Allianz

Allianz Research | 15 July 2026

Super El Niño risk: more inflation in Asia, oversupply in Latin America yet little disruption in financial markets

Hazem Krichene
Senior Climate Economist
hazem.krichene@allianz.com

Ano Kuhanathan
Head of Corporate Research
ano.kuhanathan@allianz-trade.com

Garance Tallon
Economist for APAC
garance.tallon1@allianz-trade.com

Lina Manthey
Equity Strategist
lina.manthey@allianz.com

In Summary

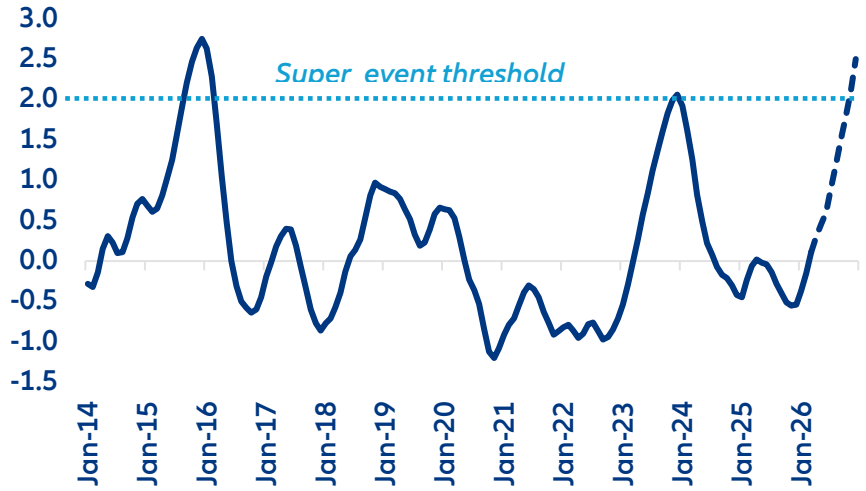
- **The emerging 2026-27 El Niño has the potential to become the strongest climate event in more than a decade.** While weather events are often viewed as operational risks, this one is more appropriately understood as a macroeconomic event with implications for inflation, trade flows, supply chains and corporate earnings. The IMF estimates that a typical El Niño raises global food prices by around 5% within a year, and the 1982-83 and 1997-98 events led to USD4.1trn and USD5.7trn in cumulative global income losses over the following five years.
- **El Niño creates an uneven commodity shock, with the greatest disruption concentrated in commodities produced in Asia while grains in Latin America – mainly Brazil and Argentina – could see oversupply from improved growing conditions.** Southeast Asia, India and parts of West Africa face heightened risks of drought and agricultural disruption. At the same time, large parts of South America are likely to benefit from improved growing conditions, supporting grain and oilseed production. The result is a divergence across commodity markets, countries and sectors rather than a broad-based inflationary surge. The highest risks are in sugar, palm oil and rice, where drought, low inventories and potential export restrictions could drive price volatility. Cocoa and robusta coffee also face supply pressures, while soybeans, corn and arabica coffee are likely to face price declines on the back of favorable conditions.
- **For corporates, the implications extend well beyond agriculture.** Food manufacturers may face renewed input-cost pressure from sugar, palm oil, rice and cocoa but could pass on higher prices. Consumer-goods companies operating in emerging markets may encounter renewed inflation sensitivity among lower-income consumers. For corporates involved in the trade of crops that will see a supply surge, especially in Latin America, higher production is not necessarily positive news as selling prices fall, storage capacity could overflow and demand is inelastic (i.e. lower prices do not drive more volume). Governments in food-importing economies could respond with export restrictions, price controls or strategic stockpiling measures that amplify supply-chain disruption.
- **A super El Niño would transmit inflationary pressure in Asia primarily through food prices, with Indonesia the most affected (+2.3pp) and Malaysia and the Philippines the most insulated (+0.7pp). In Latin America this picture is mixed, with Colombia, Peru and Brazil facing potential pressures.** Central banks in the Philippines, Indonesia and India could be forced to hike further or delay easing into 2027, while Malaysia and Thailand would remain on hold. Export bans by major agricultural producers (India, Thailand, Vietnam) would ease domestic pressures but amplify inflation risks for importers, notably the Philippines and Indonesia. In Latin America, drought conditions in Northern Brazil and Colombia could push up inflation while Peru could face disruptions from coastal El Niño.
- **Super El Niño events normally do not matter much for broader financial markets.** The S&P 500 has rallied strongly in every such episode, driven by the concurrent macro backdrop rather than the weather event itself. For emerging markets, food-importing economies like the Philippines and Indonesia show a tendency to underperform global benchmarks in the 12-18 months following an ONI peak (with the exception of 2015-2016). However, each event occurred in a radically different macro backdrop (i.e. Asian crisis, China slowdown, post-Covid inflation) so the signal is too weak and too confounded to be attributed to El Niño alone.

