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Return of El Niño: Global Impacts on Commodities

- The Return of El Niño and its Global Impact

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As El Niño returns, the key challenge is determining where weather-driven disruption, logistics bottlenecks and policy uncertainty may translate into earnings deterioration and liquidity pressure.

The potential principal restructuring risk lies not in higher commodity prices themselves but in the liquidity strain that emerges when price volatility, increased working-capital requirements, delayed customer cost recovery and supply-chain disruption occur simultaneously.

Soft Commodity Price Drivers

- Agricultural commodity markets are facing a widening range of risks. Strong supply and inventory positions may place downward pressure on certain crops, but geopolitical disruption, input-cost volatility, trade restrictions, extreme weather and a strengthening El Niño are increasing the risk for concentrated supply shocks and renewed price volatility.
- El Niño threatens an already fragile agri-food market. The principal risk is not uniform global crop failure but a series of overlapping disruptions affecting critical commodities, origins and trade routes. These disruptions could amplify price volatility and create additional working-capital, liquidity and margin pressure for commodity traders, processors and consumer goods businesses.



Key Drivers

1. European Heat, Drought and Wildfires Are Increasing Near-Term Agricultural Risks

- **Repeated heatwaves and limited rainfall have depleted soil moisture, accelerated harvesting and increased the incidence of agricultural fires and wildfires across the UK and continental Europe.**
- The European Commission has reduced EU yield forecasts for winter crops by 1% to 4%, while forecasts for spring and summer crops have also been reduced, most notably for grain, maize and sunflower by approximately 6% to 7%.[1] The principal causes are repeated heatwaves, limited rainfall, water deficits and the resulting pressure on crop development rather than widespread direct destruction by fire.
- Wildfires are an additional localised risk, damaging crops, storage facilities and transport infrastructure. Combined, these conditions may tighten regional supplies of grains, oilseeds and animal feed, increase procurement costs and place further pressure on working capital and supply chains.
- The financial effect may include higher procurement costs, increased inventory requirements, longer lead times and greater working-capital pressure, even where diversified global supply prevents an outright shortage.

2. Middle East Disruption

- **The fertiliser shock has eased, but the lagged impact and input-cost implications remain uncertain through Q3 2026 and into 2027.** Persian Gulf nations represent one of the largest regional sources of nitrogen fertiliser exports globally, with more than 30% of urea, 44% of sulphur and 25% of global ammonia supply transiting the Strait of Hormuz.[2]

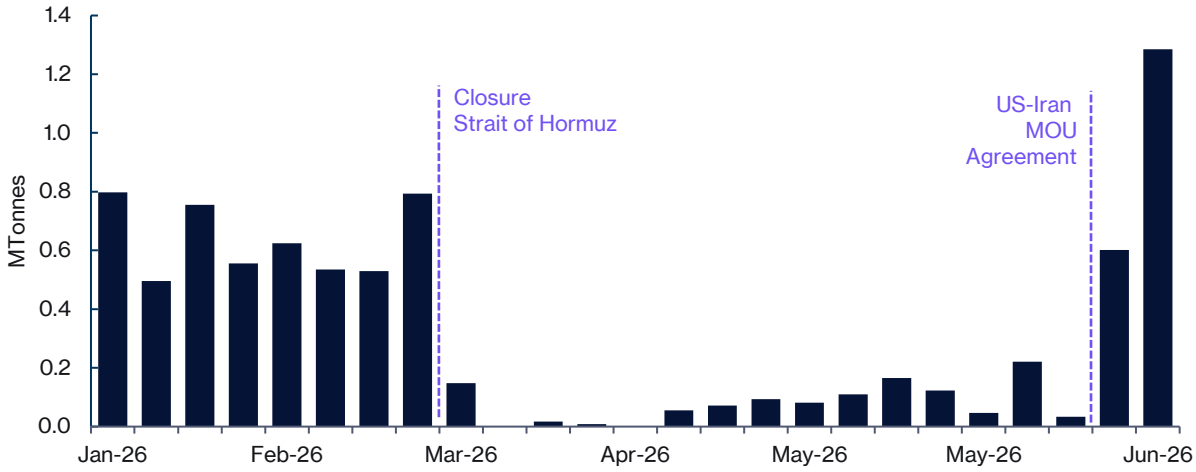
[1] European Commission, Heatwaves impact summer and winter crops, July 2026
[2] The armchair trader, Two Shocks, One Direction: The Case for Agricultural Commodities in 2026, May 2026

