

2007 Cattle Industry Annual Convention & Trade Show

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Corn, Ethanol Situation

Corn prices increase as demand outstrips production.

by **Mathew Elliott**

NASHVILLE, TENN. (Feb. 1, 2007) — Demand for corn is up 50% since the 1990s, Cattle-Fax analyst Mike Murphy told attendees as he presented Cattle-Fax's corn and ethanol situation and outlook. Corn acreage is expected to expand by 7-9 million acres to 85-87 million in 2007.

Ethanol production capacity is increasing rapidly. The Renewable Fuels Association states that there are 111 plants in operation today, with 75 plants being built, Murphy reported. The combined capacity of these plants could utilize 4.1 billion bushels (bu.) of corn during the 2007-2008 marketing year.

With this increase in corn demand for ethanol uses, the price of corn will go up, Murphy predicted. Beef producers must learn to use ethanol coproducts to their advantage. Wet distillers' grains (WDG) are going to become very important. For every bushel of corn [56 pounds (lb.)], 17-18 lb. of distillers' grains can be produced. Coproduct feeding could displace 25%-30% of corn used for livestock feeding, he added.

World corn consumption is also steadily increasing, while production has leveled off. The U.S. has produced an average of 41% of the world's corn. China is second with 21%, but it has been exporting less corn due to increased domestic demand. Due to the increased consumption and leveling production, corn prices could trade from \$3 to \$4, Murphy predicted.

This shift in higher corn prices is expected to reflect a long-term shift, Murphy said. The basis levels are expected to remain stronger than ever. This could cause a shift in the beef



►The shift in higher corn prices is expected to be a long-term shift, Cattle-Fax analyst Mike Murphy said. Beef producers must learn to use ethanol coproducts to their advantage.

industry — a subtle shift to feeding cattle further north.

Another factor to look at is how the weather will affect the corn crop. As reported in the Cattle-Fax weather report, a drought could affect the 2007 growing season. This will provide a very volatile corn market that needs to be watched carefully.

Murphy concluded by saying that ethanol is here to stay; it's not going away. Higher corn prices will have a negative effect on calf and feeder-cattle prices. This can provide opportunities for some, and others will have to adjust. Higher corn prices are expected to affect the pork and poultry industries more

than the beef industry.

Murphy presented his comments Feb. 1 during the 38th Annual Cattle-Fax Outlook Seminar for 2007 during the Cattle Industry Annual Convention and NCBA Trade Show in Nashville. The outlook seminar is sponsored by Pfizer Animal Health. Summaries of other presentations during the outlook are also posted to the www.4cattlemen.com newsroom.

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