MACRO INSIGHTS

Asia under El Niño

13 July 2026

Radhika Rao, Senior Economist
radhikarao@dbs.com

Mo JI, Ph.D., Chief China/HK Economist
mojim@dbs.com

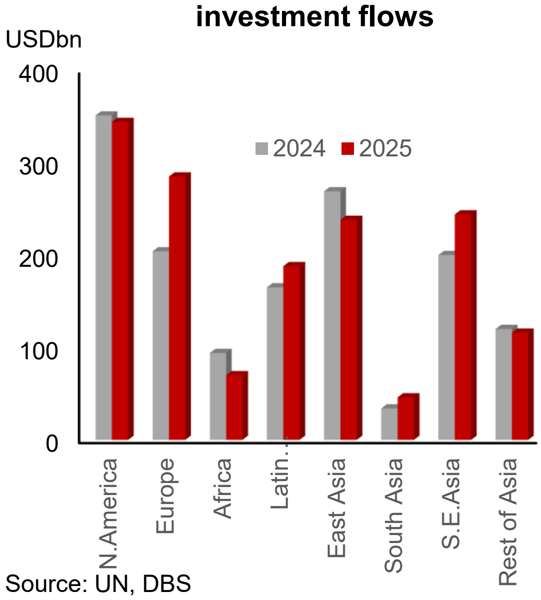
For Alliance Bank clients, please direct your enquiries to Malaysia Research +603 2604 3915 general@alliancedbs.com

- *Besides the oil price overhang, El Niño presents a new episodic risk to monitor.*
- *No two cycles are the same.*
- *This period typically brings drier conditions to Southeast Asia and parts of South Asia, while increasing rainfall in some East Asian regions.*
- *The share of agriculture in overall growth has declined, but it remains an important employer for most in the region.*
- *Food inflation makes up about a quarter of the basket on aggregate.*
- *Policy responses have evolved, driven by government expectations that climate change will intensify seasonal swings in*

CHART OF THE WEEK: ASIA STILL THE HOT FDI DESTINATION

Asia drew nearly 40% of world foreign direct investment inflows in 2025, even amid lingering tariff concerns and a complex geopolitical landscape. China drew in the most, but the scale moderated vs 2024, while Southeast Asia extended its strong run, alongside a pickup in South and Central Asia. Semiconductors, AI, advanced manufacturing, energy transition, etc led the sectoral mix last year.

Asia drew in significant FDI investment flows



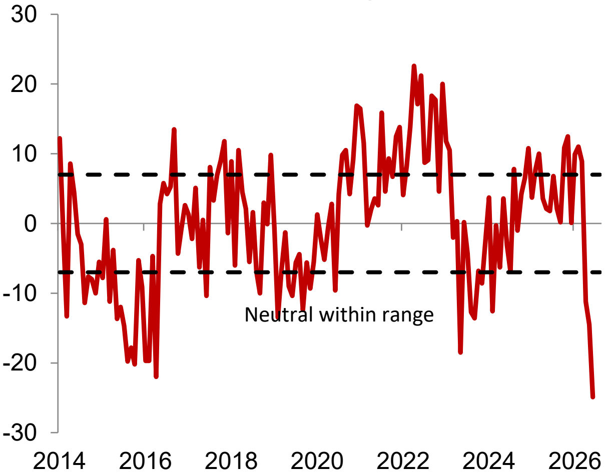
Source: UN, DBS

COMMENTARY: Asia under El Niño

Radhika Rao

As tensions in West Asia ebb and flow, regional policymakers are likely to turn their attention to the skies next. In its latest update, **the United Nation's World Meteorological Organisation** confirmed the onset and development of a likely very strong El Niño event over the next 9-12 months. The deeply negative Southern Oscillation Index (SOI) validates these observations.