- Fertiliser and logistics shocks have eased but remain material. Fertiliser prices have retraced from conflict peaks, with urea prices reportedly falling by approximately 50% from wartime peaks to around $386 per tonne, but diammonium phosphate (DAP) remains materially above pre-conflict levels and UK fertiliser costs are still elevated.[3] Crucially, the relief came too late for many Northern Hemisphere farmers who had already bought at inflated prices or reduced application rates, raising yield risk across fertiliser-sensitive crops while intensifying margin pressure in import-dependent regions such as South Asia and East Africa.
- **Elevated freight, insurance and energy costs continue to increase landed commodity prices, extend lead times and create additional liquidity requirements across commodity supply chains.** Significant impacts have been seen in Indian rice exports, which account for more than 40% of global rice exports, while higher fuel and machinery costs continue to pressure farmer margins in the UK and Europe.[4]

3. Policy Intervention May Be Reshaping Trade Flows

- Weather disruption does not need to create a global shortage to move prices. **Export restrictions, tariffs and other government interventions can reduce tradeable supply and amplify volatility**, particularly in food-security-sensitive commodities such as rice, sugar and wheat, where governments choose to prioritise domestic affordability over export availability.

Weekly Fertiliser Transits via Strait of Hormuz



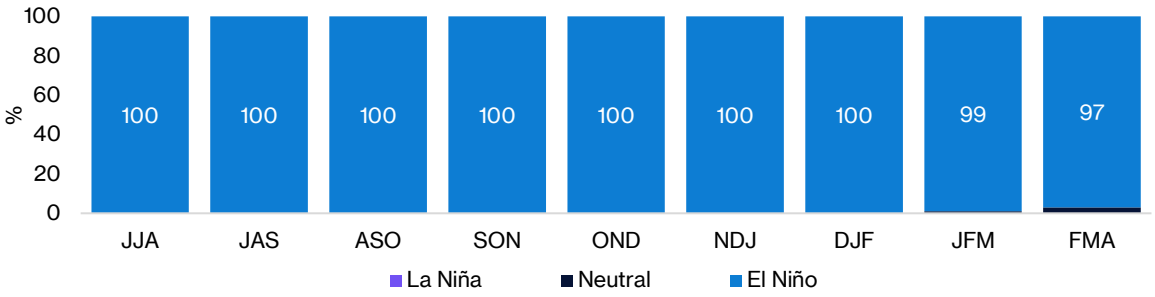
Source: Kpler, Golman Sachs Global Investment Research

[3] Trading Economics Price Charts
[4] Kpler, Golman Sachs Global Investment Research

4. El Niño Has Shifted From Forecast to Active Conditions

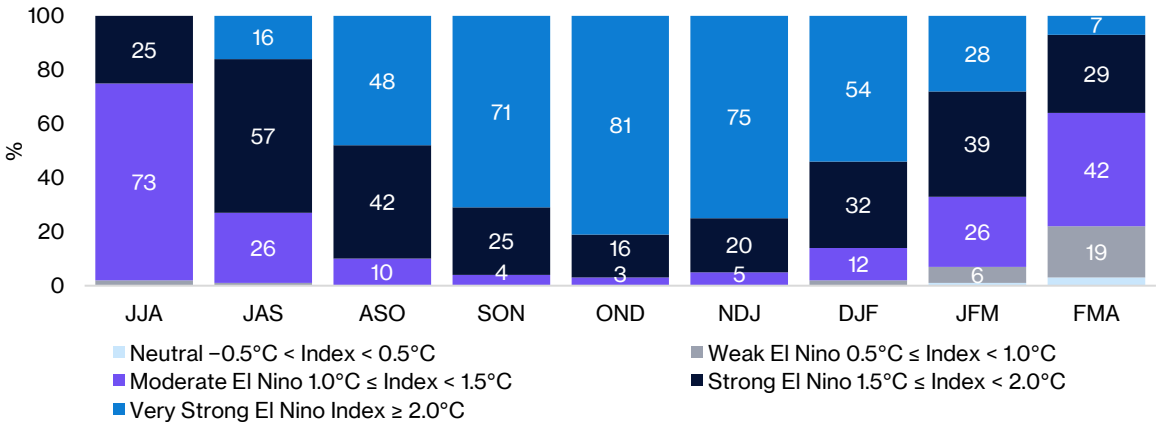
- NOAA has confirmed that El Niño conditions are established and strengthening, with a 97% probability of persisting into early spring 2027 and an 81% probability of a very strong event during late 2026.[5]
- The greatest market exposure is likely to arise where El Niño overlaps with concentrated production, limited inventories or existing supply-chain disruption. Cocoa, palm oil, rice, wheat and sugar appear particularly exposed, with knock-on effects including higher working-capital requirements, increased hedge collateral, delayed customer price pass-through and greater margin pressure.
- Current European heat and drought should not be viewed as a direct consequence of El Niño. Rather, they represent an additional regional supply shock that may overlap with El Niño-related disruption in other major producing regions, increasing the risk of successive commodity and logistics shocks through 2027.

