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ASEAN-5 & India

Assessing the impact of El Niño

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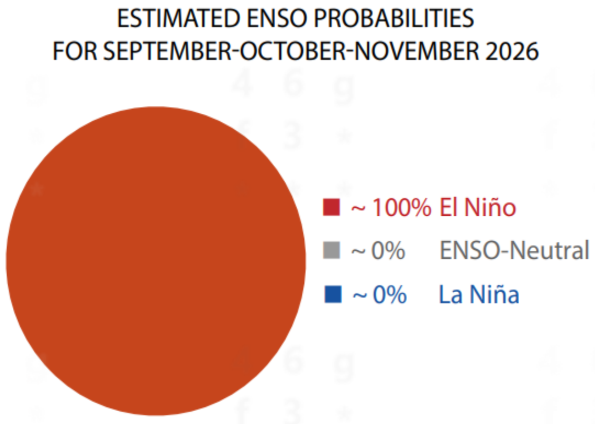
- We see India, the Philippines, Thailand and Indonesia as the higher-exposure economies. Malaysia and Vietnam face meaningful but more concentrated risks.

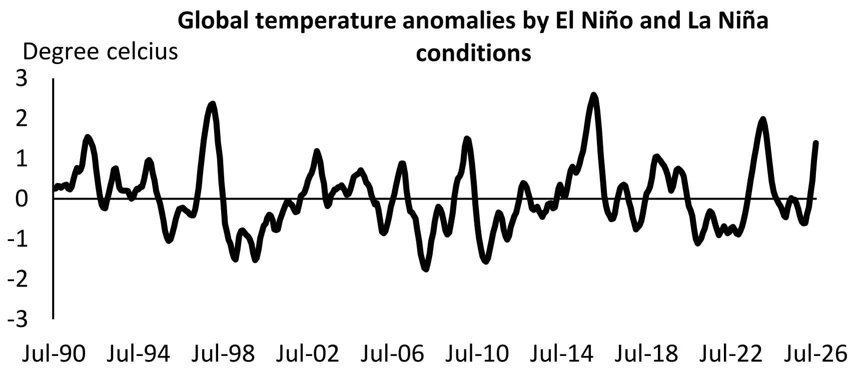
- The main channels of impact will be higher food prices, with rice, wheat, maize and vegetable oils most exposed. These can add to regional inflationary pressures, with imported inflation risks also rising considering most of this region are net food importers. The growth impact is more heterogenous but likely limited to the agriculture sector.

- With some regional central banks already citing upside inflationary risks from El Niño, we reiterate our long-held view that central banks across ASEAN-5 and India will continue to tighten monetary policy in response to building inflation risks. Our baseline remains for policy rate hikes for the remainder of 2026 and/or 2027.

El Niño is the warm phase of the El Niño–Southern Oscillation (ENSO), a natural climate pattern that shifts global weather patterns and increases the risk of floods, droughts, storms, fires, and heat waves worldwide. El Niño can bring drought to some regions and severe flooding to others – and in some cases both. These extremes damage crops, livestock and infrastructure, reducing food production and disrupting markets.

El Niño is firmly established and will intensify into a very strong event in the coming months, according to the World Meteorological Organization (WMO). Forecasts indicate a near-100 % probability that El Niño will persist through September-November 2026 and December 2026-February 2027, with further strengthening forecast before peaking towards the end of 2026.





Source: Our World in Data; OCBC Group Research.
Difference of a specific month's average surface temperature from the 1991-2020 mean, in degrees Celsius.

What past El Niño episodes tell us about future risks

El Niño has historically disrupted global agricultural production, particularly for climate-sensitive crops such as rice, maize, wheat, sugar and palm oil, although impacts vary widely across regions and crop cycles. Past severe episodes have been associated with lower crop yields and tighter food supplies, contributing to higher food prices and periodic inflationary pressures across import-dependent economies.