The world is facing yet another major climate shock with the incoming El Niño

Most climate events are operational concerns and this one has the potential to become a macroeconomic event. The IMF estimates that past El Niño episodes raised global food prices by roughly 5% over a year and lifted headline inflation by between 0.1-1pp across affected economies, with the effect rising in line with the weight of food in the consumer basket[1]. Going further, Callahan & Mankin (2023)[2] attribute some USD4.1trn and USD5.7trn in cumulative global income losses to the 1982-83 and 1997-98 events – concentrated in the tropics, where economies such as Peru and Indonesia ran more than 10% below trend several years later – and put a possible USD3trn drag on global output through 2029 on the 2023 event alone. These are upper-bound, still-debated estimates, but they frame the order of magnitude: this is an inflation and income event, not merely an agricultural one.

Three factors make the current outlook particularly important. First, the probability of a major event is now high and rising. NOAA's Climate Prediction Center upgraded its outlook to an El Niño Advisory in June 2026 and assigns around a 63% chance of a very strong event by November-January – one it judges would rank among the largest in the record since 1950; the WMO puts the probability near 80% and the World Bank cited a 61-87% chance of emergence by mid-2026, persisting into 2027. Second, several agricultural markets enter the event with limited buffers. Inventories in commodities such as cocoa, palm oil and rice are already tighter than historical norms, reducing the system's ability to absorb supply disruptions. Third, governments have become more interventionist since previous El Niño cycles. Export restrictions, strategic stockpiling and domestic price controls are now common policy tools. These interventions can amplify the economic impact of weather shocks far beyond the initial production losses. The result is that relatively modest supply disruptions can rapidly become significant economic events.

Figure 1: Oceanic Niño Index



Sources: NOAA/IRI, Allianz Research

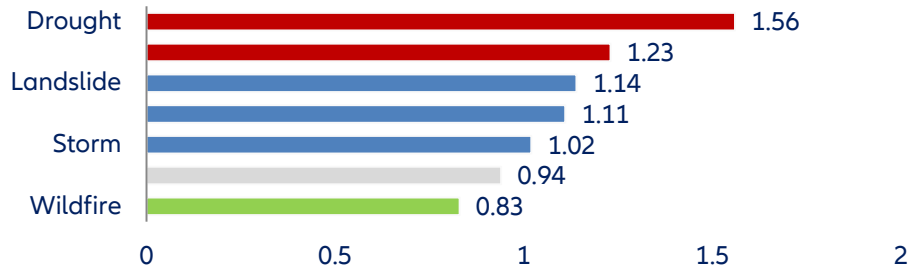
What past El Niños did to global catastrophe patterns

Using a record of some 9,400 events since 2000 we explore how El Niño affects NatCat events distribution globally. Each event was tagged to an ENSO phase using NOAA's Oceanic Niño Index episode record, and we measured how the frequency of each hazard and each region shifts in El Niño years relative to neutral ones[3]. The exercise is validated by a placebo: earthquakes and volcanoes, which have no link to ocean temperature, show no El Niño signal (1.0×), which is what allows the elevated hazard ratios to be read as signal rather than an artefact of rising reporting over time.

