price potential and establish a floor for prices above long-term averages."

Mr. Feltes said the profit margin for blenders was most recently "quite good" at 31 cents a gallon, which will encourage more blending in the weeks ahead.

The increased ethanol demand comes at a time when corn is tough to come by, analysts said. Harvesting throughout the corn belt has been delayed because of the crop's late maturation and heavy rains in the early autumn that left the crop too wet to gather.

But, some analysts say, ethanol's effect on the market will be minimal. John Kleist, a broker/analyst for Allendale, said ethanol has been used as an ongoing "bull crutch." To the extent that ethanol helps boost corn prices, all that will do is reduce export and feed demand, he said.

**Write to Ian Berry** at [ian.berry@dowjones.com](mailto:ian.berry@dowjones.com)

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