

In Hot Water: El Niño's Role in Global Markets

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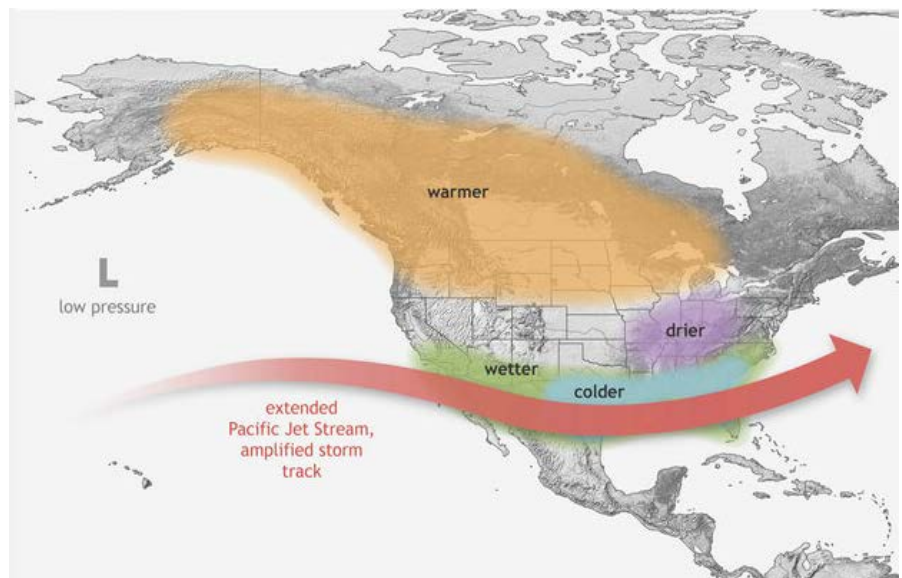
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What is El Niño?

The Trade Winds are a set of consistent and nearly perpetual winds that blow from East to West at the equator. In the Pacific Ocean, this typically means pushing warmer water on the ocean's surface off the coasts of the Americas towards Asia. An El Niño Southern Oscillation (ENSO or El Niño) occurs when those winds weaken or reverse, blowing West to East. This means the warmer waters drift back towards the Americas. To be considered El Niño conditions, the Pacific Ocean must warm by at least 0.5°C. This change in the climate tends to last from spring through fall and into the winter months.¹ Fishermen off the coast of Peru first noticed the climate phenomenon in the 16th century – waters warmed, and fishing became more difficult. But this shift in climate conditions can affect more than just fish, impacting crop yields and the frequency of natural disasters.²

What Does El Niño Mean for Global Weather?

There are very distinct impacts from El Niño depending on where one looks in the world. The United States, down through Nebraska and Iowa, often experience rising temperatures, while the Midwest tends to face more severe drought conditions. In contrast, southern states are more prone to rain and thunderstorms, although the likelihood of hurricanes generally decreases (Chart 1³). Other areas around the globe experience the effects in equally diverse ways, with places like South America subject to heavy rainfall, and Africa potentially facing intensified droughts. Because this is usually a months-long pattern, day-to-day forecasts can deviate from the trend, but on average, these changes will occur across geographical regions.



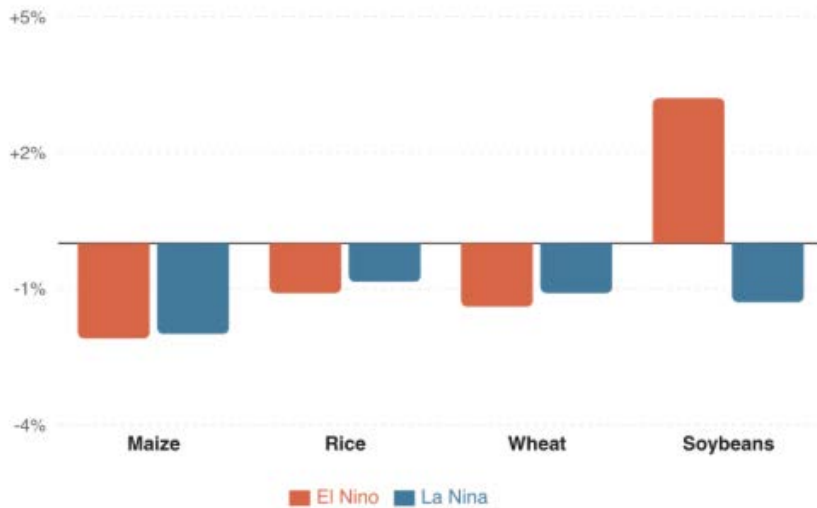
What Other Impacts Are Realized Under El Niño Conditions?

The Pacific is the largest ocean on the planet and has an outsized impact on weather patterns due to even the smallest temperature changes. The temperature change needed to be classified as El Niño, 0.5°C (roughly 1°F), may seem small, but a correspondingly small 1% of the water in the Pacific Ocean is enough to bury the entire United States under nearly half a mile of water.^{4 5} The slightest temperature change can significantly impact crop yields. Chart 2⁶ shows the effect on the four staple, global crops during El Niño, as well as the opposite weather extreme, La Niña, in which the trade winds, instead of weakening, intensify and cool the waters of the Pacific Ocean.

During El Niño, wetter conditions in the southeastern United States and parts of South America can boost soybean production. However, drought-like conditions elsewhere can disrupt output in other regions and have even led to export controls on rice in countries like India, which produces about 24% of the global rice supply.⁷ In the United States, corn crops in areas like Nebraska and Iowa are subjected to hotter temperatures, while the Midwest is exposed to drier conditions, which can damage corn and wheat crops domestically. Internationally, the 2015-16 El Niño triggered the worst drought in southern Africa in almost half a century, cutting regional corn production by roughly 25% and driving large numbers of people into food insecurity.

