

You need to keep that up

By Meghan Sapp

Brazil tops itself when it comes to all encompassing political scandals but its impacts on the ethanol parity level may be even more severe.

Brazil's economy was beginning to turn around, but now it and the future of the reform agenda have been shaken by more of the same: allegations of political corruption at the highest levels.

For more than two years, Brazil has been battered by the scandal that brought down not only Petrobras but also a president and dozens of senior politicians. In what is being called the worst political scandal in the country's history, even the scandals of the past two years can't compare to allegations that the current president approved of bribing a potential witness to that case.

A voice recording by one of the country's leading businessmen includes the president allegedly saying "[you need to keep that up](#)" in reference to the hush money. And since then, everything else has headed down.

Once Brazilian newspaper *O Globo* published the report verified by three sources late Wednesday, investors started liquidating assets on the US ADR market for Brazilian companies such as Petrobras and then sold on the BOVEPSA at such a rate that it [triggered a halt in trading](#). Not surprising, all eyes were on the Real ahead of the market opening, and eventually saw the current fall to BRL3.38 to the dollar. On Thursday, [ADMISI changed its FX risk margins for the BRL](#) in response. In

one day, the currency lost all of the strength it had gained in light of the new president's reform agenda and brought it back to December's square one.

In response to the falling Real, [ICE July sugar futures slid by 44 points](#) to 15.86 cents, down about 2.7%. A stronger dollar against the Real weighs on sugar prices. It's immediate impacts on trading positions aside, the biggest question will be what longer-term impacts there may be on the Real because with at least 1/3 of the Brazilian crop still up for grabs in terms of sugar or ethanol, lower sugar prices could push producers to swing towards ethanol production.

If the sugar price falls below the ethanol parity level, Marex Spectron estimates that about [6 million metric tonnes of sugar could be lost](#) to ethanol. Estimates are that the parity level is about 15 cents in Brazil, while ICE July closed at a [one-year low of 15.36 cents](#) two weeks ago. With a weakening Real, should the scandal allegations have legs, the question regarding where the ethanol parity price is and how low ICE will go will become serious ones. After [three weeks at parity, the mills shift production](#).

The [president denies the allegations](#), refuses to step down as called for by the highest levels of government, and says he will prove his innocence in front of the Supreme Court. But that may not be enough to save the Real nor support sugar prices in the medium-term ahead of the upcoming global surplus.