SPECIAL REPORT

El Niño:
The FX Angle

LUMON
CORPORATE

El Niño's Currency Cost

There's an 81% probability of a very strong El Niño developing through October to December this year according to the US National Oceanic and Atmospheric Administration (NOAA)[1]. That's a level of intensity that would place it among the most powerful events recorded since 1950. Markets are already calling it a "super El Niño." The weather itself may be taking over the headlines, **but globally exposed businesses should be focusing on the chain reaction it sets off.** Disrupted harvests move commodity prices, commodity prices move supplier and input costs, and that cost movement shows up in margins in ways finance teams don't always trace back to the source.

Forecasts of this kind carry real uncertainty. **Strength, timing and regional impact can all shift as the event develops.** What follows sets out historical patterns and mechanisms, offered as context rather than a forecast for this cycle.

This special report looks at the mechanism generally, as the exposure spans multiple sectors. Two industry highlights further down look specifically at food and drink, and clothing and textile manufacturing, as examples of how it plays out in practice.

1 Siddarth S and Johann M Cherian, "Emerging markets stare at inflation risks as powerful El Niño looms," Reuters, 27 July 2026.
2 Reuters, 27 July 2026
3 Jakob Feveile Adolfsen and Marie-Sophie Lappe, "Risks to global food commodity prices from El Niño," ECB Economic Bulletin, Issue 6/2023.
4 ECB Economic Bulletin, Issue 6/2023
5 David Rees and Sandeep Jaggi, "A 'super El Niño' threatens waves of commodity-driven inflation into 2027," Schroders Wealth Management", 15 June 2026
6 Schroders Wealth Management, 15 June 2026
7 Schroders Wealth Management, 15 June 2026

The chain reaction behind the weather

El Niño alters rainfall and temperature patterns across large parts of the world, and the regions affected happen to produce a large share of the commodities global supply chains depend on.

India, the world's largest rice exporter, relies on the monsoon for close to 70% of its annual rainfall[2]. A weak monsoon threatens rice yields directly. Historical analysis from the European Central Bank found that a shift from a normal to a strong El Niño has previously pushed global rice, corn and soybean prices higher, with effects building over 12 to 16 months[3]. Wheat has shown a similar direction of movement, though the ECB found this effect was not statistically significant[4]. Separately, Schroders Wealth Management expects this year's Australian wheat planted area to fall sharply, with production potentially down by around 9 million tonnes[5].

Sugar carries a particularly clean historical link. Past El Niño events have cut production in India and Thailand by 20 to 30%, pushing major producers toward net imports and lifting prices[6]. Cocoa's exposure this cycle looks different: West Africa faces drier conditions and stronger Harmattan winds, but analysts attribute the current risk to El Niño compounding with separate fertiliser supply disruption, rather than El Niño acting alone[7].

Cotton is likely to follow a comparable path. A large share of global supply is understood to come from the same monsoon-dependent regions, which would extend the mechanism beyond food and drink into apparel and textile manufacturing.

Most of the businesses we speak to would tell you they have no commodity exposure, and on paper they're right. If you're paying a supplier in an emerging market currency, or buying an input priced off a global benchmark, it still reaches your margin whether or not you ever touch a futures contract. The problem is it doesn't show up labelled. It turns up as a cost line that's moved three or four percent, and nobody's connecting that to a harvest on the other side of the world until it's too late."

Eliot Basset
Managing Director

Commodity price moves of this kind tend to feed through into the currencies of producer nations, and can influence the inflation outlook central banks are managing. Several Asian currencies, including the Indonesian rupiah and Indian rupee, are trading near multi-year lows, and central banks across the Philippines, Indonesia, Korea, Pakistan and Sri Lanka have already raised rates once this year[8].

8 Reuters, 27 July 2026

What this looks like in practice

Take a UK food importer paying a Southeast Asian supplier quarterly, in the supplier's local currency, for a shipment priced against a fixed exchange rate assumption set at the start of the year.