Southern Oscillation Index (SOI) readings

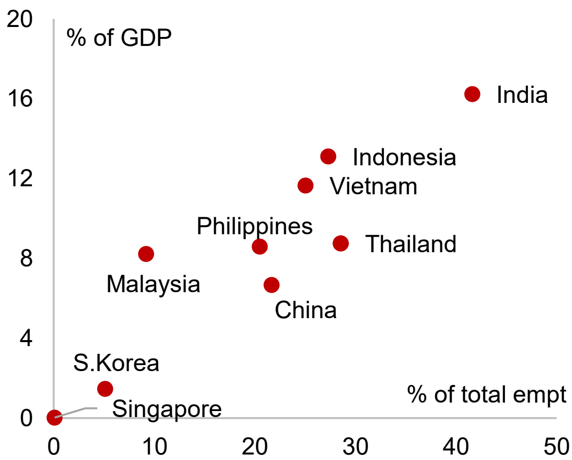


Source: Bureau of Meteorology, Australia, DBS

No two El Niños are the same. The intensity and geographic distribution vary across episodes, though the period typically brings drier conditions to Southeast Asia and parts of South Asia, while increasing rainfall in some East Asian regions. China's experience varies across the country, with higher temperatures and drier weather in the north, while the south experiences heavy rainfall, posing flood/typhoon risks. The last strong El Niño in 2023-24 was associated with an extended period of extreme temperatures, heatwaves, and dry conditions in some parts of the world, while others saw heavy rainfall. 2024 also earned the distinction of being the hottest year on record. **Unseasonal conditions and heatwaves have already pushed selected food commodities higher, including cocoa, crude palm oil (CPO), coffee, and sugar.**

For Asia, the first direct transmission channel is agriculture. Across much of developing Asia, the sector's contribution to GDP has declined over the past two decades, though it remains economically significant as a source of employment, in countries like Indonesia, India, Thailand and Vietnam (see chart). Material slowdown or delays in rainfall or drought-like conditions will impact key crop-producing regions and hurt the output of rice, vegetables, cereals, foodgrains, and edible oils, etc. Countries are key producers of some varieties (ASEAN-6: Watching weather risks). For rice, Thailand and Vietnam are the second- and third-largest rice exporters globally, together accounting for ~30% of the global share, behind India. Indonesia and Malaysia dominate the world palm oil market, with a combined market share of more than 80%. Singapore and South Korea have, comparatively, smaller shares.

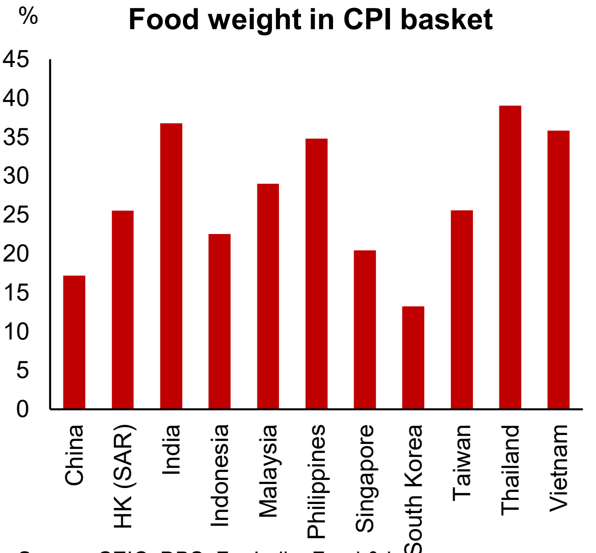
Agri & allied sectors: Share in growth and employment



Source: World Bank, ILO, govt sources DBS

Inflation is the second direct transmission channel. Prima facie, food carries the highest weight in CPI baskets (see chart) in India, the

