

# Biofuel Markets – February 2010

## Monthly Market Update



## Ethanol Markets

### Overview

The annual RFA gathering took place this month, once again in Orlando, Florida, with a much more subdued tone than even last year's conference in Texas. However that did not temper the recovery theme of the conference, which was "Climate of Opportunity." This year's opening speech dubbed ethanol "the original clean fuel" and advocated that the United States adopt the most aggressive renewable fuels policy in the world. Some of ethanol's recent highlights and achievements of late include:

- RE-opening 14 plants that were idled in 2009
- Opening 8 new plants
- Creating 400,000 "good paying" jobs across the economy, and
- Reducing U.S. oil imports by ~364 million barrels, which is "enough for us to tell Hugo Chavez 'no thanks, we don't need you for the rest of the year,'" according to RFA president Bob Dineen.

The speech was not all alcohol and roses, though. The head of the RFA did acknowledge serious issues, like the Blend Wall, erratic tax policies, threats from California's Low Carbon Fuel Standard, and, of course, "the continued anti-ethanol bias among east coast media elites." It is curious if anyone has brought to Mr. Dineen's attention that Rhode Island and Connecticut have the highest percentages of ethanol in gasoline of all the 50 states, while Iowa did not even place in the top 10. Even New Jersey and Massachusetts have higher per-capita ethanol blending than Iowa, Nebraska, or Kansas, but apparently it's the spirit that counts. When calculating ethanol as a percentage of gasoline sold at the pump (where an entire state being E-10 would be 10%), the Midwest actually lags the rest of the country, with Alaska and notoriously anti-ethanol Oklahoma beating out Iowa by over half a percentage point.

Minor statistics aside, Mr. Dineen's speech did work to rally the crowd, as conjuring up the spirits of Winston Churchill & Thomas Edison and references to the wars in Iraq and Afghanistan often do. Apparently in the "epic battle of food versus fuel, The American Farmer won." But the industry cannot remain complacent, since "opportunity is missed because it is dressed in overalls and looks like work." References to clothing, be they bib-related or in the genre of hard-working footwear, seem to be a recurring theme in the RFA annual opening address, which begs the question of at what point the Conference will actually be held in New York City to coincide the timing with Fashion Week.

### SWAPS

Despite the three day hiatus in trading thanks to the gathering in Orlando, average daily volume for CBOT Forward Swap trading managed to stay at a healthy 2,631 lots, with Open Interest closing the month at a booming 52,959 contracts. The steady rise in daily cleared swaps underscores both hedging and opportunistic trading as a fixture in the ethanol market.

Unfortunately, prices were not in the same upward trajectory. Front month March CBOT swaps struggled, and failed, to reach the \$1.80 mark early in the month, closing at \$1.795 early in the month but trending down a full ten cents over the course of the month. Second-quarter swaps priced out flat to March initially, with a slight 1-2 cent premium by month end. Calendar 2011 paper is still off the radar screen for many players, but LH-2010 activity picked up. The Q3 and Q4 swaps began the month about three cents under prompt, but as contango developed ended the month at a two cent premium.

### PHYSICAL

Chicago ethanol followed the trend of the paper markets, with a gradual ten-cent slide in values over the course of the month. Any-March material FOB Argo began at \$1.81, stalled around \$1.71 – \$1.72 at mid-month during the RFA break, and ultimately ended at the \$1.685 level. Second quarter Argo barrels were a penny discount to March, but ended the month 1.5 cents above.

New York Harbor ethanol was well supplied throughout the month, ultimately driving the East Coast to Chicago differential below nine cents. FOB material at Jersey-side terminals began in the \$1.91 - \$1.92 region, with a steady decline down to \$1.77 by month end.

There was continued talk of US exports, to Europe as well as Brazil, and shipping reports indicate product moving in both directions across the North Atlantic. US traders were able to load a few large cargoes out of the East and Gulf Coasts for European discharge, while one grade-specific shipment loaded in Rotterdam for discharge back in Houston. Late in the month one trading company was looking to buy approx. 50,000 bbls loading a few hours up the Hudson River for discharge in Northwest Europe; a vessel was on subjects by month end.

CBOT Forward SWAPS		
▼ TERM	▼ BID	▼ OFFER
Mar'10	\$1.71	\$1.72
Apr'10	\$1.73	\$1.74
Q2'10	\$1.73	\$1.74
Q3'10	\$1.74	\$1.75
Q1'11	\$1.73	\$1.76

ETHANOL – NY PHYSICAL		
Mar'10	\$1.78	\$1.80
Apr'10	\$1.78	\$1.81
Q2'10	\$1.78	\$1.82

ETHANOL – CHICAGO PHYSICAL		
Mar'10	\$1.70	\$1.72
Apr'10	\$1.69	\$1.70

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