Percentage Chance of the El Niño-Southern Oscillation Categories for the Next Overlapping Three-Month Seasons



Notes: ENSO probabilities are based on -0.5°C and +0.5°C thresholds in the ERSSTv5 Relative Niño 3.4 Index.
Source: NOAA, issued July 2026; Climate Prediction Center, El Niño-Southern Oscillation

NOAA CPC ENSO Strength Probabilities (2026)

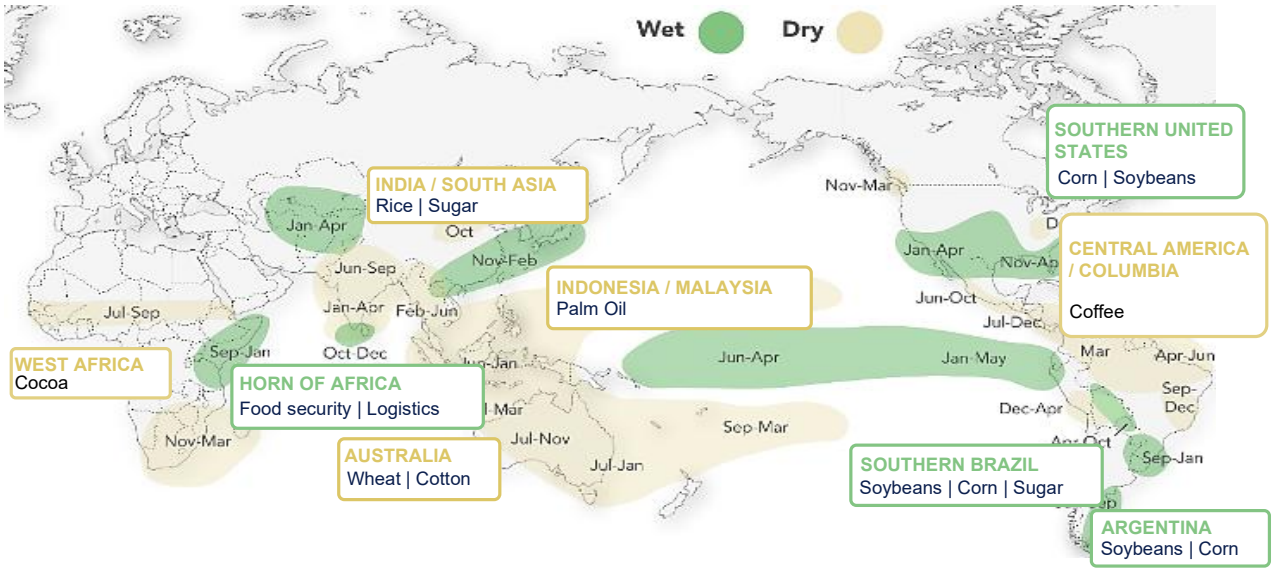


Notes: ENSO strength probabilities are based on thresholds in the ERSSTv5 Relative Niño 3.4 Index/RONI.
Source: NOAA, issued July 2026; Climate Prediction Center, Official NOAA CPC ENSO Strength Probabilities

[5] NOAA, issued July 2026; Climate Prediction Center, El Niño-Southern Oscillation

Potential Impact on Global Agricultural Markets

Regional weather disruptions do not necessarily translate into global shortages. However, concentrated production, crop-specific risks, geopolitical intervention and supply-chain disruption can amplify local shocks into global market disruption and price volatility.



Source: International Research Institute for Climate and Society – Columbia University, July 2026

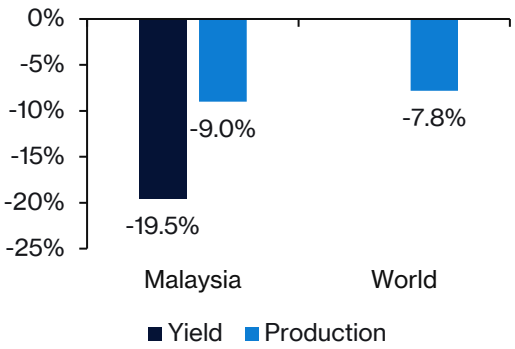
Concentrated Production Amplifies Risks Stemming From El Niño

Some of the world's most important agricultural commodities are produced in a small number of regions. Where El Niño affects these areas and additional risk factors amplify weather shocks, relatively modest production losses can have a disproportionate impact on global prices and may cause significant market disruption.