[1] *Fall 2023 Global Food Crisis Update—Recent Developments, Outlook, and IMF Engagement*
[2] *Persistent effect of El Niño on global economic growth | Science*
[3] *ENSO-neutral months are those in which the Oceanic Niño Index sits between –0.5°C and +0.5°C ; neither El Niño (warm) nor La Niña (cool), with equatorial-Pacific sea-surface temperatures close to their long-run average. We benchmark against neutral rather than La Niña so the ratios isolate the El Niño signal itself.*

El Niño rewires the mix of catastrophes rather than lifting them across the board (Figure 2). Drought (1.6×) and extreme heat (1.2×) rise clearly, floods more modestly (1.1×), while storm frequency is essentially unchanged globally (1.0×). That last point is the important one: El Niño redistributes cyclone activity rather than adding to it. Wildfire actually sits below its neutral rate worldwide, because its signal is regional and washes out in the global total. In the two strongest past events (the closest analogues to an expected strong 2026-27) drought and heat intensify further still.

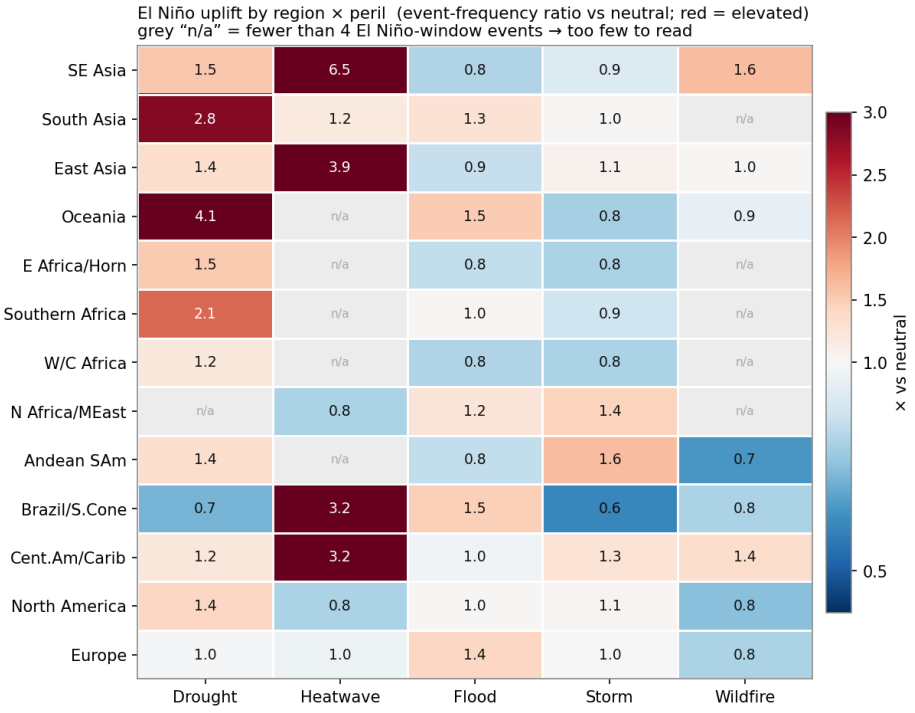
Figure 2: El Niño vs neutral : global event-frequency ratio by hazard



Sources: Allianz Research; global catastrophe-alert dataset (2000-2026), NOAA/CPC. Earthquake (grey) is the placebo control.

