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Agribusiness

Sugar & Ethanol

E32 - More Blend, Same Balance

CNPE raises ethanol blend from 30% to 32%, but offers no lasting clarity

The CNPE's (Conselho Nacional de Política Energética) decision to raise the mandatory ethanol blend in gasoline from 30% to 32% for an initial 180-day period, with the possibility of a one-time 180-day extension, while positive and widely expected, is only marginally supportive for ethanol prices.

We estimate the measure could increase Center-South ethanol demand by around 0.4mn m³ over the remainder of the season, which is not enough to materially change the market balance. We already project corn ethanol production in the Center-South to increase by roughly 0.9mn m³ over the same period, reinforcing our view of ample ethanol supply, while production in the North/Northeast is growing at a faster pace.

From a demand standpoint, the measure also appears insufficient to materially change consumption incentives. The ethanol-to-gasoline price ratio remains below the 70% parity level, currently at ~62%. As such, while the higher blend may provide some incremental support to ethanol offtake, it does not materially improve relative economics.

Officially, the measure is aimed at reducing gasoline imports and increasing the use of domestically produced biofuels. Still, our assessment and channel checks suggest the market had been expecting a definitive decision, rather than a temporary measure lasting 6 to 12 months. In an already pressured market, the lack of a clearer long-term framework is negative and limits visibility.

We continue to expect the Center-South production mix to become more sugar-oriented over the coming months as mills seek to contain the ongoing ethanol oversupply. In our view, the increase in the gasoline blend does not meaningfully change this trend.

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24/25 25/26
26/27 5y median

Fig. 1. Brazil Ethanol-to-Gasoline Parity

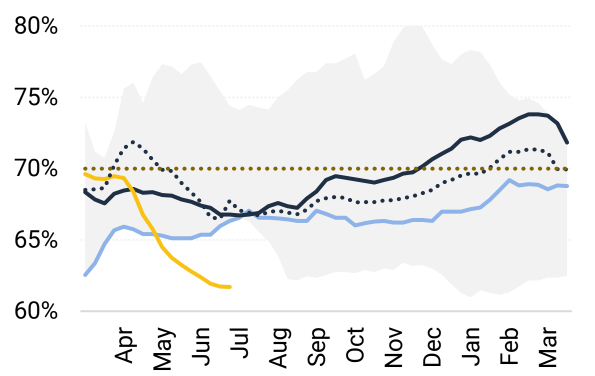
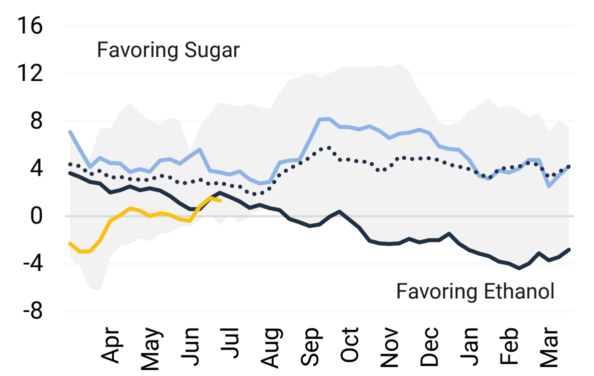


Fig. 2 Sugar vs. Ethanol Price Parity (USc/lb)



Sources: Brazil CNPE / MME, CEPEA, ANP, ICE, Bloomberg and XP Research.

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