El Niño and Iran war reshape agricultural commodities

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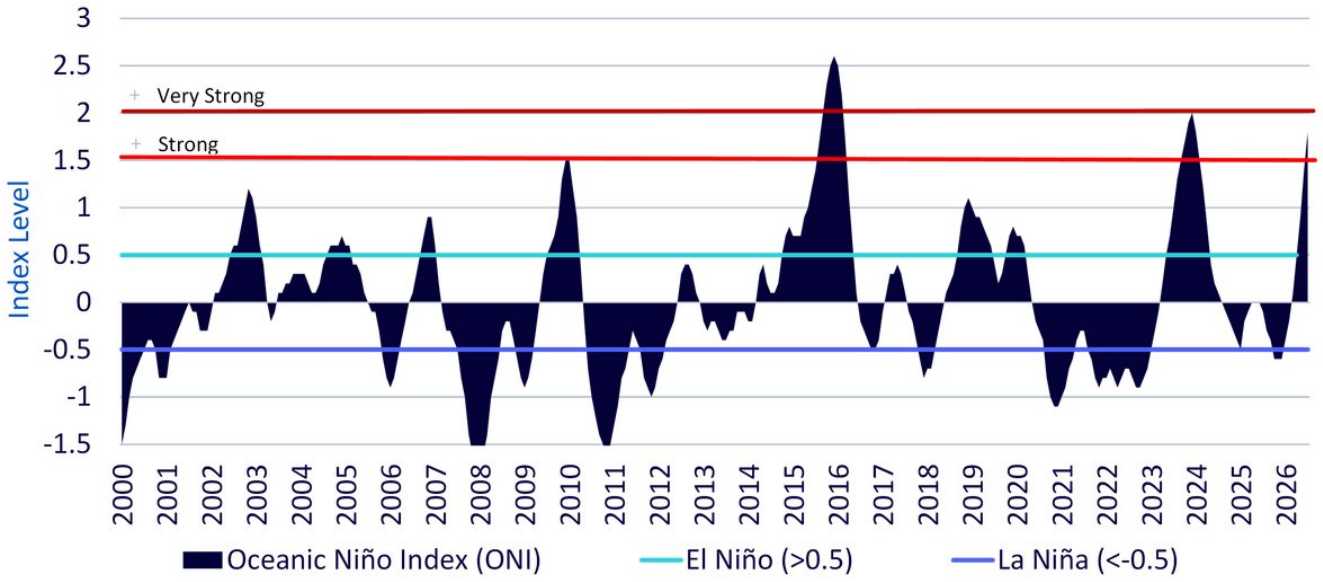
Key Takeaways

- National Oceanic and Atmospheric Administration (NOAA) assigns a greater than 90% probability to a very strong El Niño through the Northern Hemisphere autumn and winter.
- The Gulf conflict has damaged fertiliser production capacity rather than merely rerouting trade flows, potentially creating a multi-season input constraint. Prices are projected to remain above pre-conflict levels through 2028.
- Agriculture is the broadest-based gainer in 2026, occupying most of the performance leaderboard between rough rice and sugar, but the gains sit almost entirely in annual crops driven by geopolitics rather than weather.
- Cocoa and coffee, the two perennials, are the only agricultural decliners. That's the reverse of the usual El Niño pattern, and doesn't line up with the crop calendar.
- Sugar combines the highest weather exposure with the thinnest inventory cover.

The starting point for any agricultural view into 2027 is that the meteorological agencies have converged, and they have done so with unusual confidence. The National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Centre maintained an El Niño Advisory and stated that El Niño is strengthening, with a greater than 90% chance of a very strong event during the Northern Hemisphere autumn and winter of 2026-27[1].

The World Meteorological Organisation reached the same conclusion on 3 September, indicating a near-100% probability that El Niño persists through September-November 2026 and December-February 2027, with the event forecast to reach very strong intensity before peaking towards the end of the year[2]. The Australian Bureau of Meteorology's monitoring is consistent: the relative Niño3.4 index reached +2.51°C in the week ending 13 September against an El Niño threshold of +0.80°C, with the majority of models indicating a peak above +3.0°C and the event expected to persist into autumn 2027[3].