There is a clear El Niño drought belt: Australia (4.1×), India and the wider South Asia (2.8×), Southern Africa (2.1×), Southeast Asia and the Horn of Africa. Heatwaves cluster in Southeast and East Asia and floods lift across the Southern Cone. Australian wheat, Indian rice and sugar, Southeast Asian palm oil and Southern African maize all sit inside the drought zone. Storms again confirm redistribution rather than amplification, where Australian-basin cyclones fall to 0.8× while eastern-Pacific and Central-American activity rises.

Figure 3: El Niño uplift by region and hazard (ratio vs neutral; red = elevated)

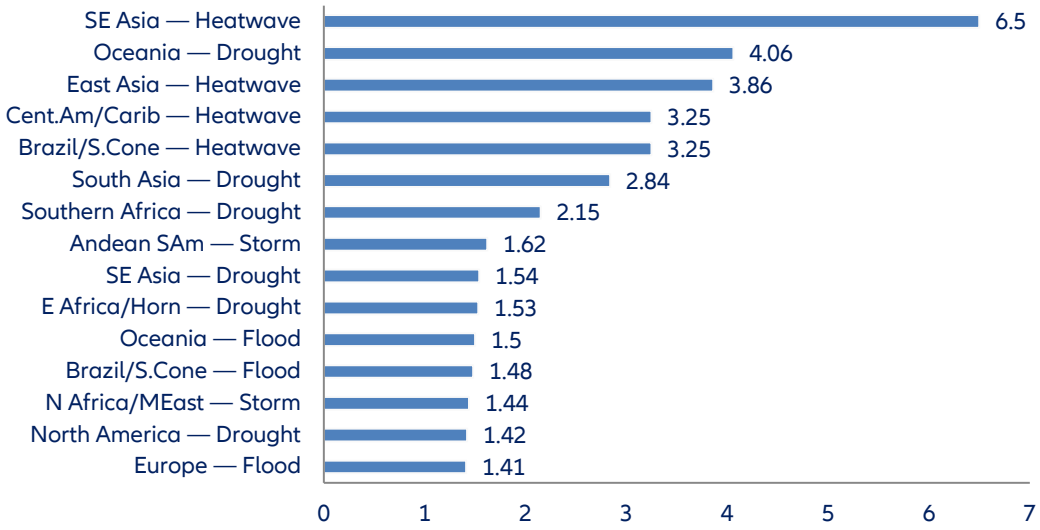


Sources: Allianz Research; NOAA/CPC. Cells with fewer than four El Niño-window events are greyed out as too thin to read.

Translating the record into the 2026-27 outlook (Figure 4). This is an analogue rather than a probabilistic forecast. For each region and hazard we take its behavior across the eight past El Niños and score it on three things: the size of the uplift, whether the sample is large enough to trust, and whether the signal also holds up in the two strong episodes, which are the closest match to a potentially strong 2026-27. On that basis the highest-conviction elevated risks are drought in Australia, Southern Africa and Southeast Asia, heatwaves in Southeast and East Asia, and flooding across the Southern Cone. The multipliers are frequency ratios, not probabilities. Southeast Asia's 6.5 for

heatwaves means such events occurred about six and a half times as often under El Niño as in neutral conditions, once you adjust for how long each phase lasted. In the raw record that is eight heat events across the El Niño windows against one in the neutral windows, and seven of the eight fell in the two strong episodes of 2015-16 and 2023-24, six of them in 2024. Drought shows the same clustering at country level, with Indonesia logging two droughts during those two strong El Niños, in 2015 and 2023, against one across the entire run of neutral months. A large ratio on a small base therefore signals a sharp rise in relative risk rather than a large number of separate disasters, which is why conviction rests on recurrence and strong-episode consistency more than on the headline figure. India's drought risk is the clearest example of that distinction: it carries the largest human and agricultural exposure of any cell but the weakest strong-episode signal, so it belongs in a "materially elevated but uncertain" tier rather than the central case.

Figure 4: Analog risk elevation for a strong 2026-27 El Niño



Sources: Allianz Research; NOAA/CPC. Green = signal also strengthens in the two strong past episodes (higher conviction); amber = elevated but the strong-episode signal is noisy.

