



La Niña's powerful punch hits commodities

By Jack Farchy

Published: January 5 2011 18:26 | Last updated: January 5 2011 19:11

[La Niña](#) belies her innocent name. The weather event, whose name translates as “the little girl” in Spanish, has wreaked havoc on the production and trade of commodities from [coal](#) to [palm oil](#).

There may be further disruption in store. The [Australian Bureau of Meteorology](#), whose reports on the phenomenon are closely watched by traders, said on Wednesday that the current La Niña, the strongest in three decades, would last for another three months at least.

That raises the prospect of further weather-related problems across some of the world's key trade routes and tracts of agricultural land.

[Higher prices for industrial and food commodities](#), already rising sharply on the back of resurgent demand, could follow. Crucially, some meteorologists are concerned that La Niña may persist long enough to have an impact on the growing season in the US, the world's largest exporter of agricultural commodities.

The effects of La Niña have been dramatic. The weather phenomenon has drenched countries from Australia and Indonesia to Colombia.

Much of the crucial coal-producing state of Queensland in north-eastern Australia is still under water after the country suffered its third wettest year on record in 2010, while Colombia's wettest rainy season on record has closed the main artery transporting coffee beans from the interior.

“This powerful little lady is spreading her curses and blessings across the planet. She's the real deal,” says Bill Patzert, an oceanographer and climatologist at Nasa.

Commodities analysts have been forced to turn their attention from estimates of supply and demand to the weather bulletin.

Melinda Moore, bulk commodities analyst at Credit Suisse, has begun sending clients a weekly report with the weather forecast for key parts of the iron ore and coal-producing world. “This year has been particularly bad – every single weather disruption that could have happened has done,” she says.

In the past six months, La Niña has helped propel the price of thermal coal 32 per cent higher, rubber up 42 per cent and Arabica coffee up 75 per cent.

The strength of the current event is inspiring comparisons with 1973-76, when several years of La Niña conditions triggered severe droughts and pushed the world into the most extreme [food crisis](#) since the second world war.

One measure of La Niña's strength, the Southern Oscillation index, rose to its highest level since 1973 in December, the Australian Bureau of Meteorology said. Neil Plummer, a climatologist for the bureau, says the current event is shaping up to be the most powerful since the 1970s: "It is a very strong event."

Pacific temperature cycles

La Niña is a recurring climatic event caused by a decrease of the water temperature in the tropical Pacific. Alternatively known as El Viejo – "the old man" – it is the opposite phenomenon to El Niño – "the little boy" – which refers to an increase in the tropical Pacific's water temperature. Peruvian fisherman originally used the term El Niño – a reference to the Christ child – to describe the appearance, around Christmas, of a warm ocean current off the South American coast.

The phenomenon repeats in a loose cycle of three to five years, but the strength of the events varies.

Of most immediate concern to the markets is a dry spell in Argentina and southern Brazil that threatens soyabean and corn crops in the countries, which together account for 45 per cent and 26 per cent of global exports respectively.

Oscar Solís, Argentina's undersecretary of agriculture, told the Rosario stock exchange on Tuesday that the country's corn harvest was likely to be 21.3m tonnes, sharply lower than the 25m forecast by the closely watched US Department of Agriculture.

Concerns over the South American crops have already helped propel prices to two-year highs.

Keith Flury, agricultural commodity analyst at Rabobank in London, says: "These South American crops right now are needed to relieve pressure. If we have a strong La Niña and that results in bad weather in South America that's going to push prices higher. There just really isn't a buffer."

Of more long-term significance is the chance that an extension of La Niña into the northern hemisphere summer could cause a drought in the US.

"We're just starting to hear more interest in that," says Joel Widenor, director of agriculture for Commodity Weather Group, a consultancy. "More of the models have been starting to show an increasing threat of a multiple year event. If you get a La Niña lasting into the summer, I don't think there's any debate that's not a good thing for crops in the US."

Drew Lerner, president of World Weather Inc, a Kansas City-based forecaster, says La Niñas "have traditionally removed rainfall from North America weather in the summer growing seasons and they have tended to produce a warmer temperature pattern as well". The US suffered a severe drought in 1974 during the multiyear La Niña of the mid-1970s.

But the outlook is unclear beyond the spring, and impossible to forecast with accuracy. The Australian Bureau of Meteorology expects La Niña to weaken through the spring, though Mr Plummer notes there are “no signs yet that it’s dramatically weakening”.

Ed O’Lenic, senior meteorologist at the US government [Climate Prediction Center](#), says: “The current consensus is the event is likely to weaken as we go through the summer months. It’s possible that it might restrengthen in the fall.”

One forecast appears safe, however: commodity analysts are likely to remain fixated by the vagaries of the weather for the foreseeable future.

Additional reporting by Daniel Schweimler in Buenos Aires