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www.biancoresearch.com

Market Facts

Ethanol, Corn And Food Price Inflation

By Howard L. Simons (847) 304-1511

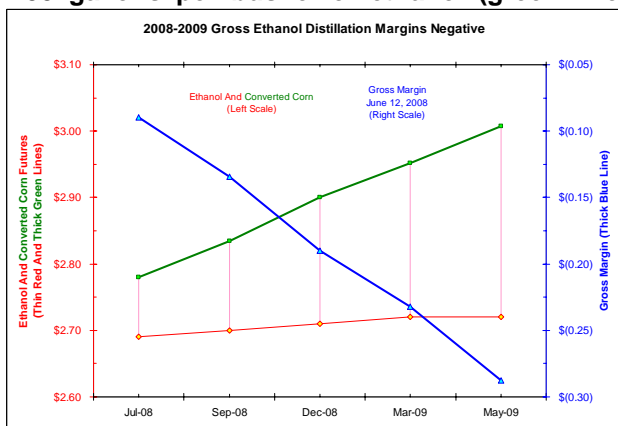
June 13, 2008

We concluded an April [Market Facts](#) (original boldface):

*However, unless the weather fails and leads to much higher corn prices, the distillation industry will make it through 2008 with margins intact. **Restated, both the economics and the politics of the situation will postpone any solution of the ethanol debacle into 2009.***

The weather is failing; the U.S. Department of Agriculture has lowered its corn harvest forecast to 11.7 billion bushels, and even that figure is at risk to summer weather patterns.

Distillation economics have deteriorated badly as corn prices have surged. **If we convert corn at 2.55 gallons per bushel of ethanol (green line,**



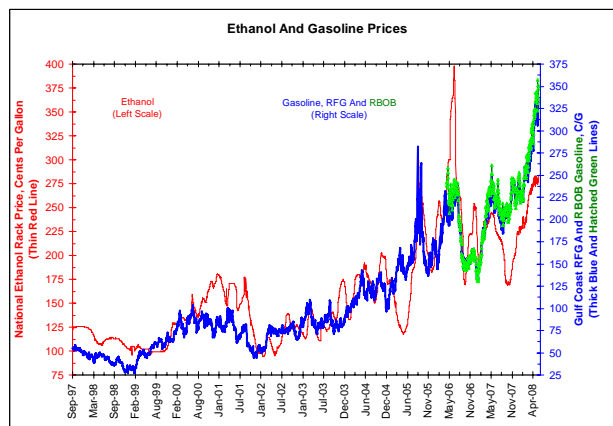
Conclusion: Rising Food Price Inflation

A map of those instances when corn futures have been inverted between the old and new crops; that is, July futures trading over December futures (red markers, following page) against relative food price inflation led six months (blue columns) is inconclusive for the perverse reason noted in our April [Inflation Watch](#): Non-food inflation is rising so quickly as to make food inflation look in-line.

However, we are in the midst of a run higher in all food grains and oilseeds combined with a crop shortfall, a surge in fertilizer and fuel prices and something new to all previous grain price rallies, biofuel production.

