

El Niño: A macro risk amplifier for a fragile global economy

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A potentially historic El Niño is developing against an already fragile global backdrop. The greatest risk may not be the weather event itself, but how it could amplify existing pressures on inflation, commodity markets, and economic growth.

The current El Niño cycle, which began in June, is expected to be unusually strong. With ocean temperatures at record highs, climate scientists are warning of significant economic consequences, from disruptions to global shipping routes to increased volatility in agricultural markets.

The National Oceanic and Atmospheric Administration (NOAA) assigns a greater than 90% probability that El Niño reaches "very strong" levels between October and December 2026, and a 69% probability that it becomes a historic event.¹

Yet El Niño itself may not be the primary risk. The bigger concern is how it interacts with an already fragile global macroeconomic environment marked by higher energy prices resulting from the US-Iran conflict, elevated commodity-market volatility, persistent inflation concerns, and limited monetary policy flexibility in many emerging markets.

The key question isn't whether El Niño will affect the global economy. It's where those pressures are most likely to emerge.

When weather shocks become economic shocks

From an economic perspective, weather events like El Niño have traditionally been difficult to quantify. But an emerging body of research suggests that the impact isn't trivial. For instance, the 1982-83 and 1997-98 El Niño episodes reduced global economic output by a combined \$9.8 trillion over the subsequent five years.²

Since 1950, there have been 28 El Niño cycles. Their impact has been wide-ranging; some were relatively mild like the most recent 2023-24 El Niño, and some caused significant harm. Research shows the effects can vary significantly. A handful of countries (Australia, Chile, Indonesia, India, Japan, New Zealand, and South Africa) have historically, on average, seen the largest drops in economic activity while the US and Europe have actually benefited.³

Two cycles are particularly instructive. The first is the 1997-98 "super" El Niño, which contributed to massive flooding in Latin America and parts of Africa, as well as severe drought in Southeast Asia. Global economic losses were estimated at US\$2.1 trillion.⁴ The second is the 2007-08 El Niño, which coincided with, and arguably amplified, a global food crisis. During that period, average world food prices increased by close to 50%. Some staples increased even more: At their peaks, rice rose by more than 200% and wheat by more than 100%.⁵

While today's macro backdrop is in some ways like past El Niño cycles, it differs in three critical ways.

- Inflation from already-higher energy prices (a result of the US-Iran conflict) makes potential El Niño

shocks to food prices more concerning

- Commodity prices have been unusually volatile so far this year, which has the potential to amplify macro risks for countries highly sensitive to commodity prices, further complicating policymakers' efforts to balance inflation and growth
- As markets now price a synchronized hiking cycle and higher-for-longer rates, emerging economies may face greater challenges managing currencies and liquidity

El Niño may therefore act less as a standalone economic event and more as a risk amplifier, magnifying stresses that are already emerging across the global economy.

Food markets appear resilient, but vulnerabilities remain

While world food prices have been rising, they remain far below the peaks reached in 2022 following Russia's invasion of Ukraine (Figure 1).⁶

What's more, inventories remain well-stocked with grain inventories at a decade-plus high (Figure 2).

Supply chains and inventories have remained resilient even with the stress of higher energy prices from the US-Iran conflict. For most countries, food inflation remains at manageable levels. In fact, more than 60% of countries are experiencing food inflation below 5% (Figure 3).

That picture could change quickly. El Niño is arriving as food markets confront multiple geopolitical and supply-side risks.

Where risks are most concentrated

Australia and Indonesia are particularly exposed. Australia's Bureau of Meteorology has highlighted the combination of El Niño and a positive Indian Ocean Dipole climate pattern with elevated drought and bushfire risks.⁷ Meanwhile, Indonesia's Meteorology, Climatology, and Geophysical Agency (BMKG) has warned of risks to rice and palm oil production as well as increased peatland fire risk.⁸

Rice remains the most significant food inflation risk given its concentrated production, high policy sensitivity, and weather uncertainty. Wheat, maize, and sugar also face risks, despite production being located in different regions. Similar to the 2007-08 backdrop, vulnerabilities are emerging across multiple food systems, increasing the potential for broader agricultural commodity price pressures.

A supply-constrained growth story

Ultimately, El Niño's economic impact is likely to be driven more by supply disruptions than by changes in demand. While the International Grains Council still forecasts the second-largest grain harvest on record, agricultural commodity prices have continued to drift higher, suggesting markets are increasingly focused on where future supply may tighten rather than on current inventories.

The opportunity may therefore lie less in the commodities themselves and more in the firms and producers that alleviate scarcity. For instance, if Australian wheat exports disappoint, competing North American suppliers could gain market share. Fertilizer producers, irrigation providers, seed technology firms and agricultural equipment manufacturers could become increasingly valuable as farmers are forced to maximize yields with less water and more volatile weather.

When supply shocks become policy shocks

Supply shocks rarely stop at the farm gate. History suggests governments responses to food inflation often amplify the original shock, like export restrictions, subsidies, stock releases, and other market interventions. For example, India has historically restricted rice, wheat, and sugar exports during periods of food price stress. While such measures may cushion domestic consumers, they can distort trade flows and commodity markets.

At the aggregate level, supply shocks can quickly become policy shocks that impact exchange rates and sovereign bonds. With markets still debating the prospect of further Fed tightening, emerging-market central banks facing food inflation have less room to support growth and may be forced to hold rates higher for longer or tighten policy to defend their currencies.

The result can be a self-reinforcing loop: rising food import bills weaken current accounts, tighter monetary policy slows growth, and weaker currencies further increase local-currency import costs. The key difference in this cycle is the energy overlay. Elevated fuel and fertilizer costs make every link in the chain more inflationary than a typical El Niño episode, increasing the probability that a weather event evolves into a broader macro event.

1 El Niño/southern oscillation (enso) diagnostic discussion, National Oceanic and Atmospheric Administration Climate Protection Center, August 13, 2026.

2 El Niño/southern oscillation (enso) diagnostic discussion, National Oceanic and Atmospheric Administration Climate Protection Center, August 13, 2026.

3 “Fair Weather or Foul? The Macroeconomic Effects of El Niño” Paul Cashin, Kamiar Mohaddes and Mehdi Raissi. International Monetary Fund Working Paper No. 15/89, May 1, 2015.

4 “Nonlinear El Niño impacts on the global economy under climate change” Yi Liu, Wenju Cai, Xiaopei Lin, Ziguang Li, Ying Zhang. Nature Communications, 2023.

5 “High food prices: the food security crisis of 2007-2008 and recent food price increases – Facts and lessons” Food and Agriculture Organization of the United Nations. Food inventories during that period were far lower than in 1997-98 and energy prices had been surging due to robust consumer demand.

6 “IGC revises 2026-27 global grain output higher” World Grain, June 25, 2026.

7 Southern hemisphere monitoring, Australian Government Bureau of Meteorology.

8 “Indonesia gears up as stronger El Nio looms: BMKG” Antara, August 4, 2026.

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