Where could we see most disruptions?

The strongest impacts are expected across Southeast Asia, India and parts of West Africa. These regions sit at the center of global production for several critical food commodities. Any further reduction in output could renew volatility in commodity markets and increase pressure on food product manufacturers. India is the world's largest rice exporter and a major producer of sugar. A weaker-than-normal monsoon could reduce agricultural output and place renewed pressure on domestic food prices. Historically, the government's response has often been to restrict exports in order to protect domestic consumers. Such decisions have an outsized impact: India alone accounts for roughly 40% of global rice trade. The 2023 episode is instructive. As El Niño concerns built, India banned non-basmati white rice exports in July 2023, and benchmark Thai prices jumped more than 20% within weeks; the FAO rice price index rose almost 10% month-on-month in August, a 15-year high[4]. For multinational businesses, Indian policy decisions may prove more important than the weather itself.

Indonesia, Malaysia, Thailand and Vietnam are exposed to drought risk during major El Niño events. The region is critical for palm oil, sugar, rice and coffee. Disruptions in any of these markets can quickly affect food manufacturers, consumer-goods companies and global retailers. Palm oil deserves particular attention because of its importance across processed foods, personal care products and industrial supply chains.

Fallout in Côte d'Ivoire and Ghana could disrupt global cocoa production. The cocoa market enters this event with already constrained inventories and structural production challenges. The most recent El Niño shows how violent that disruption can be: cocoa roughly tripled in 2024, from about USD 2,500 to over USD 10,000 per ton, as Ivorian

[4] *Rice Export Prices Highest in More Than a Decade as India Restricts Trade | USDA Foreign Agricultural Service*

output fell around 21% to an eight-year low. But the episode is also a warning against single-cause attribution – the collapse combined El Niño dryness with excessive-rain disease outbreaks (black pod), swollen-shoot virus and aging trees. With West Africa supplying roughly 70% of the world's cocoa and structural decline already underway, El Niño acts as an accelerant on a fragile crop rather than the sole driver[5].

Higher crops expected in Latin America, not necessarily good news

One of the most misunderstood aspects of El Niño is that it does not create uniform disruption. In fact, some regions are likely to benefit. IMF research confirms this asymmetry directly: a typical El Niño shaves activity in Australia, Chile, India, Indonesia, Japan, New Zealand and South Africa, while the US tends to gain directly and Europe indirectly, through positive trade spillovers.[6]

Brazil and Argentina may emerge as beneficiaries in yields but not necessarily in economic terms. Historically, El Niño improves growing conditions across some agricultural regions, supporting: soybean, corn, and sugar output in parts of Latin America. Stronger harvests have the potential to improve trade balances, support economic activity and provide a natural offset to inflationary pressures. Argentina's grain sector also typically benefits from the wetter conditions associated with El Niño. El Niño's effect on Brazil is regionally split – supportive for southern crops, but historically associated with drought in the north and the Amazon basin – and much of Argentina's upside reflects a rebound from the severe La Niña drought that preceded it, rather than an absolute windfall. However, higher production could also put downward pressure on prices while demand is rather inelastic (i.e. consumption of food in volume do not increase significantly when prices increase). Lastly, when there is a bit of oversupply, inventory facilities fills up rapidly and prices increase steeply – another headwind for farmers and corporates looking for storage.

Parts of the US often experience favorable agricultural conditions during major El Niño events. Corn and soybean production have historically performed well, providing an important counterweight to disruptions elsewhere. The implication is important, the world is unlikely to experience a broad-based food shortage. Instead, supply will become increasingly uneven across regions and commodities.