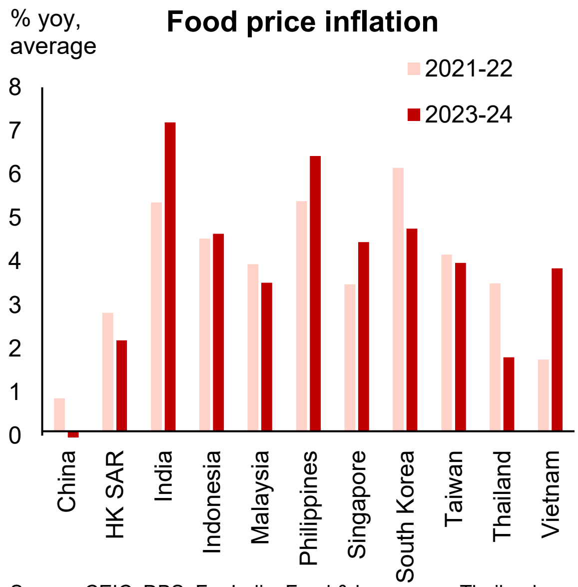
Philippines, Thailand and Vietnam, suggesting that any weather-induced decline in crop output is more likely to translate into domestic inflationary pressures. By contrast, although Singapore assigns a relatively low weight to food in its CPI basket, its heavy reliance on imports makes domestic prices highly sensitive to movements in global agricultural commodity prices. Authorities have therefore long adopted a policy to diversify food sources to avoid supply disruptions.



Source: CEIC, DBS. For India: Food & beverages, Thailand: Food & non alcoholic beverages and Vietnam: Food & foodstuffs

The net impact on annual inflation in the year of El Niño is a function of not only farm output but also of the availability buffer stocks, administrative measures, the spatial distribution of rainfall, the fuel commodity price cycle, and severity of the weather phenomenon. Trends in 2023-2024 (see chart) highlight the asymmetrical impact. Annual inflation in 2023-24 (the year of a strong El Niño) was not uniformly higher than in 2021-22 in Asia due to the influence of other exogenous factors – post-pandemic supply constraints, high oil prices in 2022 that created distorting base effects, and the state of the economy.

The second-derivative impact of El Niño will be through a fall in reservoir/groundwater levels, power disruptions, renewable power generation (weaker wind circulation, lower hydropower, etc.), and natural calamities (wildfire-driven outages).



Source: CEIC, DBS. For India: Food & beverages, Thailand: Food & non alcoholic beverages and Vietnam: Food & foodstuffs.

Policy responses have also evolved, driven by government expectations that climate change will intensify seasonal swings in weather, temperature, and rainfall. Development and modernisation of agriculture have led to an increase in irrigated land, early warning systems, support for drought-resistant crops, and measures to address rural household incomes. A combination of other measures by way of release of buffer stocks, food import liberalisation, targeted subsidies and cash transfers to stabilise domestic prices. **Central banks in the region are likely to acknowledge pipeline risks to inflation** but not exhibit urgency to tighten in the face of a supply-driven shock.

In the region, India, Vietnam, and Thailand have larger proportions of their populations employed in farming, accompanied by a high food weightage. Administrative measures and the modernisation of farming techniques helped mitigate the impact of El Niño in recent years. Our six-factor matrix (link), including policy space and import dependencies, had highlighted the Philippines and Vietnam as being amongst the most exposed to this weather phenomenon.

FX: WARSH'S HEARINGS & CPI

Philip Wee

The DXY Index has been trapped between 100.5 and 102 for three weeks, awaiting more clarity on whether the Fed will proceed with the potential rate hike it flagged at the June FOMC meeting later this year.

Fed Chairman Kevin **Warsh's congressional hearings this week are shaping up as a clash between the Fed's new operating philosophy and Congress's mandate for oversight**. He will first testify to the House Financial Services Committee on July 14, and next to the Senate Banking Committee on July 15.

