Market Snapshot

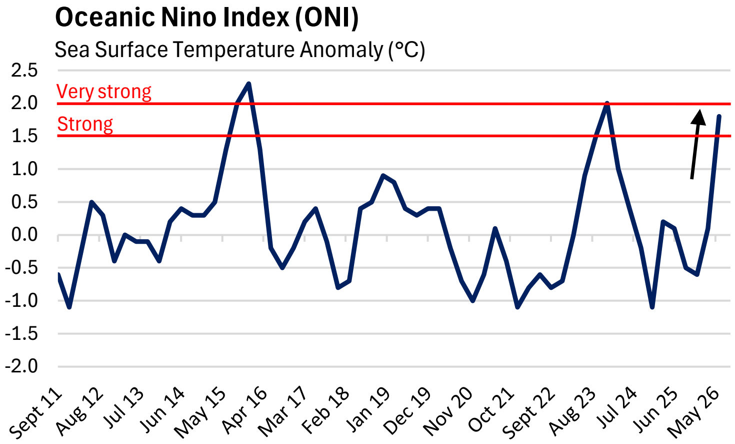
El Niño Could Set a Record, Pressuring Prices

September 2026

Navigating Weather Risk

The Strongest El Niño on Record?

- Centuries ago, Peruvian fishermen noticed that every few years, around Christmas, the waters along their coast turned unusually warm and their catch collapsed. **They named this recurring visitor after the Spanish name for the Christ Child: El Niño**.
- U.S. meteorologists from the National Oceanic and Atmospheric Administration (NOAA) announced the beginning of El Niño in June. **They now assign a probability above 90% that the episode becomes very strong, and 69% that it exceeds every event recorded since 1950**.
- **El Niño occurs every two to seven years and lasts between nine and twelve months**. This climate event is the warm phase of the El Niño-Southern Oscillation (ENSO) cycle, which also includes a neutral phase and a cold phase, La Niña.



Sources: Bloomberg, BCP Asset Management

Navigating Weather Risk

From Weather to Prices

- **The warming of ocean surface temperatures in the eastern and central Pacific increases the likelihood of extreme weather around the globe**. It typically brings dryness to much of Asia and parts of Africa, heavier rainfall to North America, and a mix of both across South America.
- **A strengthening El Niño threatens to disrupt production of key commodities, feeding through to inflation risks. Asia is particularly exposed**, with around 10% of headline inflation potentially attributable to such climate events, roughly twice the share observed in Western Europe and North America.
- **In agriculture, risks come from drought and heat in some regions, excessive rain in others**. Sugar, palm oil, robusta coffee and cocoa are among the most vulnerable, the impact often appearing months later as water stress affects plant development.

Cocoa Price

In USD per ton

Sources: Bloomberg, BCP Asset Management

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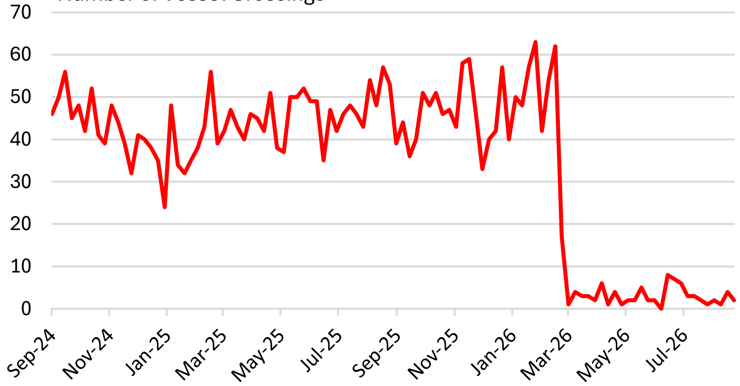
Reading the Context for Portfolios

- **Industrial metals such as copper and nickel can be affected through energy supply and access to mines**. In regions where electricity is generated by hydropower, El Niño can disrupt activities, while heavy rains can damage infrastructure and restrict access.
- **The upward pressure on prices will ultimately depend on the intensity and duration of El Niño, with implications for interest rate expectations and operating margins**. The risk could also be compounded by the collapse in Hormuz transits, which is disrupting critical production inputs such as energy and fertilizers.
- **As a result, we believe enhancing portfolio diversification is key in such an environment, especially through alternative investments**. A broad basket of commodities could help navigate El Niño inflationary pressures, as well as geopolitical risks linked to the conflict in Iran. Moreover, commodities show relatively low correlation with traditional assets.

Strait of Hormuz Dry Cargo Transits

Number of Vessel Crossings



Sources: Bloomberg, BCP Asset Management

GENEVA Banque de Commerce et de Placements SA, Rue de la Fontaine 1, PO Box, CH-1211 Geneva 3
DUBAI Banque de Commerce et de Placements SA, DIFC, The Gate Village 4, Level 2, Dubai, UAE

wealthmanagement@bcp-bank.com / bcp.bank