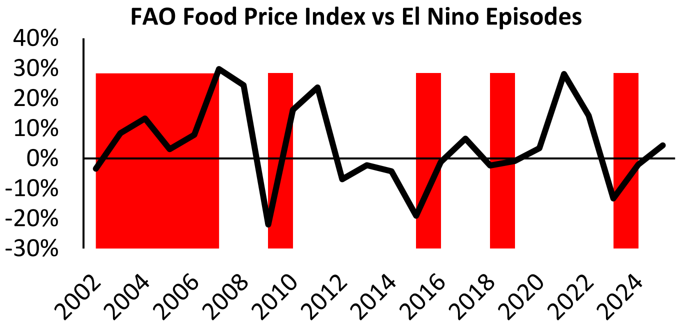
A widely cited study[1] found that El Niño negatively affected yields across 22-24% of harvested areas globally, while benefiting 30-36% elsewhere, highlighting the uneven geographic impact of the climate phenomenon. Meanwhile, we find that the impact on food prices is often more visible in the second year of El Niño, as weather-related production shortfalls feed through to inventories, trade flows and consumer prices. However, El Niño is not the sole determinant; other external and domestic factors also play a crucial role. The World Bank (2015)[2] found that "El Niño is likely to have a greater impact in local food markets that are weakly linked to international markets—a fairly common characteristic of local food markets in poor countries."

[1] Iizumi et al. 2014

[2] World Bank Commodity Markets Outlook, Understanding El Niño, October 2015.

Crop	El Niño global-mean yield effect	La Niña
Maize / corn	reduced (up to **−4.3%**) — the biggest loser	below normal
Rice	reduced (within the **−4.3% to +0.8%** band)	below normal
Wheat	reduced (within the **−4.3% to +0.8%** band)	below normal
Soybean	**improves +2.1% to +5.4%** — the exception	below normal
All four	El Niño hurts more area than it helps	**−4.5% to 0.0%** (all below normal)

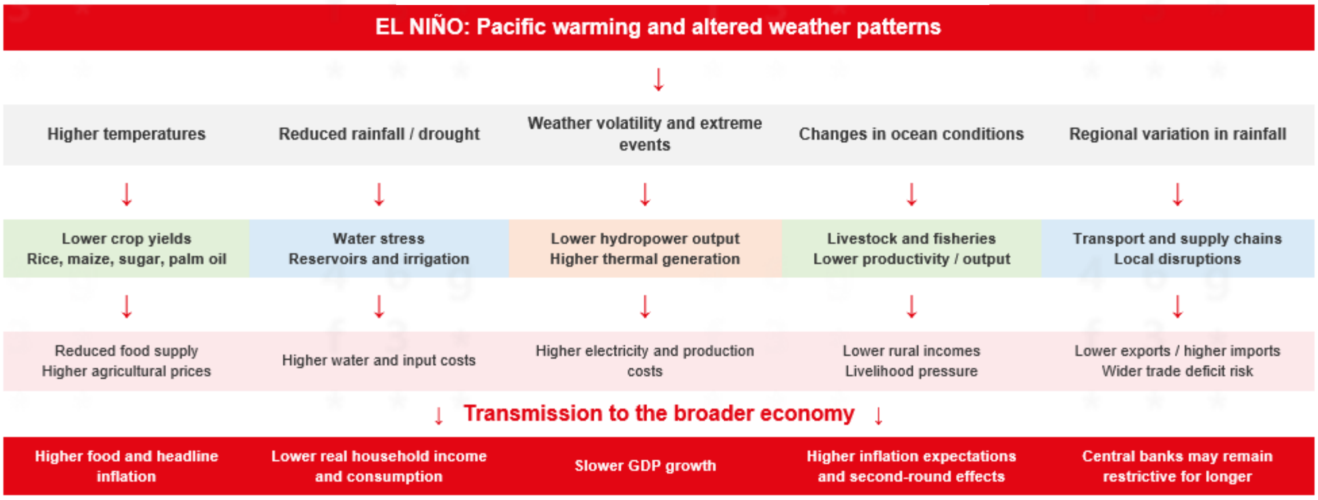
Source: Iizumi et al. 2014; OCBC Group Research.



Annual averages, nominal, 2014-2016 = 100.
Source: FAO Food Price Index (monthly nominal CSV, annualised); OCBC Group Research. El Nino intensity: NOAA ONI (peak winter).

From a macroeconomics perspective, El Niño is a supply-side food and water shock rather than a uniform regional growth shock. The first-round effects are clearer on rainfall, crop yields and reservoir levels. The second-round effects are transmitted through food inflation, real household income, trade flows and the potential timing of monetary-policy normalisation.

