

Research @ Citi Episode 91: El Niño — Rising Tides and Prices

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Transcript:

Opening Teaser (00:00)

Rob Rowe (00:17):

Hi everyone, and welcome to the Research @ Citi podcast. I'm Rob Rowe, head of the Global Strategy and Macro Group. Today we have Arkady Gevorkyan with us from our commodity strategy team, and we're going to talk about everything involving El Niño.

So I grew up always hearing about El Niño, and I know that at least it makes California hot. But I think there's a lot more detail to that, and that's what we're going to discuss today. Arkady, thanks for being on the podcast.

Arkady Gevorkyan (00:34):

Thank you for having me.

Rob Rowe (00:36):

I know that there are a lot of investors out there that already are worried about El Niño and what the implications are, but what's the risk here? And why should investors be concerned?

Arkady Gevorkyan (00:51):

El Niño is a climate pattern characterized by the unusual warming of surface waters in the eastern tropical Pacific Ocean. So it's really when the temperature of the sea surface of the Pacific Ocean increases above 2 degrees — that's when we need to start being concerned. The warming of the Pacific Ocean during an El Niño event transfers a large amount of heat into the atmosphere, and this essentially disrupts the normal atmospheric circulation patterns, leading to a cascade of weather-related changes across the globe. This is associated with typically higher temperatures, as well as differentiated or abnormal precipitation levels.

So we typically see droughts in areas where we don't typically see them during El Niño years. In regions that typically receive reliable rainfall historically, such as Southeast Asia,

Australia, and parts of Africa and India, we would see some sort of drought scenario or lower precipitation levels. And on the flip side, we can also see in other parts of the world increasing rainfall and potential floods — so in the Americas, particularly along the west coast of South and Central America and the southern United States.

The bottom line is that with abnormal precipitation levels, it has a direct impact specifically on agricultural commodities. As those commodities have different calendars in terms of the planting and harvesting periods, a prolonged El Niño — one that stretches for six to eight months — could really have an impact on yields and supply. And that impact could be on both the positive and negative side. So it really depends on the exposure of the specific country to the El Niño pattern, as well as the commodity that that country specializes in growing.

El Niño also brings warmer temperatures. And this is also impactful for the energy markets, specifically in demand for gas consumption and for heating.

Rob Rowe (03:13):

Is this just a normal annual event? Or has, say, climate change or anything exacerbated El Niño and made it worse? Or is this a particular year that is more acute than others? How should we think about that?

Arkady Gevorkyan (03:32):

El Niños appear frequently, I would say. The strong El Niño events are rare, and they roughly appear every seven to 10 years, so not very frequently. And the recent El Niño that we had — which was moderate to strong — was in 2023–2024, which was quite impactful for some agricultural commodities, including cocoa and sugar. The last stronger event that we observed was in 2015–2016. So the frequency of these relatively strong patterns is starting to increase. And yes, that is correct — in part, this is due to climate change and the increasing frequency and intensity.

Rob Rowe (04:17):

Is this a particularly strong one that's coming right now?

Arkady Gevorkyan (04:20):

It's a record one. It's one that we've never had before.

And the way it's being quantified is, as I mentioned, by the increase in sea surface temperatures in the Pacific Ocean. So at the moment, the sea surface temperatures have increased by 3 degrees vs. the norm. And it's set to continue to increase to 3.5 to 4 degrees, which is historical. The warmer temperatures that were observed in the Pacific Ocean in 2015–2016 were around 3 degrees. So we're surpassing what we've had so far. That's why

this is a real concern. And it's really uncertain in terms of what type of weather patterns it could bring with it, because we've never had an event like that before.

Rob Rowe (05:10):

And what is the impact in terms of commodities? You mentioned that in reality it could be deflationary for gas, but you're also telling me that maybe the agricultural markets could be the most affected. And as a follow-up to that, aren't agricultural markets already affected by other things like geopolitical events? Is this something that will add to that? And which sectors will be most affected?

Arkady Gevorkyan (05:41):

Yes, that's an excellent question. And we looked at it from all the different aspects. And obviously, the strengthening Super El Niño remains our highest-conviction agricultural risk heading into late 2026 and early 2027. Based on that, we developed a framework — a "production at risk" framework — where we looked at the areas that are impacted by this El Niño season, as well as the commodity and the calendar associated with that commodity. And we identified several commodities that are extremely exposed to those weather risks, which would include palm oil, robusta coffee, rice, sugar, and cocoa. And those are, to some extent, already playing out.

So on sugar, we obviously had — unrelated to El Niño — heat waves in Europe that lowered the yields. And in Brazil, it's actually directly related to El Niño, where you've seen and observed high rainfall and high levels of precipitation that have been lowering the ability to bring sugar to the global markets. If those risks persist, we will potentially see lower supply coming out of Brazil. Going forward, India's supply will become super relevant and important for global sugar prices, as in India we had a monsoon season that ended 30% to 40% below the norm. And this is quite concerning. We expect that the sugar yields in India will fall, which will shift the country from being an exporter to an importer.