If that currency strengthens as commodity prices rise through the second half of the year, in line with the kind of move seen in past El Niño cycles, the same invoice costs more in sterling terms with no change in volume or contract price. This is an existing risk, sitting in a supplier contract that was never priced with this mechanism in mind.

The information provided in this scenario is hypothetical and is intended for illustrative purposes only. It does not reference live rates or forecast a specific outcome, and should not be read as a recommendation of any kind.

The exposure sits one step removed

Few finance teams think of themselves as holding El Niño risk. Most don't trade rice futures or hold sugar contracts.

The risk runs through supplier contracts priced in emerging market currencies or commodity-linked currencies and through input costs tied to global commodity benchmarks. It can also sit in receivables and payables denominated in the currencies of the countries most affected by this cycle.

A business with no direct commodity trading can still carry meaningful exposure through the price of what it buys. It often stays invisible until a margin line moves for reasons nobody can quite explain.

9 Lumon, The FX Factor, 2026

INDUSTRY HIGHLIGHT:
Food and Drink

Food and drink businesses carry some of the most direct exposure to the commodity-to-margin chain described above, since sugar, rice and wheat are direct inputs. Lumon's The FX Factor report[9], based on research with senior decision-makers across the UK food and drink sector, shows why this matters.

- Nearly every business in the sector is chasing growth this year, and a third are specifically targeting overseas markets, which means more supplier payments and more revenue sitting in the currencies this event affects, at exactly the moment those currencies are moving.
- That pressure lands on margins with little room to absorb it. The report puts the sector's average net margin at 11.7%, with 45% of businesses running below 10%. FX fluctuations cost the sector an average of 3.33% of net profit in a typical year, before this event is factored in.
- Sugar, rice and wheat sit in ingredient and input lines across bakery, confectionery, beverage and staple food production, and the report found that almost half the sector experiences timing gaps between supplier payments and revenue caused by FX volatility. A shipping or logistics delay from this event adds directly to that.
- The same report shows most of the sector isn't positioned to respond. 59% of businesses don't use hedging or financial tools to manage FX risk at all, and three-quarters don't review their FX strategy regularly.

For a sector already operating on thin margins, there's little room left to absorb a shock of this scale.

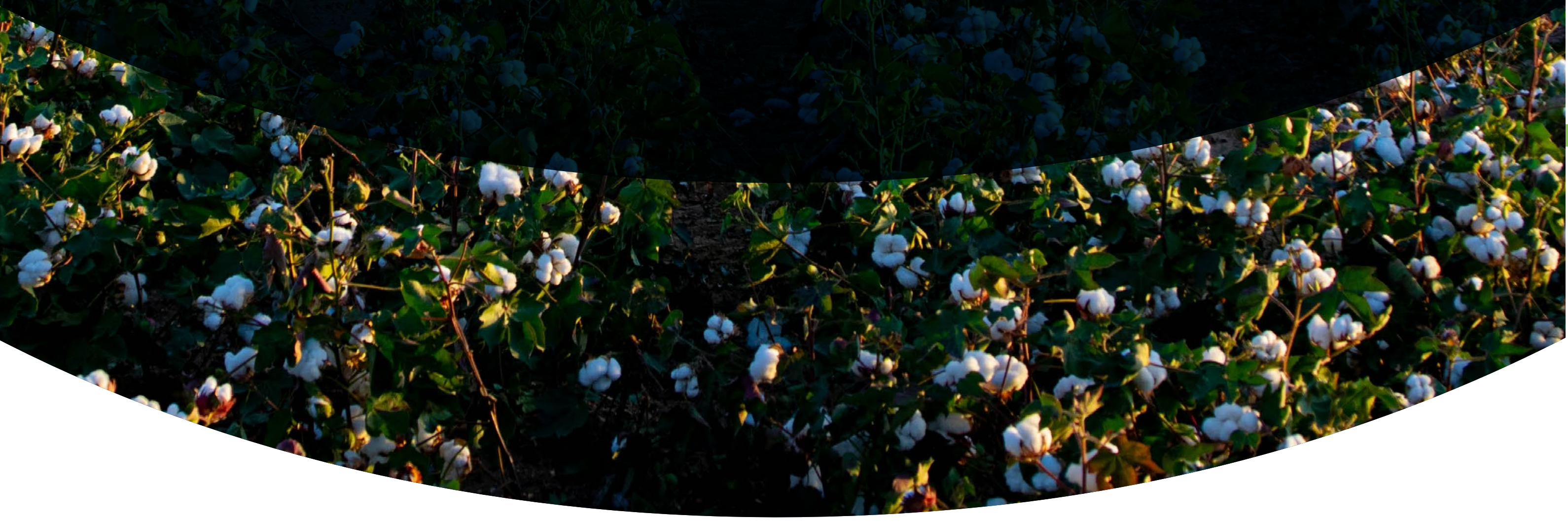
We often see it with clients. They come to me wanting to talk about currency, and it turns out the real driver is further back in their supply chain. I've got a manufacturer who buys cocoa out of West Africa. A poor harvest there moves the price, and the local currency often moves with it. That doesn't hit their costs straight away, it's usually a couple of months later, and by then nobody in finance is thinking about a harvest disruption from months back. They're just asking why input costs have jumped. Hedging isn't about predicting what El Niño will do. It's about having a plan for when the cost shows up, rather than being caught off guard by it."