Figure 1: Oceanic Niño Index (ONI), 2000 to present



Source: National Oceanic & Atmospheric Administration (NOAA), Bloomberg Finance L.P., WisdomTree as of 31 July 2026.
Historical performance is not an indication of future performance and any investments may go down in value.

El Niño's agricultural transmission lags the oceanic peak by roughly six to twelve months because of the natural timeline required for atmospheric shifts to alter local weather, affect crop growing cycles, and impact global supply chains. An event peaking around year-end therefore bears most directly on the 2026/27 harvests now being planted or set: the Southern Hemisphere summer crop, the Indian rabi season, the West African main crop, and the Southeast Asian palm and robusta cycles. The price consequences of what the Pacific is doing today will largely be a 2027 phenomenon.

The Gulf conflict has moved from energy into inputs

The Gulf conflict is now in its seventh month and has escalated rather than stabilised. A ceasefire agreed in April and a memorandum of understanding signed in June both gave way when hostilities resumed in July. The most consequential recent development came on 11 September, when Saudi Arabia shut its 1,200-kilometre East-West pipeline following a drone attack, removing the principal route by which Gulf crude bypasses the Strait of Hormuz.

For agriculture, the relevant exposure runs through the fertiliser and feedstock trade moving through the same waterway, and the distinction from 2022 is what makes it durable. The Russia-Ukraine war in 2022 rerouted trade flows, while this one has damaged production capacity. An estimated 31 ammonia plants across the Middle East have been directly affected or shut outright, a further 49 across South Asia are curtailed or idle on constrained feedstock, and at least 20 Russian plants have been damaged by drone strikes[4].

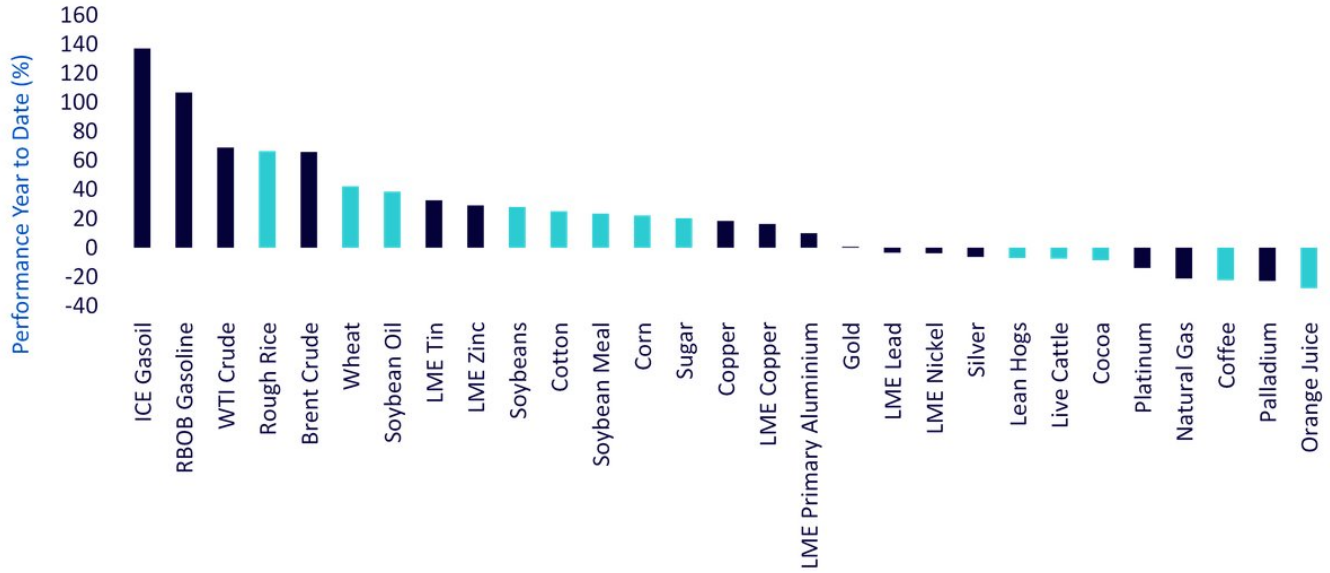
Restarting them will require time and capital extending well beyond the end of hostilities. Persian Gulf countries account for roughly 43% of seaborne urea exports and 44% of seaborne sulphur trade[5]; even in the United States, which sources two-thirds of both its urea and its phosphate domestically, 12% of urea