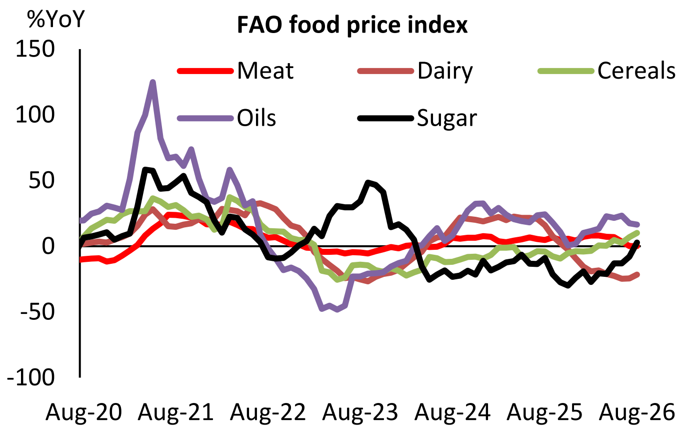
Potential channels of El Niño impact



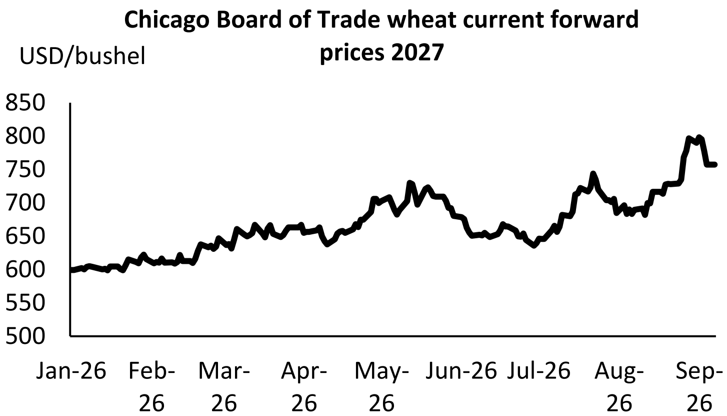
Source: OCBC Group Research.

El Niño adds to the wall of global risk factors

Global supply chains have proved resilient in the face of multiple shocks including US tariffs, the closure of the Strait of Hormuz, a re-escalation of Ukraine-Russia tensions and now one additional significant weather disruption in the form of El Niño. This dimension adds to the wall of risk that policy makers are hitting up against, with inflation and external risks high on the list of potential economic ramifications. Indeed, global food prices have already started to rise for cereals, sugar as well as cooking oils. The re-escalation of Ukraine-Russia tensions impacted global wheat prices in July and August 2026.



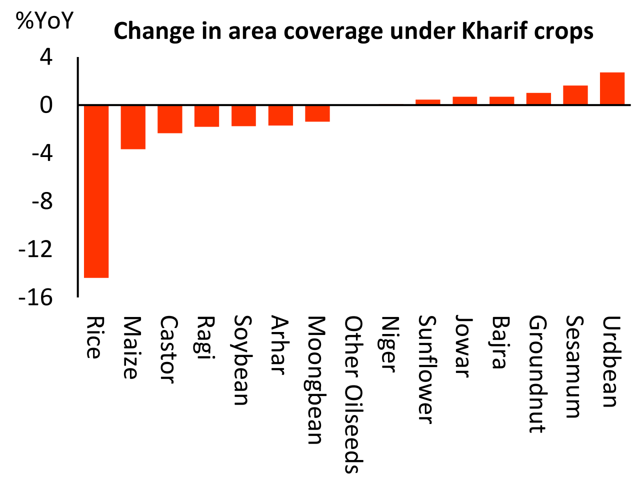
Source: FAO; OCBC Group Research.



Source: Bloomberg; OCBC Group Research.

An added complication for inflationary pressures

Supply risks from reduced agriculture production are becoming more consequential. Rice output is at risk across the region, with officials in Malaysia, Thailand and the Philippines warning of lower agriculture output. In India, for the kharif cropping season during June-July, the sowing has been ~21% lower compared to 2025, with material reductions for rice, maize, tur and moong dal as well as castor oil. With output concerns building, there is a risk of higher prices for key food items including rice, wheat and certain pulses.