At the June 16-17 FOMC meeting, **Warsh pivoted away from forward guidance** by radically shortening the FOMC statement, stripping out the Committee's previous easing bias and language detailing the balance of risks. Warsh also refused to provide his personal projections for interest rates in the dots, and trajectories for GDP growth, PCE inflation, and the unemployment rate in the Summary of Economic Projections. Despite 9 of the 18 Fed participants predicting at least one hike in 2026, there was a notable dialling back of speeches and public comments by Fed officials after the FOMC.

Lawmakers who value transparency will be concerned that less communication inherently reduces Congress's ability to review, understand, and check the Fed's rationale.

Warsh has assembled five external task forces to overhaul Fed operations, which lawmakers, especially Democrats, **worry may make the Fed less accountable to Congress and American voters**. If a task force is structured as an informal or external advisory group rather than a formal federal advisory committee, it may not be subject to the Federal Advisory Committee Act (FACA). They are not legally required to hold open meetings, take public minutes, or make their internal emails and draft documents available to Congress. Public officials can be removed if they fail the public, but private advisers are insulated from consequences. Fed Governors must be vetted and confirmed by the Senate. These task force members were hand-picked by Warsh. Lawmakers never had the chance to question them under oath about their conflicts of interest before they took the role.

In the end, markets will likely separate political theatre from trading. They are unlikely to lose as much sleep over constitutional mandates as they do the terminal rate and the timing of the next rate move. Markets had given Warsh the benefit of the doubt because of his remark that the Fed has the capability and commitment to return inflation to the 2% target.

Yet, President Trump has made it very clear that he expects Warsh to support his pro-growth agenda. At the European Central Forum in Sintra on July 1, Warsh stated that inflation expectations and inflation risks had come down in recent weeks. Democrats worry that, by launching 9- to 12-month task-force reviews, Warsh is stalling to avoid raising rates before the November midterms.

Hence, markets will focus on Warsh's reaction to the June CPI data on July 14. Headline inflation is widely expected to decline by 0.1% MoM in June, contrasting sharply from May's 0.5% rise, due to the plunge in oil prices back to pre-war levels. However, **the real test will likely be core inflation**, which is expected to remain sticky and unchanged at the same 0.2% MoM (2.9% YoY) level as the previous month. Warsh must prove that his elimination of forward guidance was not a political smokescreen to keep rates unchanged but rather a strategic pivot to restore the Fed's data-dependent agility.

GENERAL DISCLOSURE/ DISCLAIMER (For Macroeconomics, Currencies, Interest Rates, Digital Assets or Commodities)

The information herein is published by DBS Bank Ltd and/or DBS Bank (Hong Kong) Limited (each and/or collectively, The information herein is published by DBS Bank Ltd and/or DBS Bank (Hong Kong) Limited and distributed by AllianceDBS Research Sdn Bhd (ADBS), a subsidiary of Alliance Bank Malaysia Berhad (ABMB) (each and/or collectively, the "Company"). It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. The information herein is published for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and/or employees may have positions or other interests in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for these companies. The information herein is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction (including but not limited to citizens or residents of the United States of America) where such distribution, publication, availability or use would be contrary to law or regulation. The information is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction (including but not limited to the United States of America) where such an offer or solicitation would be contrary to law or regulation.

This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) which is Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Singapore recipients should contact DBS Bank Ltd at 65-6878-8888 for matters arising from, or in connection with the report. This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd.

DBS Bank Ltd., 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.

DBS Bank Ltd., Hong Kong Branch, a company incorporated in Singapore with limited liability. 18th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong SAR.

DBS Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability. 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong SAR

AllianceDBS Research Sdn Bhd (128540 U), 23rd Floor, Menara Alliance Bank, 159 Jalan Ampang, 50450 Kuala Lumpur, Malaysia. Tel.: +603 2604 3915.

This disclaimer may not apply if they fall within 'financial instruments' of Article 2(1) EU MAR (e.g. financial instruments traded on a regulated market, MTF or OTF, etc.). Section C of Annex I of MiFID2 specifies these 'financial instruments.'