and 17% of DAP/MAP supply sits behind the Strait[1]. This suggests a multi-season capacity constraint, not a freight problem.

Grains: an annual-crop complex already carrying a risk premium

Energy has produced the largest individual moves of 2026, with refined products and crude occupying four of the top five places. But the more instructive feature of the year-to-date table is breadth rather than magnitude. Agriculture occupies almost the entire span of the leaderboard between rice and sugar.

Figure 2: Year-to-date performance across the commodity complex



Source: Bloomberg Finance L.P., WisdomTree as of 21 September 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

What has driven the annual crops is almost entirely the geopolitical and input channel rather than the weather channel. Wheat is the clearest case: the September World Agricultural Supply and Demand Estimates Report (WASDE) was outright bearish, with global 2026/27 production revised up 3.1mn tonnes to 822.4mn on larger Australian and Canadian harvests and ending stocks raised 3mn tonnes to 276.3mn. Yet wheat is up 42% year-to-date (YTD)[6] as continued Russian and Ukrainian strikes on Black Sea port infrastructure disrupted the physical route for close to a quarter of global wheat exports. Speculative net positioning in wheat rose 130% last month, reflecting an improvement in sentiment towards wheat[7]. For wheat, the structural case may depend on whether the current risk premium proves persistent rather than episodic. Black Sea infrastructure is now a recurring target rather than a one-off disruption, and Australian wheat sits in the highest El Niño exposure band for the 2026/27 harvest.

Corn markets are highlighting a genuine tightening. US 2026/27 production was cut 5.4mn tonnes to 401.3mn on hot and unevenly wet conditions, global production was reduced 7.9mn tonnes to 1,291mn, and global ending stocks fell 2.6mn tonnes to 272.1mn. Net positioning rose 92%[4]. For corn, the multi-year argument is the input constraint. Corn is the most nitrogen-intensive major crop, and fertiliser prices are

projected to plateau above pre-conflict levels through 2028. Where sustained phosphate and potash under-application is already visible, applications have fallen 10-15% in recent years. The yield consequences emerge with a 3-year lag. That is a slow, cumulative headwind to trend yield rather than a single-season shock, and it is the mechanism by which this conflict outlasts itself.

While the soybean complex has moved on demand rather than supply. The United States Department of Agriculture (USDA) raised US production to 123.4mn tonnes, but China has already purchased close to 13mn tonnes this season, over half of its annual 25mn tonne commitment running through 2028, alongside a broader $17bn agricultural purchase undertaking. The Chinese purchase commitment runs to 2028 and may provide a degree of demand support that is less directly dependent on weather conditions. The nearer-term caution is inventory: soybean and soybean oil stocks sit 7.9% and 8.5% above their five-year seasonal averages. Soybean oil carries an additional and underappreciated support in the energy linkage; with crude above $100, the biofuel demand channel may strengthen the vegetable oil complex independently of the crush.

Softs: the complex where the weather signal is least priced

The YTD performance table makes the central point. Sugar is up 20%, cotton up 25% but cocoa is down 9%, coffee is down 22% and orange juice is down 28%[8]. The softs complex, which historically shows the greatest sensitivity to El Niño, has been the weakest part of the agricultural spectrum this year.