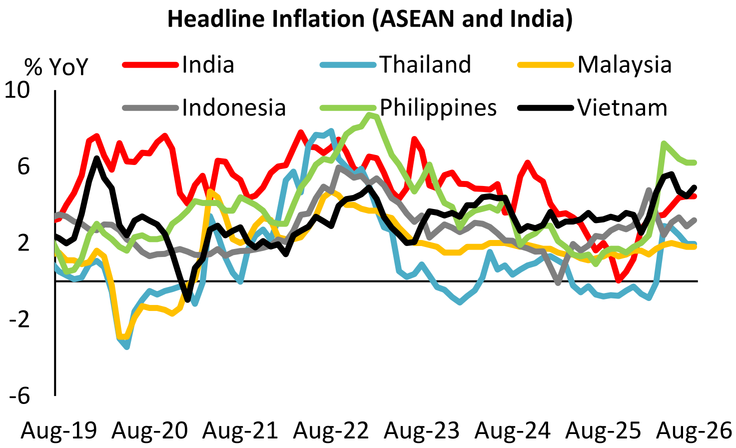
Source: Ministry of Agriculture & Farmers Welfare (India), OCBC Group Research.

Organisation / Individual	Statement of Impact
Ministry of Agriculture of the Republic of Indonesia (28 July 2026)	El Nino's effects were emerging in some drought-prone areas and crop-failure risks from prolonged drought remained in some areas.
Prime Minister, Malaysia (15 July 2026)	PM Anwar orders urgent steps to safeguard Malaysia's food supply
Department of Agriculture, the Philippines (28 May 2026)	The DA warned that a severe El Nino could slash national rice output by up to 700,000 metric tons.
Royal Irrigation Department, Thailand (3 Aug 2026)	Output is expected to decline by about 20%.
Ministry of Agriculture and Environment, Vietnam (1 Jul 2026)	Mekong Delta alone, drought could affect ~ 350k hectares of winter-spring rice.

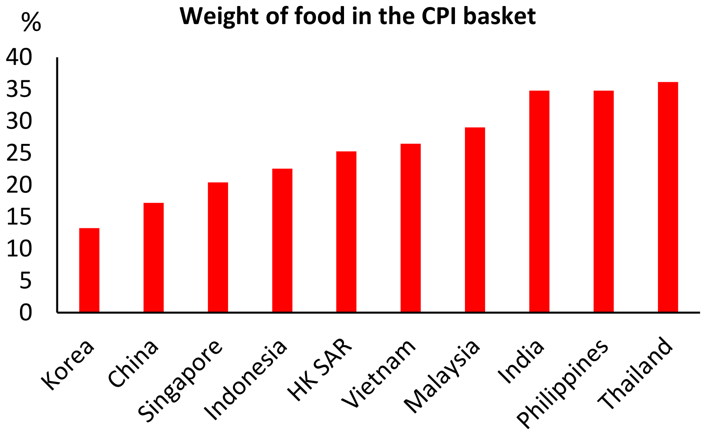
Source: Anatara, Vietnam news, Malaymail, Inquirer.net; OCBC Group Research

For Asia, food inflation transmission varies significantly depending on food's weight in CPI baskets, import dependence and the extent of government price intervention. Thailand, the Philippines, India and Malaysia appear among the most vulnerable economies from a food inflation perspective, while Singapore, Hong Kong and Korea are more exposed through imported food costs.

While inflationary pressures have been mixed across the region, CPI inflation nudged higher across ASEAN-5 and India for July/August. A large upside risk to regional food inflation may stem not from crop losses alone, but from policy responses such as export restrictions, stockpiling and food-security measures that amplify supply disruptions.



Source: Bloomberg, OCBC Group Research.



Source: CEIC; NBS; OCBC Group Research.

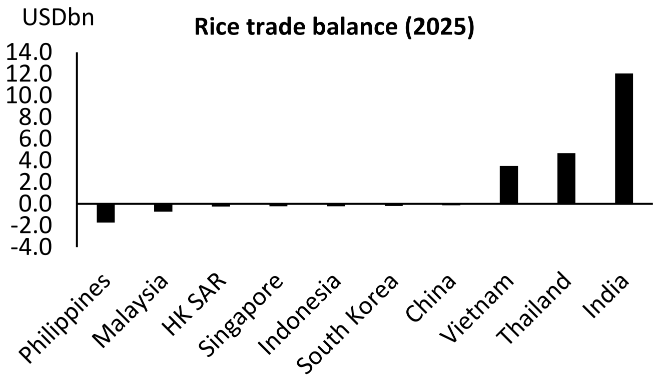
Watching external balances from rice, wheat, maize and vegetable oils