The impact of El Niño is, again, as I mentioned, observed across the board on all commodities. And cocoa is probably one of the most recent examples of how these abnormal weather patterns could have an impact on supply. In 2023–2024, we had, as I mentioned, a moderate to strong El Niño, which still became devastating for the West African production of cocoa, where you had the dry weather conditions in Ivory Coast and Ghana that were coupled with the Harmattan winds that knocked out the trees and created supply destruction. Something like that we would know about in December or January — whether those winds return, how severe they would be, and how long they would stay. Something that no one will have visibility on at this point in time, but those risks are rising, especially on the back of the Super El Niño.

Rob Rowe (08:30):

Wow. I mean, when you say coffee, sugar, and cocoa — those are like three of my favorite things.

Anyway, a question for you is: When you think about the way it may affect markets — especially commodity markets — does it present obvious price appreciation as a result of a lack of supply? Does it also present potential liquidity challenges, because of that lack of supply? How are you viewing the markets here?

Arkady Gevorkyan (08:58):

Yeah, every market in that sense is slightly different. Obviously, cocoa will be less liquid and will react more to weather changes and patterns. The sugar market is a little bit more liquid, but there are other concerns. But obviously, when we look at the historical precedents of when we had El Niño and the implications for prices, we see a drastic drop in liquidity and more abrupt moves in prices. So definitely that comes with it.

Rob Rowe (09:32):

So more volatility? And how long will this particular bout of El Niño last, do you think?

Arkady Gevorkyan (09:45):

So there is a good chance that this will go well into March and April, but the peak of the El Niño is happening in November and December. That's what's projected by most meteorological agencies. But it will start declining and will last until, as I said, March or April. But during all that period, we can continue to observe this abnormal weather playing out.

Rob Rowe (10:17):

So we're looking at potentially about six months of impact?

Arkady Gevorkyan (09:45):

Potentially, yes. It depends, obviously — as the ENSO phenomenon starts lowering, you potentially see less of the intensity of the event and less abnormality typically. But it obviously creates a risk for grains and oilseeds as well — especially when we talk about South American production, particularly Brazil, as the safrinha corn is typically planted in January in Brazil, and the currently excessive rainfall in Brazil could limit the harvesting of soybeans, which could delay the safrinha corn. So that's the risk there as well.

And then U.S. farmers will start going into planting in March — by that point, I would assume that the risks are more limited from the weather side. But there are other things, as you mentioned earlier, surrounding agricultural commodities in general: weather, geopolitics, the closure of the Black Sea, fertilizer risks, potential higher demand from China and procurement of soybeans and corn.

So all of this is super important, and on the fuel side — with gasoline and diesel prices being where they are — we'll obviously see a larger pool of agricultural commodities exposed to the energy sector. There is higher demand and a higher pull as a result of this. So there are a lot of unrelated risks that are —

Rob Rowe (11:56):
— what we call secondary effects too, right?

Arkady Gevorkyan (12:00):
They can be, yes, but they can also become primary afterwards. If we look back at the 1970s during the first oil shock, Brazil really came out with a biofuel policy as a result of this and became one of the largest adopters of the blending of ethanol into gasoline. So we're kind of going through the same scenario at the moment. El Niño just tops all of that uncertainty, right, with everything that we have.

Rob Rowe (12:31):
And Arkady, what are some signposts we should be looking out for? What are you going to be watching as we go through this period that would either suggest that this could be more or less impactful than you anticipated?

And also — I don't know if you've done this — but how did it impact headline inflation in previous periods? Do you think you have a gauge on that yet? I mean, I know that must be hard to quantify.

Arkady Gevorkyan (13:00):
Yeah, sure. And we tried some quantitative experiments with that. But in terms of signposts, I think that agricultural markets are approaching an inflection point with the El Niño story or cycle. This is especially evident for sugar, as we start learning about the agricultural yields and sugarcane yields in India, and how much those are below the norm, as the current market perception is that they will fall, but by how much is not certain.

Secondly, in Brazil, on the excessive rainfall, whether that continues, and whether that continues to disrupt the crushing of sugarcane, which will limit the supply of sugar to global markets. If there is excessive rainfall, that's something to watch on the weather side.

And for cocoa, it's obviously, as I mentioned, the Harmattan winds and the weather in Ivory Coast and Ghana — which, again, will probably start materializing a little bit later, closer to December, January and February.

On the soybeans front, similar to sugar, it's about the Brazil weather and risks over there.

And then we should not forget about Southeast Asia and some of the producing areas there, which includes Indonesia, Malaysia, Thailand, and Vietnam. So those are important regions for sugar and robusta coffee.

So monitoring the weather and what's happening there would be the key, and something that will drive the market.

On how inflationary it can be, we looked at the DBCOM agricultural sub-index and, through some empirical work, drew the correlation between the food price index and food CPI in the U.S. And we noticed that it typically takes about six months for that shock to translate into being more inflationary. So having said that, we are already in month four to five, so we will probably start seeing that starting to appear in the inflation print towards the end of the year.

Rob Rowe (15:13):

Wow. So we may see a little bit of an uptick in inflation a few months from now?

Arkady Gevorkyan (15:19):

Yes.

Rob Rowe (15:20):

Oh, wow. Arkady, thanks so much for being on the podcast today and discussing El Niño, which has obviously got far wider implications than I had always thought. But thank you so much. And we'll see how we go from here.

Arkady Gevorkyan (15:30):

Perfect. Thank you, Rob.

Rob Rowe (15:35):

Today's episode was recorded on Oct. 26, 2026.

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