Sugar is the exception and the clearest expression of the dual shock. Raw sugar traded at 18.44 cents per pound in early September, close to a 16-month peak of 18.77 cents, as tightening supply reinforced expectations of a 2026/27 deficit. Brazilian centre-south production fell 7.9% in the first half of August, and elevated energy prices continue to incentivise mills to prioritise ethanol over sugar. India has authorised one mn tonnes of duty-free raw imports while sharply curtailing ethanol diversion, a combination of measures that implies domestic inventories are tighter than officially reported. Monsoon rainfall has run materially below normal across Maharashtra, Karnataka and Marathwada, regions accounting for close to a third of Indian output. Sugar carries both the weather exposure and the energy-price transmission, and it has the thinnest inventory cushion of the major softs.

Cocoa presents the most contested setup. Prices have recovered strongly from the second-quarter trough, with New York futures around $6,250 per tonne, and West African rainfall during the August mini-dry season ran well below seasonal norms, marking a genuine risk to pod survival and main-crop development if September rains fail. Against this, the inventory position is fundamentally different from 2023/24. ICE-certified inventories have recovered to near a two-year high, while European first-quarter grindings fell 4.6% year-on-year to the weakest level in 17 years[9,10]. Cocoa enters this El Niño with a stock buffer it did not have two years ago, and with demand visibly impaired by the prior price shock. The upside case rests on weather overwhelming that buffer; it is not the same trade as 2023.

Arabica faces improving supply: the Brazilian harvest is well advanced, and revised export registrations indicate flows considerably stronger than previously reported. Certified stocks remain near multi-year lows and physical availability is tight, but the direction of travel on supply is constructive. Robusta is the more

interesting exposure. It has been trading near multi-month lows, around $3,296 per tonne[11], precisely as dryness develops across Indonesia and Vietnam during a critical flowering window. Because coffee is a perennial, damage to flowering now affects the 2027/28 crop, not this one. Robusta prices are near recent lows, even as the main producing regions fall into the highest band for El Niño exposure. That creates a divergence between current prices and the potential weather risks facing supply.

Cotton is up 25% YTD and the most demand-dependent[5]. The recent price trajectory has been declining on improving US crop conditions, softer export sales and a firmer dollar. The curve sits in contango, somewhat deeper than wheat or corn, which is at odds with cotton inventories being the most depleted in the group on a seasonal basis. That divergence reveals the market is weighting current crop conditions over old-crop tightness, and a weather disruption into 2027 would find very little buffer. Cotton's longer-term trajectory, though, is tied to global textile demand and the dollar more than to the Pacific.

Conclusion

Two shocks converge on the same production window from different directions. The Gulf conflict raises the cost and constrains the availability of inputs applied ahead of the 2026/27 season and does so over a multi-year horizon because the damage is to production capacity rather than to trade routes. El Niño raises the probability that the yields those inputs are meant to protect come in below trend, with the transmission lagging the oceanic peak by six to twelve months and therefore landing largely in 2027.

El Niño intensity and its regional weather effects may differ from current forecasts, while an easing of geopolitical tensions could reduce pressure on energy and fertiliser markets. Stronger-than-expected harvests, inventory rebuilding, weaker demand or changes in government policy could also offset weather and input-cost pressures, resulting in different commodity price outcomes from those discussed above.

[1] Source: The National Oceanic and Atmospheric Administration’s (NOAA) as of 31 August 2026.
[2] Source: World Meteorological Organisation as of 3 September 2026.
[3] Source: Bureau of Meteorology as of 13 September 2026.
[4] Source: The Fertiliser Institute, as at May 2026.
[5] Source: NDSU Agricultural Trade Monitor, as at March 2026.
[6] Source: Bloomberg Finance L.P., from 31 December 2025 to 21 September 2026.
[7] Source: Commodity Futures Trading Commission, as at 16 September 2026.
[8] Source: Bloomberg Finance L.P., from 31 December 2025 to 21 September 2026.
[9] Source: European Cocoa Association as of 16 July 2026.
[10] International Continental Exchange as of 31 August 2026.
[11] Source: Bloomberg Finance L.P., as at 22 September 2026.

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