The other crucial channel of impact is through the worsening terms of trade, negatively impacting trade and current account balances. Most economies in Asia, with the exception of Indonesia, Vietnam, Thailand and India are net food and live animal importers. That said, even for food exporters, export volumes could be impacted if agriculture output for key crops such as rice is lower-than-expected and exporters prioritise domestic consumption, the impact on food prices and export volumes could be exacerbated. Historically, the link between worsening El Nino conditions and a deterioration in trade balances has been heterogenous and modest.

Economies across the region have also been building buffers, especially for staples such as rice. USDA data suggest global rice ending stocks remain elevated, supported by substantial stock holdings in China and India. Strong inventory buffers distinguish the current rice market from previous El Niño episodes that were characterised by tighter supplies. Rice prices may be less sensitive to a single-season production shock. That said, policy actions, including export controls and the decline in actual output are material risks. Apart from Vietnam, Thailand and India, the bigger economies in Asia are net rice importers, which suggests that economies such as Philippines, Malaysia and Indonesia are exposed to terms-of-trade shock from rice prices alone.

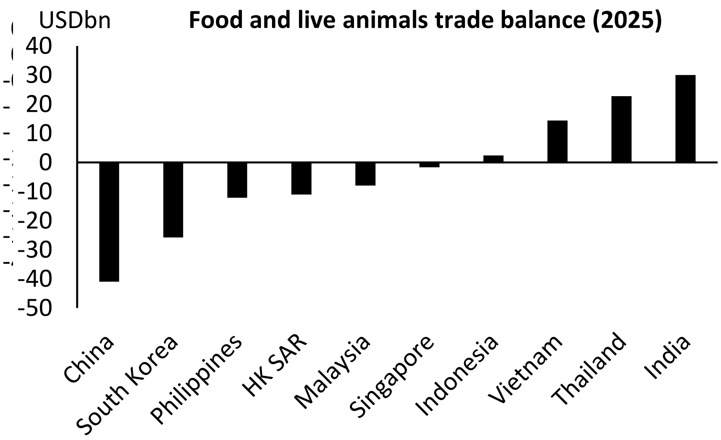
	Ending stocks (mn MT)	Consumption (mn MT)	Stocks-to-Use S/U	Days of cover
Indonesia	3.68	35.00	10.5%	38
Malaysia	0.292	3.11	9.4%	34
Philippines	2.80	17.90	15.6%	57
Thailand	3.85	12.80	30.1%	110
Vietnam	2.10	22.20	9.5%	35

Source: USDA; OCBC Group Research.

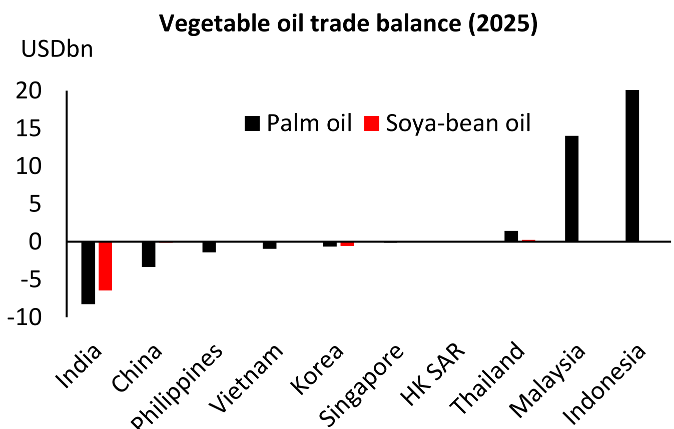


Source: UNComtrade; OCBC Group Research.
Data for China is for 2024 and Vietnam is for 2023.

Historical evidence suggests maize is the crop most adversely affected by El Niño, with global yields potentially falling by as much as 4.3%, while wheat yields also tend to decline. Moreover, the renewed tensions between Ukraine and Russia have already led to higher global wheat prices since July 2026. Most economies in Asia are large net grain importers including ASEAN-6 and are particularly vulnerable to imported inflation pressures when global wheat and maize prices rise.