The Northern Hemisphere is mostly a beneficiary. Strong El Niños raise wind shear over the Atlantic and hold hurricane activity down. NOAA's 2026 outlook puts the odds of a below-normal Atlantic season at 55% and forecasts 8 to 14 named storms versus a norm of 14; CSU now sees 11 named storms, 5 hurricanes and 2 major.[7] Fewer Atlantic landfalls means lower insured catastrophe losses and fewer Gulf oil, gas and LNG outages. Northern US winters also tend to run mild because the cold Canadian air stays bottled up, which trims heating demand: the difference between a cold winter and a mild El Niño one is roughly 4 Bcf/d[8] of US gas demand, about 5%, and the last episode pushed Henry Hub to multi-year lows. So for the North the price signal leans disinflationary, the opposite of the food story in Asia.

Figure 5: Impact of previous strong El Niño (% deviation vs 5y trend)

Region	Country	Commodity	1982	1997	2015	2023
Africa	Côte d'Ivoire	Cocoa	-5	-8	-11	-7
Africa	Ghana	Cocoa	-4	-7	-9	-6
Asia	India	Rice	-3	-5	-7	-4
Asia	India	Sugar	-8	4	-14	-7
Asia	Indonesia	Palm Oil	-4	-8	-6	-3
Asia	Malaysia	Palm Oil	-5	-6	-5	-2
Asia	Thailand	Rice	-4	-6	-8	-5
Asia	Thailand	Sugar	-5	-3	-9	-5
Asia	Viet Nam	Robusta	-2	-8	-5	-3
LatAm	Argentina	Soybean	4	6	3	5
LatAm	Brazil	Arabica	2	3	5	3

[5] *Chocolate's climate crisis - The Salata Institute*
[6] *El Niño Good Boy or Bad? -- Finance & Development, March 2016*
[7] *WATCH: NOAA forecasts milder Atlantic hurricane season thanks to El Nino | PBS News*
[8] *Billion cubic feet per day*

LatAm	Brazil	Soybean	2	3	4	3
N.America	US	Corn	1	2	3	2
Oceania	Australia	Wheat	-15	-21	-11	-9

Sources: USDA, CONAB, ICO, ICCO, FOA and Allianz Research

Figure 6: Summary of potential impact on commodity prices

Commodity	Expected Impact	Key Trigger
Sugar	▲ Significant Upside Risk	Weak Indian monsoon and lower kharif harvests
Palm Oil	▲ Significant Upside Risk	Falling Indonesian and Malaysian production estimates
Rice	▲ Significant Upside Risk	Indian harvest disappointment
Robusta Coffee	▲ Moderate Upside Risk	Weak Southwest Monsoon in Vietnam
Cocoa	▲ Moderate-to-High Upside Risk	Poor Côte d'Ivoire and Ghana harvests
Wheat	▲ Conditional Upside Risk	Australian production vulnerable if El Niño coincides with a positive Indian Ocean Dipole.
Arabica Coffee	▶ Stable to Slightly Negative	Strong Brazilian crop forecasts
Soybeans	▼ Downside Risk	Strong South American harvest outlook
Corn	▼ Downside Risk	Above-trend US crop conditions

Source: Allianz Research

Energy, power and freight could also be disrupted, and governments take action

El Niño does not only affect food. The droughts it brings to Latin America and parts of Asia curtail hydropower and, as the IMF notes, raise demand for coal and crude oil to fill the gap in thermal generation; offsetting this, milder Northern-Hemisphere winters can soften heating-gas demand. Net energy effects are therefore regional and partly self-cancelling, but the power-generation channel is a real source of price and fiscal pressure in hydro-dependent economies.

The supply-chain impact also runs through shipping chokepoints. In 2023-24, an El Niño-driven drought forced the Panama Canal, a route for around 6% of global trade, to cut daily transits from a normal 36 to as few as 24 and impose draft limits that reduced cargo loads; queues swelled to roughly 160 vessels and full-year transits fell 29%, with LNG shipments down by two-thirds as carriers rerouted around Africa. With NOAA already flagging the canal as a watch-point for 2026-27, freight and routing risk belongs on the corporate exposure map alongside commodity prices.