- **Cocoa | High Exposure:** Around two-thirds of global production is concentrated in West Africa, approximately 65% to 70%, leaving supply highly exposed to regional weather conditions.[6] Heat and rainfall volatility can reduce yields, affect crop development and increase disease risk. While recent stock rebuilding provides some buffer, El Niño has historically coincided with production shortfalls and price volatility.
- **Palm Oil | High Exposure:** Indonesia and Malaysia account for approximately 82% of global production, making the market particularly sensitive to prolonged drought, high temperatures and increasing risks to palm oil supply.[7] El Niño-related dryness typically affects yields with a six- to 12-month lag, with the financial and market impact likely to become visible in 2027. As a key input for food and consumer products, higher palm oil prices can feed into a broad range of consumer goods supply chains and contribute to wider food-price inflation.

[6] Kakaoplattform, Produced in the south – consumed in the north
[7] FAS USDA, Production - Palm Oil

Palm Oil: Impact of a Strong El Niño



Source: USDA, Goldman Sachs Global Investment Research

- **Coffee | Moderate/Low Exposure:** Production is concentrated in Brazil and Vietnam, which account for approximately 50% of global production.[8] Weather disruption in these regions is more likely to affect quality, harvest timing and logistics than to create a uniform reduction in output. Exposure will depend on the type of coffee, the timing of weather conditions and the extent to which buyers can substitute between origins and grades.

Market and Policy Responses Can Amplify Global Shocks Even Where Production Losses Are Limited

Weather-related disruption does not need to be severe to move markets. Export restrictions, domestic food-security measures and changes in ethanol policy can tighten tradeable supply and amplify price volatility. Rice and sugar are particularly exposed because government intervention can materially affect global availability even where production losses remain relatively modest.

- **Rice | High Exposure:** India accounts for approximately 40% of global rice exports, with Thailand and Vietnam also key suppliers.[9] El Niño does not consistently reduce global rice production, but weaker monsoon rainfall or regional crop concerns can reduce exportable supply.
- **Sugar | High Exposure:** Brazil accounts for approximately 40% to 45% of global sugar exports, with India and Thailand also key suppliers.[10] El Niño can reduce sugarcane yields through weaker monsoon rainfall and heat stress. This risk is compounded by increased ethanol diversions in Brazil and India's recent ban on raw, white and refined sugar exports, which are currently tightening global supply.

Diversified Markets Are More Resilient but Not Immune to Regional Disruption

Disruption in key producing regions can force buyers to secure alternative supply, increasing freight costs, tightening tradeable availability and pressuring regional producers and economies, potentially driving price volatility.

- Commodities such as wheat, with moderate to high exposure, soybeans, with moderate exposure and corn, with low to moderate exposure, benefit from geographically diversified production, reducing the likelihood that disruption in one region will create a global shortage.
- However, regional production losses can still increase procurement costs, freight rates, basis movements and working-capital requirements, particularly where weather disruption coincides with geopolitical or logistical constraints.

[8] FAS USDA, Production - Coffee
[9] World Population review, Rice Exports by Country 2026
[10] Worlds Top Exports, Sugar Exports by Country

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How Weather Risk Becomes Financial Risk

01 Weather and Heat
Yield, quality, planting and harvest disruption

02 Market and Policy
Futures, basis, export controls and substitution

03 Supply Chain
Freight, insurance, energy, fertiliser and lead times

04 Cash and Credit
Working capital, margin calls, covenants, collateral and borrowing-base availability

Potential Market Beneficiaries and Most Exposed Participants

Category	Stakeholder	Potential Impact
Potential Beneficiaries	Commodity Traders	• **Benefit from volatility**, arbitrage and dislocation • **Higher demand** for hedging and risk management services • **Opportunities** arising from regional price and basis differences • Benefits remain dependent on access to liquidity, trade finance, margin facilities and effective risk controls
	Large Branded Food Manufacturers	• **Ability to pass through** inflationary pressures and stronger pricing power than private-label peers • **Potential margin recovery** if commodity prices subsequently normalise • More **flexibility** to manage sourcing and product mix
Mixed Impact	Food Retailers	• **Exposure to food inflation** and supplier price inflation • **Potential volume pressure** as consumers trade down • **Margin outcome depends on pricing power**
	Food Manufacturers & Processors	• **Input cost volatility** can create margin pressure • **Margin pressure** where costs cannot be recovered quickly • **Impact depends** on commodity exposure, pricing power and procurement strategy
Most Exposed	Farmers	• **Direct exposure** to yield and quality losses and harvest disruption • **Higher** input and financing costs • **Increased** working capital requirements
	Agricultural Processors	• **High fixed-cost base** increases exposure to reduced throughput • **Margin compression** from commodity and volume exposure, where costs cannot be passed through • **Working capital and borrowing base pressure** may arise from volatile inventory prices
	Export-Oriented Producers	• **Vulnerable to weather disruption**, logistics constraints and commodity price volatility • **Greatest exposure** in coffee, cocoa, sugar, rice, wheat and oilseeds

The financial impact is often driven less by weather itself and more by how quickly businesses can absorb higher prices, longer lead times and increased working-capital requirements.

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