Source: UNComtrade; OCBC Group Research. Data for Vietnam 2024



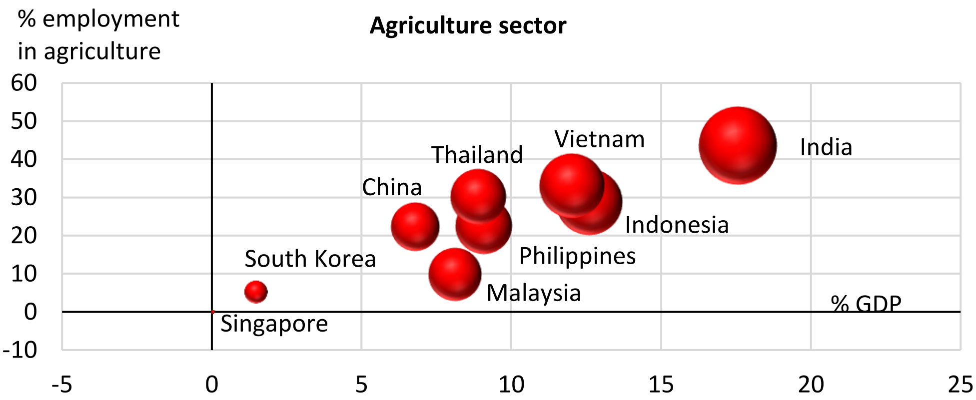
Source: UNComtrade; OCBC Group Research.

However, for economies such as Indonesia and Malaysia, there is a clear offsetting impact from higher crude palm oil prices. Our house view is for CPO prices to average MYR4450/MT in 2026 from MYR4280/MT in 2025, with the balance of risks skewed to the upside (see *SG*

Plantations: Stay rooted, 03 September 2026). Higher CPO prices will, however, worsen terms of trade for India, the Philippines and to a lesser extent Vietnam.

Agriculture sector vulnerability is raised with El Nino

Historically, El Niño episodes have had a more pronounced effect on inflation than growth, with the impact largely concentrated in agriculture-rich regions rather than economy-wide activity. We expect the overall growth drag to remain manageable unless drought conditions become prolonged and begin affecting electricity generation, water availability and broader supply chains. Economies with large agricultural sectors such as India, Indonesia, the Philippines, Thailand and Vietnam are likely to be most vulnerable to production losses and weaker rural incomes. Manufacturing- and services-oriented economies are likely to experience limited direct growth effects, although they remain exposed through higher import costs and weaker regional demand.



Source: World Bank; OCBC Group Research. Data for 2024 for GDP and 2023 for emp.
Size of the bubble is agriculture, %GDP

El Niño is likely to be primarily an inflation shock rather than a growth shock for ASEAN-5 and India. Food prices, particularly rice, wheat, maize and edible oils, represent the main transmission channel. The greatest vulnerabilities lie in economies with high food CPI weights and limited food self-sufficiency, while agricultural exporters such as Indonesia, Malaysia, Thailand and Vietnam retain partial offsets through commodity exports. The ultimate macroeconomic impact will depend not only on weather outcomes but also on policy responses, including food trade restrictions, stock releases and subsidy measures.

Policy rate hikes remain on the cards

El Niño-driven food inflation presents a challenge for central banks because food price shocks can spill over into core inflation through expectations and wage adjustment. Most Asian central banks are likely to look through temporary weather-related price shocks initially, but persistent increases in food prices could delay easing cycles. Economies with larger food CPI weights face greater risks of second-round inflation effects and policy inertia.

Central Bank	Meeting / Document	Date	Exact Statement
Reserve Bank of India (RBI)	Annual Report 2025-26	29 May 2026	"The likelihood of El Nino conditions poses downside risks to agriculture output."
Bangko Sentral ng Pilipinas (BSP)	Policy rate decision	28 August 2026	BSP noted a "looming severe El Nino," wage hikes and volatile oil prices.
Bank Indonesia (BI)	Board of Governors briefing	19 August 2026	BI warned "... For El Nino, in particular, we will focus on rice, chili and shallots"

Source: RBI; BI; BSP; Bloomberg; OCBC Group Research.