History suggests we should pay attention to policymakers. During previous food-price shocks, government intervention frequently became the dominant market driver. Potential policy responses include export restrictions, strategic stockpile accumulation, price controls, import subsidies and tariff adjustments. India's interventions on rice markets is a textbook illustration. A modest production shortfall can trigger export restrictions. Those restrictions then affect importing countries across Asia, Africa and the Middle East. Importing governments respond with emergency purchases, amplifying price movements further. In Asia, India, Thailand and Vietnam, as major rice and agricultural exporters, are the most likely to do so. While export restrictions could ease domestic supply pressures and give local central banks more flexibility, they would raise inflation risks for regional food importers, especially the Philippines and Indonesia.

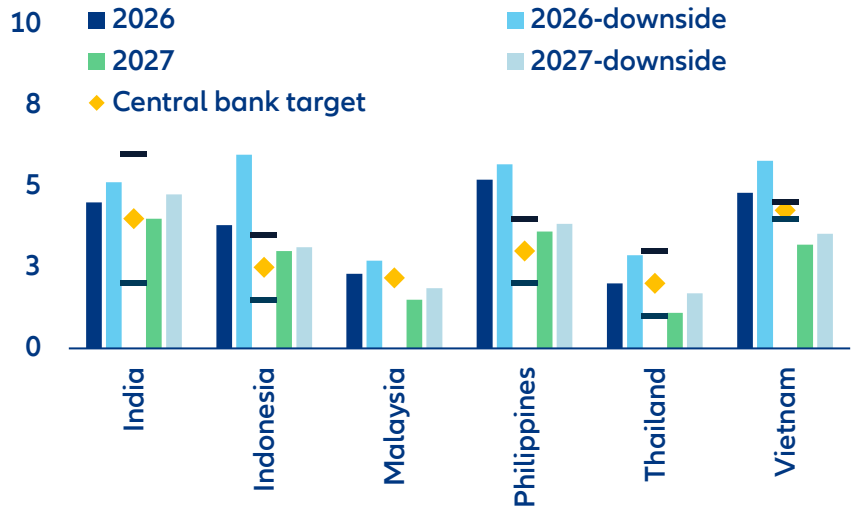
The economic impact becomes far larger than the original weather event. For global businesses, this policy feedback loop often creates greater uncertainty than the agricultural disruption itself.

Southeast Asia and some parts of Latin America may face inflationary pressure

Inflation has already hit consumers across ASEAN and India following the Iran war. With the Philippines most affected initially as headline inflation reached +7.2% y/y in April. While second-round effects are expected to lift inflation modestly across the region, Thailand remains an exception, with inflation still below target due to deflationary pressures. Energy-price pressure has eased after the gradual reopening of the Strait of Hormuz, though prices remain above pre-crisis levels. Current 2026 inflation forecasts are 4.5% for India, 3.8% for Indonesia, 2.3% for Malaysia, 5.2% for the Philippines, 2.0% for Thailand and 4.8% for Vietnam. In 2027, inflation is expected to normalize to 4.0%, 3.0%, 1.5%, 3.6%, 1.1% and 3.2%, respectively.

A new inflation risk for 2027 now comes from a potential super El Niño, mainly through food prices. Exposure depends on food's weight in CPI baskets: Malaysia is least exposed at around 30%, followed by Indonesia and Vietnam at around 35%, Thailand and India at around 40%, and the Philippines above 45%. Given these exposures, a strong El Niño would largely undo the disinflationary gains from the reopening of Hormuz for 2026 and push inflation higher into 2027. Drawing on the 2015–2016 El Niño precedent, we expect Indonesia to be the most affected, with a cumulated impact of +2.3pp, followed by Thailand, Vietnam and India at approximately +1.3pp each, while Malaysia and the Philippines appear more insulated at around +0.7pp.

