

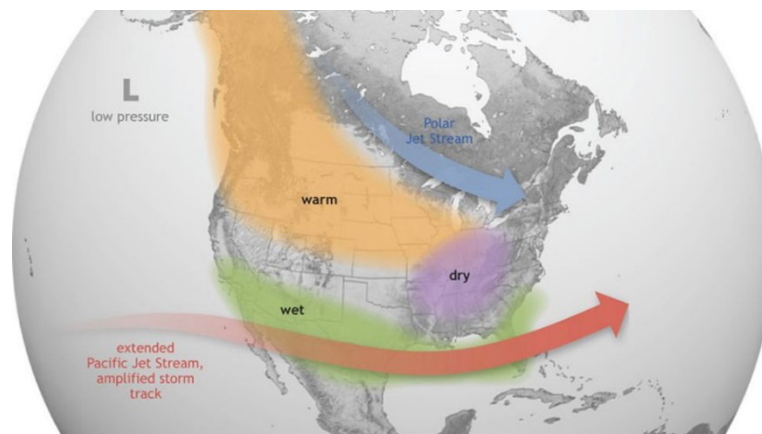
# El Niño 2023-2024

## Market Impact Review

El Niño is a climatic phenomenon characterized by a band of above-average ocean surface temperatures that develops every three to seven years off the coast of South America and lasts about 2 years. El Niño can cause major climate changes around the world. Since 1950, the strongest El Niño events were in the winters of 1957-58, 1965-66, 1972-73, 1982-83, and 1997-98. The most recent El Niño event, in 2018–19, was relatively weak. El Niño events normally last somewhere between nine months and two years but can be longer.

El Niño's influence on U.S. seasonal climate is most pronounced in winter, although it can also impact the spring severe weather season and the Atlantic and Pacific hurricane seasons. The World Meteorological Organization (WMO) expects global temperatures to rise to record levels during the next few years as El Niño begins, potentially severely affecting millions of people.

The probability of this ocean-warming event hitting this year is now over 90%. It likely has already begun and there is a good chance it will persist into 2024. Experts have warned it may have a widespread impact. While the exact strength of this El Niño event remains uncertain, the National Oceanic and Atmospheric Administration (NOAA) predicts there is an 80% chance of at least a moderate El Niño and a 55% chance of a strong El Niño this year. Experts are also concerned that recent high sea surface temperatures will make the upcoming El Niño worse. In early April, the average global sea surface temperature was the highest in recorded history.



**A map showing how El Niño could impact the U.S. climate.**

El Niño developments can significantly influence Gross Domestic Product (GDP) growth, inflation, and commodity prices. A recent International Monetary Fund (IMF) study with a special focus on El Niño looked to identify the impact on growth, inflation, energy prices, and nonfuel commodity prices. They found that El Niño has a large but highly varied economic impact across different regions. Australia, Chile, India, Indonesia, Japan, New Zealand, and South Africa often experience a brief decline in economic activity in response to a typical El Niño shock. However, in other parts of the world, an El Niño event can actually boost growth.

Some countries, like the United States, see direct improvements, while others, like those in Europe, benefit indirectly through positive spillovers from major trading partners. Many countries experienced short-term inflation pressures following an El Niño shock (its magnitude increasing with the share of food in the consumer price index basket (CPI basket), while energy and nonfuel commodity prices also rose around the world.

In Australia El Niño causes hot and dry summers and reduces wheat export volumes, driving up global wheat prices. In India, it can increase domestic food prices and inflation. El Niño can also increase world prices for coffee, cocoa, and palm oil in Indonesia. Mining is negatively impacted due to flooding in Chile and Asia, pushing up prices for nickel and copper.

On the other hand, in the United States, El Niño typically brings wet weather to California (benefiting lime, almond, and avocado crops, among others), warmer winters in the Northeast, increased rainfall in the South, and reduced tornado activity in the Midwest. It also lessens the number of hurricanes hitting the east coast. These factors collectively contribute to higher real GDP growth. Furthermore, several economies, such as those in Europe, that are not directly affected by El Niño have historically benefitted from the shock, primarily through positive indirect spillovers from commercial trade and financial market links.

In summary, El Niño's historic impact on markets includes:

- Potential benefit for American and European farmers and miners due to higher food and metal inflation.
- General stability in the oil sector and reduced insurance claims for hurricane damage, thanks to fewer hurricanes on the east coast and the Gulf.
- Likely increase in demand for coal and crude oil due to stronger GDP growth in the U.S. and Europe.
- Anticipated higher global wheat prices, benefiting exporters and Midwest farmers.
- Expected increase in world prices for coffee, cocoa, and palm oil due to lost production from droughts and fires in Asia.
- Possible rise in metal prices due to reduced access to Chile's mountainous mining region, which harbors extensive copper deposits.
- Potential benefit for air conditioner manufacturers in the U.S. and Europe due to El Niño's warming trends.

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*Sources: 1. IMF: El Nino Good Boy or Bad (2016) 2. Significant El Niño event is almost guaranteed this year, experts warn. And it could be a big one. May 12, 2023, LiveScience 3. WMO Update: Prepare for El Nino May 3, 2023 4. Bloomberg News*