

EXECUTIVE SUMMARY – SEMIANNUAL CONSULTING REPORT

SUGARCANE & ETHANOL SECTOR

Crop, Markets, Ethanol, RenovaBio and Mills – 2026/2027

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SUGARCANE – PRODUCTIVITY RECOVERY IN 2026/2027

Brazil's 2026/2027 sugarcane crop, starting on April 1, 2026, is estimated by our Consultancy at 684.0 million metric tons, representing a 2.6% increase compared to the previous season. This growth is mainly driven by higher average yields, projected at 76.2 metric tons per hectare, supported by cane field rejuvenation, an expansion of harvested area to 8.98 million hectares, and expectations of more regular rainfall between October and March. Despite the more favorable outlook, final crop performance will remain highly dependent on summer weather conditions, which are critical for consolidating yield potential.

SUGAR – GLOBAL SUPPLY SURPLUS AND PRICES UNDER PRESSURE

The global sugar market enters 2026 with ample supply, reflecting strong production recoveries in Brazil, India, and Thailand, which more than offset the decline in output in the European Union. Global production is projected at 189.3 million metric tons, while ending stocks are rising, particularly in India and China. In Brazil, sugar production is estimated at 44.4 million metric tons, but the low-price environment – with ICE US futures trading between 14.0 and 16.0 cents per pound, the lowest level in five years – has reduced the attractiveness of sugar production. Prices have fallen 23.1% year-over-year and are trading close to Center-South production costs. If depressed prices persist, mills are likely to reduce sugar allocation, adjusting the mix and limiting future supply. There are early signs of a technical price floor, with potential for moderate recovery in 2026, although short-term volatility is expected to remain high.

ETHANOL – OVERSUPPLY RISK IN 2026

Ethanol enters 2026 with a more favorable short-term outlook, supported by lower inventories and the increase in the mandatory anhydrous blend in gasoline from 27% to 30%. Hydrous ethanol FOB mills in São Paulo is currently priced at an average of BRL 2.71 per liter, while anhydrous ethanol reaches BRL 3.13 per liter, both posting gains above 17% year-over-year. However, the 2026/2027 crop horizon presents relevant risks. Total ethanol supply (sugarcane + corn) may increase by 10% to 12%, outpacing Brazil's estimated fuel consumption growth of

around 2% per year, raising the risk of surplus and downward pressure on prices. The rapid expansion of corn ethanol – projected to grow from 7.8 billion liters in 2024 to 24.8 billion liters by 2035 – intensifies competition, especially in an environment of lower oil prices, which weakens ethanol's parity with gasoline. Under this scenario, sugarcane mill margins are expected to remain under pressure in 2026.



RENOVABIO – BALANCED MARKET AND GRADUAL GROWTH

CBio issuance is expected to reach 43 million credits in 2025 and 45.1 million in 2026, reflecting the gradual recovery in ethanol demand and the maintenance of the B15 biodiesel blend. Despite the reduction of the 2025 national decarbonization target to 40.39 million CBios, the market already holds sufficient credits to cover approximately 105% of the obligation, considering accumulated balances and regulatory adjustments. For 2026, the preliminary target points to 48.1 million CBios, implying potential growth of 19%. The market is moving toward a more structural balance between supply and demand, with lower price volatility and prospects for more consistent growth from 2026 onward, particularly if ethanol consumption continues to recover.



MILLS – COMFORTABLE LIQUIDITY, BUT CAUTION REQUIRED

Sugar-energy mills enter the 2026/2027 season in a significantly stronger financial position than in past crisis cycles. The sector is expected to start the season with an average liquidity ratio of 2.7x, more than double the level observed in 2015/2016, and leverage (Net Debt/EBITDA) of 1.8x, 51% lower than ten years ago. Improvements in governance and risk management have expanded access to long-term credit and capital markets, whose share of sector debt increased from 13% in 2019 to 27% in 2025. Nevertheless, bank debt per metric ton reached BRL 161 per ton, reflecting lower sugar prices, higher financial costs, and expansion investments. The sector is now entering a phase that requires greater selectivity and caution in new investments, prioritizing operational efficiency, price hedging, and margin preservation in an environment of higher volatility and reduced predictability.