What's Hot: Anticipating the return of La Nina

Published 16 September 2024

Aneeka Gupta
Director, Macroeconomic Research

Key Takeaways

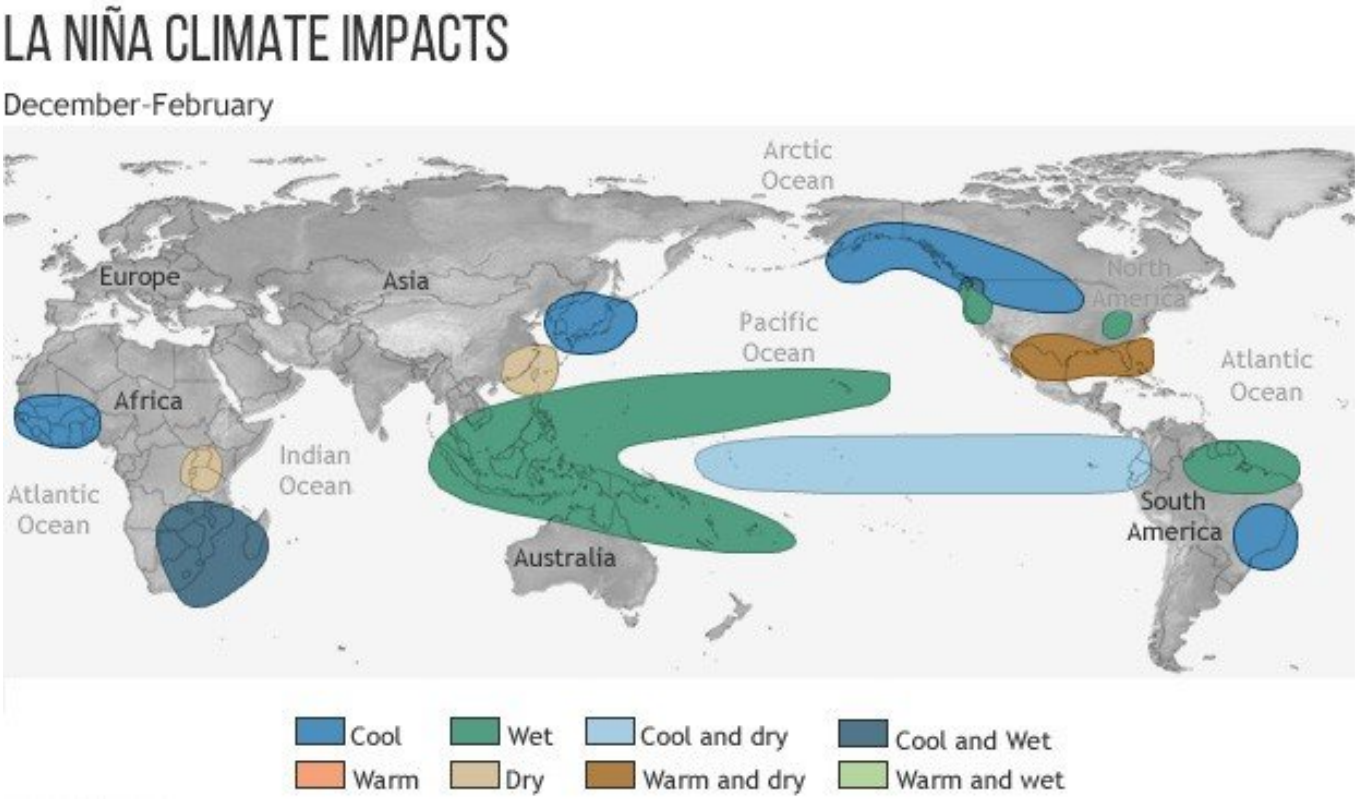
- La Nina is favoured to emerge in September – November with a 71% chance and is expected to persist through January to March 2025
- Historically – wheat, corn, soybean and cotton displayed a greater probability of trading higher six months after a La Nina event had begun
- Inventories of many agricultural commodities remain below their long term average, lowering their ability to absorb a price shock

The conclusion of the 2023/24 El Nino event is now giving way for the likely return of the climate phenomenon La Nina. The cooling of the sea's surface in July and August now points to a shift towards more neutral conditions. The chances of a La Nina weather pattern forming this year are becoming more likely. According to NOAA, La Nina is favoured to emerge in September – November with a 71% chance and is expected to persist through January to March 2025[1].

The El Nino-Southern Oscillation Cycle

During La Nina, the tropical Pacific Ocean is cooler than average, putting in motion a series of potential impacts, from stronger rains in Asia to drier conditions in South America. Increased rainfall in Southeast Asia is expected to improve the outlook for rice, sugar and food oils. In contrast, the transition may intensify dry conditions in Latin America, negatively affecting crops and yields for commodities such as soybeans, maize and sugar. Reduced rainfall in South America due to La Nina could delay plantings and further impact yields for the next season too.