El Niño strengthens the case for a cautious monetary-policy stance. Our long-held view has been that the central banks of ASEAN-5 of Indonesia, Malaysia, Philippines, Thailand and Vietnam and India will continue to tighten monetary policy in the face of building price risks amid resilient growth. Our baseline remains for policy rate hikes for the remainder of 2026 and/or 2027.

Policy rate			
%, period end	Current	2026 (F)	2027 (F)
India	5.25	5.25	5.75
Indonesia	5.75	6.50	6.00
Malaysia	2.75	2.75	3.00
Philippines	5.00	5.50	5.00
Thailand	1.00	1.00	1.50
Vietnam	4.50	4.50	5.00

Source: CEIC; OCBC Group Research.

Fiscal measures such as food subsidies, stock releases and import liberalisation are likely to remain the first line of defence against food price spikes. Outright cash assistance may be limited considering that the fiscal deficits remain large across the region and fiscal consolidation remains a priority for regional authorities.

Putting it together

Our composite exposure index (see Appendix for methodology) identifies the Philippines as the economy most vulnerable to El Niño, reflecting its high food CPI weight, exposure of domestic rice production and dependence on food imports. India and Thailand form the next-highest risk tier, although their vulnerabilities differ: India is primarily exposed through the Kharif crop, food inflation and rural incomes, while Thailand's exposure is concentrated in rice, sugar and rural demand, partly mitigated by stronger rice inventories and its net export position. Indonesia's rice and agricultural risks are partly offset by higher palm-oil prices, while Malaysia and Vietnam face more concentrated sectoral risks.

Risk tier	Economies	Key rationale
Tier 1: Very high	Philippines	Production risk, high food CPI weight, rice imports and limited offsets
Tier 2: High	India, Thailand	India has high domestic crop and food risk; Thailand has high food sensitivity and agricultural exposure but stronger rice buffers
Tier 3: Moderately high	Indonesia	Rice and rural-sector exposure, partly offset by CPO exports
Tier 4: Moderate	Vietnam, Malaysia	Concentrated sectoral risks and low rice buffers, partly offset by agricultural export positions

Source: OCBC Group Research.

APPENDIX

We construct a composite index combining food-price sensitivity, agricultural-production exposure, food import dependence and existing food-security buffers. Quantitative inputs include food CPI weights, commodity trade balances and rice stock indicators, while agricultural-production exposure is assessed qualitatively based on crop vulnerability, rainfall dependence and rural-income sensitivity. The index is intended to compare relative vulnerability across economies and should not be interpreted as a forecast of macroeconomic outcomes.

The composite score is a weighted average of six vulnerability components. Each component is converted to a common 0–100 scale, where a higher score indicates greater relative exposure within the six-economy sample.

- Composite Exposure Score = $\Sigma (w_i \times S_i)$, where w_i is the weight assigned to component i and S_i is the normalised vulnerability score for that component.

- $S_i = 100 \times (x_i - x_{min}) / (x_{max} - x_{min})$; for indicators where a lower raw value represents greater vulnerability, such as rice days of cover, the direction is reversed before normalisation. The resulting scores are relative to the economies included in the sample. A score of zero means the lowest exposure in the sample, not an absence of risk.
- Based on our index weights and assumptions, we calculate the Composite El Niño Exposure Index. This is a relative-ranking framework rather than a measure of expected economic losses. A score of 80 does not imply that an economy is twice as exposed as one scoring 40; rather, it indicates greater vulnerability across the selected food-price, production, trade and buffer metrics.

Component	Weight	Evidence type	Input	Risk direction
Food CPI exposure	25%	Quantitative	Food weight in the CPI basket	Higher food weight = higher vulnerability
Agricultural production exposure	25%	Qualitative	Analyst classification of crop and rural-sector vulnerability	High exposure receives a higher score
Rice external-sector exposure	15%	Quantitative	Net rice trade balance for 2025	Larger deficit = higher vulnerability
Wheat and maize exposure	15%	Quantitative	Average vulnerability from net wheat and maize trade balances	Larger combined deficit = higher vulnerability
Vegetable-oil exposure	10%	Quantitative	Palm-oil trade balance; soybean-oil balance used as supporting context	Larger deficit = higher vulnerability
Food-security buffer exposure	10%	Quantitative, with some qualitative	Rice stocks-to-use ratio and days of consumption cover	Lower buffer = higher vulnerability

Source: OCBC Group Research. Note the weight assignments are qualitative judgements

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