Tom Harrington
Strategic Account Manager

INDUSTRY HIGHLIGHT:
Clothing & Textile Manufacturing

Textile and apparel businesses face a comparable exposure through cotton, sourced heavily from the same monsoon-dependent regions driving the food commodity story.

- A significant share of global cotton supply originates from India and other South Asian producers exposed to monsoon disruption.
- Businesses sourcing finished garments or raw cotton from these regions may see input costs move for reasons unrelated to their own supplier negotiations or currency hedging on the finished-goods side.
- The exposure often sits further up the supply chain than the currency pairs a business actively manages, which is what makes it easy to miss.



A second problem: timing

Weather disruption also disrupts the physical movement of goods, not just prices.

Flooding, drought and extreme weather can delay ports, shipping routes and logistics timing in exposed regions. For a business managing FX cash flows, that's a distinct problem from a change in the exchange rate itself. A shipment delayed by weeks changes the point at which a payment or receipt lands, which changes the currency exposure a business is carrying at that moment, regardless of where the rate itself sits.

A business can lose margin from this even when the exchange rate itself hasn't moved against them, because the cash flow landed at a different point than the hedging strategy assumed.

How this reaches businesses with no direct link

Strong El Niño events have historically coincided with higher energy costs and broader input price pressure, which could squeeze margins more broadly, beyond businesses with direct commodity-currency exposure. If that pattern holds this cycle, it would widen the relevance of this story to EUR/USD-exposed businesses too, who may feel the effect through margin rather than through currency moves directly.

Mapping exposure ahead of impact

Currency risk usually arrives without warning. This is a rare case where businesses have advance notice, which means exposure can be mapped before the mechanism described above has fully played out.

For some finance teams, an event like this makes currency risk more concrete to plan around than it is in the abstract. Whether a hedging policy already accounts for it depends on each business's own strategy and risk appetite, but the notice itself is what this cycle offers that most events don't.

This is what makes predicting currency moves so tricky. Normally, currency moves are driven by economic data. This is different: El Niño is something we know is likely to happen, but not what it will do to currencies once it does. That uncertainty is why it's worth understanding your options for managing it, whatever the eventual currency impact turns out to be."

Erik Magnusson
Director of Corporate Strategy and Delivery

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Make your FX a policy decision, not a market call.

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Get in touch

Contact us at: business@lumonpay.com

Our offices

UK

20 Farringdon Road
London
ECIM 3HE

+44 (0)203 384 7280

IRELAND

2 Dublin Landings
North Wall Quay
North Dock
Dublin 1
DO1 V4A3

+353 (0) 1 592 1528

PORTUGAL

Praça do Marquês
de Pombal, 14,
1250-162, Lisbon

+351 (21) 7009147