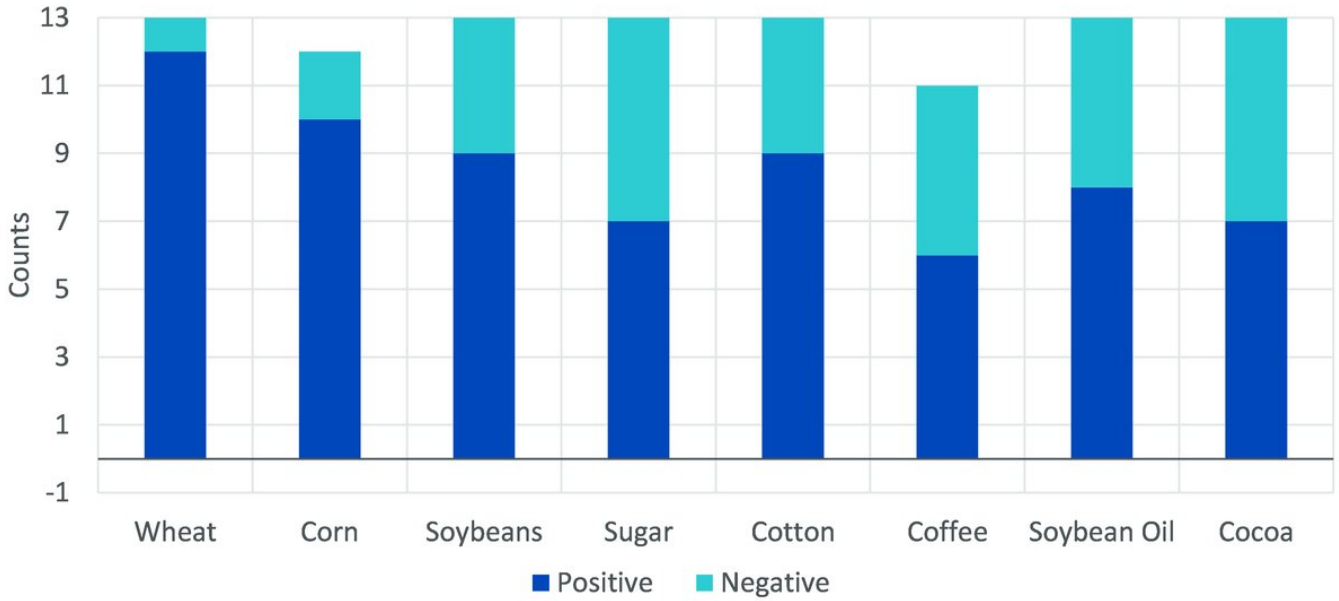
In the US, La Nina can result in drought and winter heat to some southern states and heavy rains to the Pacific Northwest. La Nina is also known to intensify extreme weather events such as flooding, drought and heatwaves and hurricanes across key producing regions, adding a layer of uncertainty to the agricultural production and food security.



Source: National Oceanic and Atmospheric Administration, WisdomTree as of 30 August 2024.

Reflecting on past La Nina cycles

Looking back at historical data since 1950, there have been a total of 14 La Nina weather phenomena. On analysing agricultural commodity prices during 13 of those La Nina episodes, we found that wheat traded higher in 12 cases, six months after the La Nina event started. While in 11 of the 13 cases corn traded higher, six months following the start of the La Nina event. In 9 of the 13 prior La Nina cycles, soybean and cotton traded higher six months after the event began. While for most other commodities the results were mixed.



Source: National Oceanic and Atmospheric Organization, Bloomberg, WisdomTree, data from January 1950 to August 2024. Please note in the case of coffee, owing to data availability, we have analysed price performance in 11 prior La Nina episodes compared to 13 for the remaining commodities. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Conclusion

While the La Nina event is not guaranteed as it holds less than 100% probability, and meteorologists are expecting it to be a relatively weak event[2], inventories of many crops remain below the long-term average. Inventories for wheat, corn, sugar and coffee are 9.8%, 2%, 20% and 30% below their five-year historical average[3]. And so, the ability to absorb a price shock is thinner for these commodities in particular. La Nina could therefore provide an upside price boost for these agricultural commodities.

In addition, sentiment across agricultural commodities remains low. Net speculative positioning across wheat, corn, soybeans, sugar, cotton and soybean oil are well below their respective five-year average.

[1] Climate Prediction Center as of 12 September 2024

[2] https://www.climate.gov/news-features/blogs/enso

[3] United States Department of Agriculture (USDA) as of 3 August 2024

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice.

The application of regulations and tax laws can offen lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.