Global Crop Yield Deviation During ENSO Phases

Average percentage change from normal yield, weighted by global harvested area



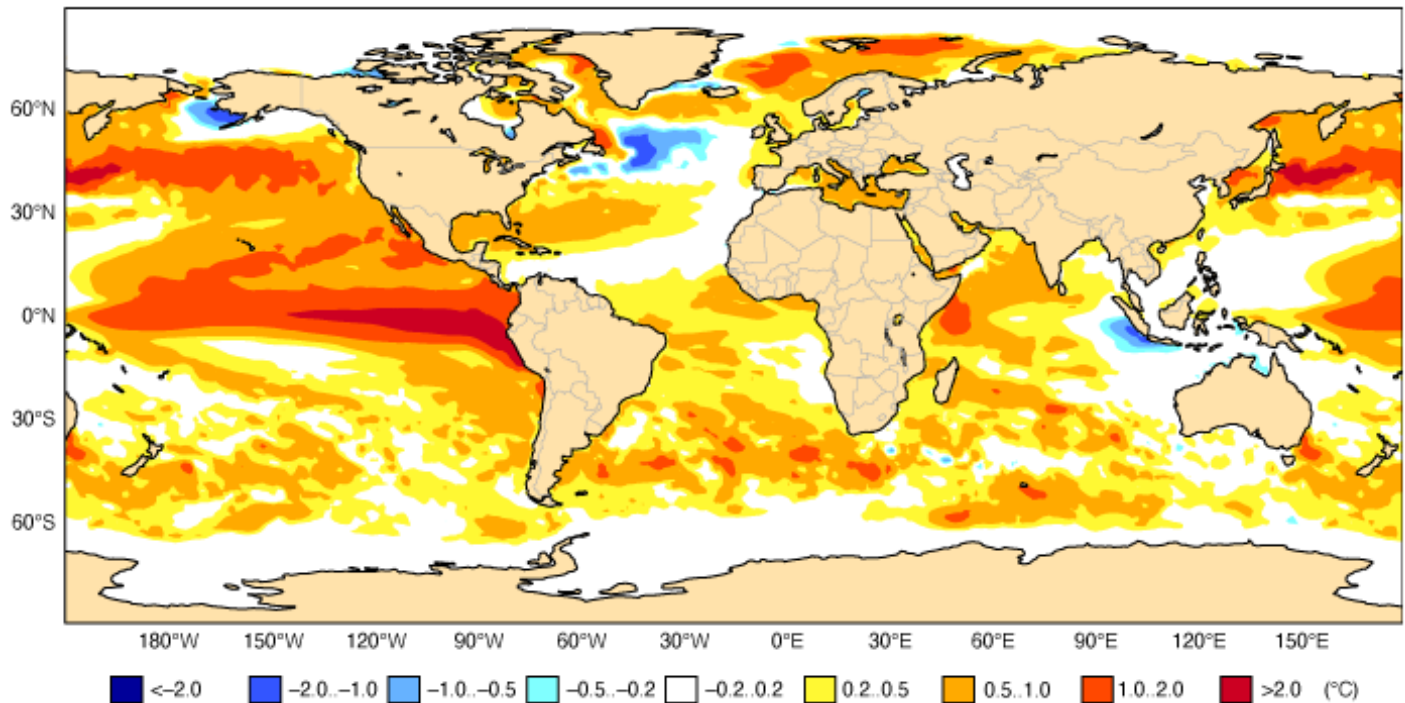
How Does Weather Impact Food Prices?

Crop destruction from weather-related events can drive grocery prices higher. It's not as simple as "less corn = higher corn prices" because corn and its byproducts are used in more than 4,000 products, including ingredients like high-fructose corn syrup. Corn is also used extensively in livestock feed, ethanol fuel, and even cardboard packaging.⁸ The other staple crops exhibit similar versatility, and a decline in their overall production tends to lead to higher prices throughout the grocery store.

Beyond potential weather-related impacts on crop yields and ultimately crop prices under imminent El Niño conditions, higher fertilizer and diesel costs stemming from the closure of the Strait of Hormuz are also expected to buoy food prices later in the year.

Conclusion

There will be a variety of effects from the El Niño weather system that is anticipated to develop later this year, but El Niño weather patterns are not uncommon; they occur roughly every 3-5 years. What makes this year interesting is the magnitude of the expected change in ocean temperatures. The European Centre for Medium-Range Weather Forecasts predicts that we could see Pacific Ocean temperatures increase by more than 2°C, which would classify this year as a *very strong* El Niño year, surpassing a threshold that has only been breached five other times since 1950. Chart 3⁹ shows the forecasted rise in ocean temperatures this summer. For investors, it will be important to monitor commodity prices throughout the remainder of the year, as well as the subsequent impact that higher food prices may have on inflation.



Economic Definitions

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

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¹ [Your Complete Guide To Everything El Niño | Weather.com](#)

² [First recorded “El Niño” | Environment & Society Portal](#)

³ [What is the El Niño–Southern Oscillation \(ENSO\) in a nutshell? | NOAA Climate.gov](#)

⁴ [Facts About Pacific Ocean – Geology In](#)

⁵ [US' Total Size & Land Area: rank & territory types \[2026\]](#)

⁶ [El Nino La Nina Agriculture: How ENSO Cycles Reshape Crop Yields and Commodity Prices Across 5 Key Regions | Hectar Insights](#)

⁷ [Rice Production by Country 2026](#)

⁸ [Consumer Q&A: From Corn Uses to Egg Labels to Cooking with Herbs](#)

⁹ [How confident should we be in a prediction of El Niño? | ECMWF](#)