Figure 5: Inflation across ASEAN and India in 2026-2027



Sources: IMF, Allianz Research

Policy responses across ASEAN and India are likely to diverge, as central banks start from different positions. Indonesia and the Philippines have already tightened policy, raising rates by 100bps and 50bps, respectively. The RBI is expected to begin hiking in H2 with two rate increases, while Malaysia, Thailand and, to a lesser extent, Vietnam have remained on hold.

If El Niño materializes at full strength, the Philippines, Indonesia and India may need to hike again or delay easing until 2027. Malaysia and Thailand should stay on hold but remain ready to act. For Thailand, a severe El Niño would likely rule out rate cuts to support growth, which had already been largely postponed due to the Iran war.

In Latin America, based on the last two precedents episodes, Brazil, Colombia and Peru face the largest risks. Drought conditions in Northern Brazil and Colombia could push up inflation, through food prices, logistics and electricity prices (especially for Columbia). While Peru could face disruptions from coastal El Niño. However in previous inflationary shocks, these countries were also facing forex depreciations.

East-Asian supply-chains to be tested but markets unlikely to be fazed

Companies with exposure to food ingredients should prepare for renewed input-cost volatility. The highest-risk commodities include sugar, palm oil, cocoa and rice. Margin management may become more challenging if inflation-sensitive consumers resist further price increases.

Companies with sourcing exposure to Southeast Asia should review supply-chain resilience and inventory strategies. The risk is less about physical shortages and more about cost volatility and policy intervention.

Credit stress could emerge among food processors, agricultural exporters and businesses operating in vulnerable emerging markets. Conversely, agricultural exporters in Brazil and other beneficiary regions may experience stronger operating conditions.

Super El Niño events should not be considered as a potential driver for major market turbulences. For developed markets, the signal is essentially absent at the index level: the S&P 500 has delivered strong positive raw returns in every super El Niño window in our sample, averaging +30% over the 18 months following an ONI peak - not because El Niño helps the US economy, but because these episodes have historically coincided with US mid-cycle expansions or early Fed easing cycles, which dominate any weather-related noise. The global business cycle, monetary policy, and earnings revisions are orders of magnitude more important for US markets than El Niño. For emerging markets, with the exception of 2015-2016, there seems to be a pattern of equity underperformance relative to global benchmarks, concentrated in food-importing, drought-exposed economies (the Philippines and Indonesia most clearly), and it tends to peak 12-18 months after the ONI peak rather than coinciding with it. But we must underline that history only counts three to four observations per country, each episode unfolded against a radically different macroeconomic backdrop (i.e. the Asian financial crisis in 1997-98, the China slowdown in 2015-16, and the post-COVID inflation cycle in 2023-24) and in several cases these confounding factors dwarf anything El Niño could plausibly explain independently. What our event study identifies is more accurately described as a tendency for ENSO-exposed EM markets to underperform in an environment that also tends to be globally risk-off, rather than a clean causal impact of El Niño on stock prices. The commodity and food-inflation transmission are real and well-identified, their translation into markets underperformance is plausible and directionally consistent, but the signal is weak, heterogeneous, and not separable from global macro with only a few events.

What we need to monitor going forward

1. Indian monsoon performance. The June-September 2026 monsoon season will provide the clearest indication of risks to rice and sugar markets.

2. Indonesian and Malaysian production data. Palm oil inventories will offer one of the earliest indicators of whether supply conditions are tightening.

3. West African cocoa harvests. Evidence of continued production weakness would reinforce concerns about already-tight cocoa markets.

4. Government intervention. Export restrictions, stockpiling programs and food-security measures should be treated as leading indicators of broader market disruption.

5. Inflation expectations. Food-price inflation often appears in consumer expectations before it is fully visible in official prints. Monitoring inflation expectations may therefore provide earlier warning than headline CPI data.

These assessments are, as always, subject to the disclaimer provided below.

FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed
or implied in such forward-looking statements.
Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends,
(v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures,
and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.