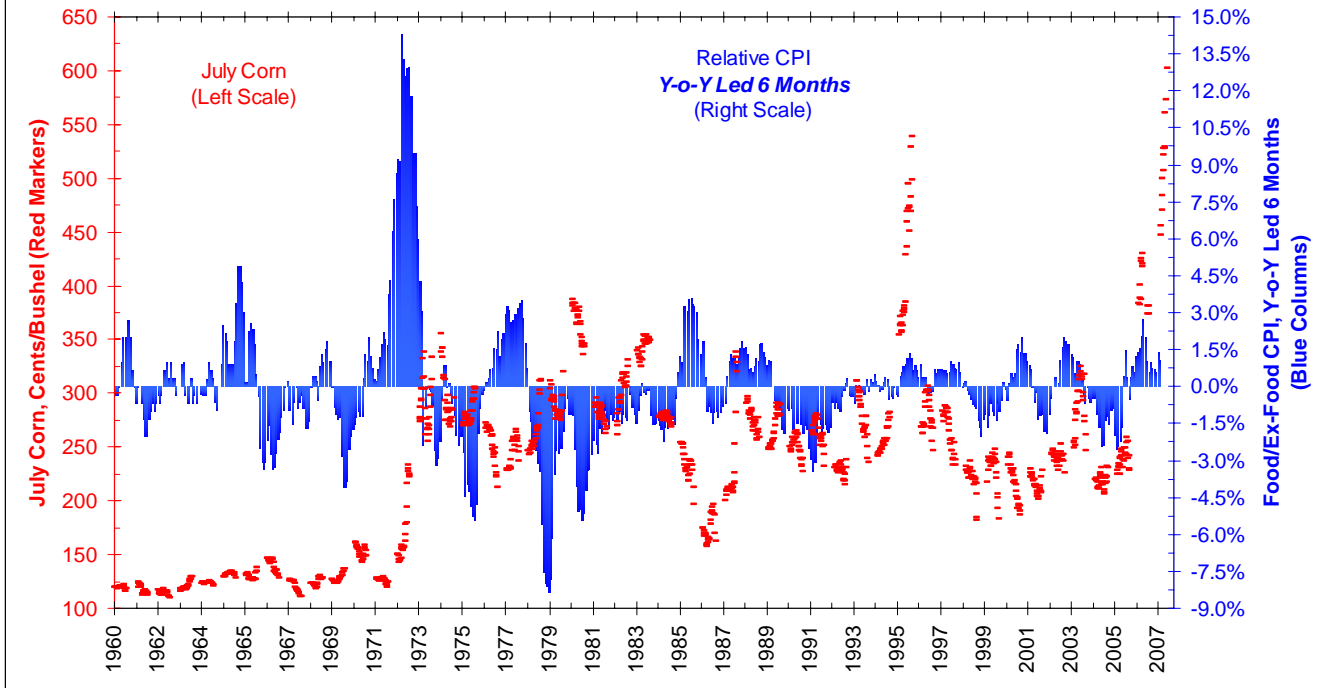
left-hand chart) and subtract it from ethanol prices (red line), the gross board margin (thick blue line) is negative.

U.S. ethanol (thin red line) has lagged both standard 87-octane reformulated gasoline at the U.S. Gulf Coast (RFG, thick blue line) and reformulated blendstock for oxygenate blending (RBOB, hatched green line). **High gasoline prices give blenders pricing power over dwindling corn supplies relative to food processors and livestock feeders. This argues for higher food prices ahead.**



Food prices are going to move higher in a fashion not seen since the early 1970s and will claim an increasing share of personal expenditures

Northern American Old Crop Corn And Relative Food Inflation Since 1960



Bianco Research L.L.C.

1731 North Marcey, Suite 510
Chicago IL 60614

Phone: (847) 304-1511

Fax (847) 304-1749

e-mail: research@biancoresearch.com

<http://www.biancoresearch.com>

For more information about the contents/ opinions contained in these reports:

President (847) 756-3599

James A. Bianco jbianco@biancoresearch.com

Strategist/Analysts (847) 304-1511

Howard L. Simons hsimons@biancoresearch.com

Greg Blaha gblaha@biancoresearch.com

Ryan Malo rmalo@biancoresearch.com

For subscription/service Information:

Arbor Research & Trading, Inc.

Director of Sales & Marketing (800) 606-1872

Fritz Handler fritz.handler@arborresearch.com

Arbor Research & Trading, Inc.

1000 Hart Road, Suite 260
Barrington IL 60010

Phone (847) 304-1560 Fax (847) 304-1595

e-mail inforequest@arborresearch.com

<http://www.arborresearch.com>

Domestic - For more information about Arbor Research & Trading and its services:

New York Sales Office

The Chrysler Building, 405 Lexington Ave
New York, NY 10174

Edward T. McElwreath ed.mcelwreath@arborresearch.com

Phone (212) 867-5326 Fax (212) 370-1218

International - For more information about Arbor Research & Trading and its services:

London Sales Office

4 Broadgate, 2nd Floor, Room 57

London England EC2M 2QY

Phone 44-207-965-4784 Fax 44-207-965-4787

Neil Tritton neil.tritton@arborresearch.com

Ben Gibson ben.gibson@arborresearch.com

European Sales

James L. Perry james.perry@arborresearch.com

Phone (847) 756-3510 Fax (847) 304-1595

Rich Kleinbauer rich.kleinbauer@arborresearch.com

Phone (41) 22 363-9229

Far East Sales

Robert Reynolds robert.reynolds@arborresearch.com

Phone (847) 756-3680 Fax (435) 647-3073