CIBC PRIVATE WEALTH



JAMES DIXON, CIM®: MACRO THOUGHTS – SEP 2, 2026

THE FOOD PRICE CYCLE: RISK, INFLATION, OPPORTUNITY

EXECUTIVE SUMMARY

For much of the past two years, investors have been able to treat food inflation as yesterday's problem. Agricultural supply chains adjusted to the war in Ukraine, grain availability improved, inventories were rebuilt and headline inflation moderated. That relative stability, however, may now be giving way to a more complicated—and potentially more investable—phase.

Three forces are increasingly intersecting.

1. **Russia-Ukraine war.** The Russia-Ukraine war has permanently altered the architecture of global agricultural trade. Ukraine remains an important producer of wheat, corn and vegetable oils, while Russia is a major exporter of both grains and fertilizer inputs. The world has adapted remarkably well, but the system now operates with longer trade routes, greater geopolitical concentration and less redundancy than before 2022.
2. **Iran/US conflict.** The Middle East conflict and disruption through the Strait of Hormuz have introduced a new vulnerability through fertilizer and energy rather than directly through grain supply. The World Bank expects fertilizer prices to rise by more than 30% in 2026, including a roughly 60% increase in urea prices. Unlike an immediate loss of grain exports, fertilizer shortages operate with a lag: higher prices can reduce application today and ultimately lower yields tomorrow.
3. **El Niño**. Potentially most important for the next phase is El Niño. Research from Morgan Stanley argues a 95% probability of a very strong El Niño in the fourth quarter of 2026. They argue its impact to rank among the strongest events in more than 75 years.

The combination matters more than any individual shock. Weather is arriving when fertilizer affordability is already under pressure, geopolitical risk remains elevated and agricultural supply chains have spent several years adapting to disruption.

My central thesis is therefore not simply that food prices are going higher – they broadly are but that conclusion is too simplistic. What matters more for investors is the dispersion of agricultural prices and the opportunities this creates.

At the corporate level, we favour quality businesses that either own the scarce resource, improve agricultural productivity, or possess enough pricing power to pass higher input costs through to consumers.

For UHNW portfolios, agriculture should increasingly be viewed not merely as an inflation hedge, but as a strategic exposure to a world in which food security, energy security and geopolitical security are becoming increasingly interconnected.

1. UKRAINE; HORMUZ; EL NIÑO: THREE SHOCKS BECOME ONE

The investment significance of the current environment becomes clearer when viewed as a sequence rather than a collection of unrelated events.

SHOCK ONE: UKRAINE CHANGED THE GLOBAL FOOD MAP

Russia's invasion of Ukraine in 2022 demonstrated how quickly agricultural markets can become geopolitical markets.

Russia and Ukraine occupy unusually important positions across wheat, corn, sunflower oil, natural gas and fertilizer. The initial invasion simultaneously threatened agricultural exports from the Black Sea and pushed energy and fertilizer costs sharply higher.

Markets eventually adapted. Alternative shipping routes emerged, production increased elsewhere and higher prices encouraged supply responses. Adaptation, however, is not risk elimination.

The lasting consequence of Ukraine has been a global agricultural system that is more geographically reorganized and more dependent on a relatively small group of major exporters.

SHOCK TWO: THE STRAIT OF HORMUZ - THE FERTILIZER CHOKE POINT

The second vulnerability is less obvious to consumers because it does not initially appear in the supermarket.

It begins with fertilizer. Circa one third of the world fertilizer is transported through the Strait of Hormuz. Disruption to energy, shipping and fertilizer exports associated with the Middle East conflict has therefore introduced another cost shock into global agriculture.

For context, The World Bank expects its fertilizer price index to increase by more than 30% in 2026, with urea prices rising approximately 60%. Fertilizer affordability is consequently expected to deteriorate to its weakest level since the 2022 shock following Russia's invasion of Ukraine. This is important because fertilizer represents a delayed food-price shock.

The transmission mechanism: Hormuz disruption = higher energy & fertilizer prices = reduced fertilizer affordability = lower application rates = weaker crop yields = tighter inventories = higher food prices.

The first stages are already visible. The World Bank reported cautioned that the effects of reduced application may only become apparent later in harvest outcomes. That delay is critical for investors! Commodity markets often focus on today's harvest while the economically important development is taking place beneath the soil for next year's crop.

The mitigating factor is that farmers in the Northern Hemisphere had secured significant fertilizer requirements before the worst disruption and some Middle Eastern exports are being rerouted around Hormuz. This helps explain why the current fertilizer shock has remained less severe than 2021-22. Nevertheless, the margin for error has narrowed considerably just as the weather risk is increasing.

SHOCK 3: El NINO - THE CATALYST

Morgan Stanley's work on El Niño provides potentially most important piece of the thesis.

According to Morgan Stanley there is now a 95% probability of a very strong El Niño in the fourth quarter of 2026, with the potential for one of the most powerful events in the modern historical record.

The crucial point is that El Niño is not uniformly negative for agricultural production. It redistributes weather. Some regions receive too little rainfall. Others receive too much. The economic outcome depends not simply on annual rainfall but on whether extreme weather occurs during planting, flowering, pollination or harvest. The result is the trade becomes a relative-value agricultural story rather than a simple long-food trade.

Latin America sits at the centre of the analysis. Northern and western Brazil could experience greater drought and heat stress, while Argentina, Uruguay, Paraguay and southern Brazil could receive additional rainfall. While increased rainfall could improve yields in some areas; in others excessive rainfall creates flooding, disease and transportation problems.

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2. WHERE THE COMMODITY OPPORTUNITY APPEARS STRONGEST

With the above in mind, Morgan Stanley's analysis suggests the opportunity is considerably clearer in select soft commodities.

1. SUGAR

Sugar may offer one of the cleanest expressions of the El Niño thesis. Production risks span multiple important producing regions. Weather can affect Brazilian harvesting while reduced rainfall across parts of Asia threatens production in India and Thailand.

This is particularly interesting because sugar entered the period from a relatively comfortable fundamental position. In fact, earlier this year the World Bank projections had expected sizeable 2025-26 surpluses in Brazil and India.

That creates an attractive asymmetry! Markets priced for abundance can react violently when expected surpluses disappear.

2. COCOA

Cocoa is another area where supply appears structurally vulnerable.

West Africa dominates global production, making weather disruptions unusually difficult to diversify geographically. Strong historical El Niño events have generally been challenging for cocoa output, and the 2023-24 episode demonstrated how quickly adverse rainfall followed by heat and dry winds can destabilize production and prices.

This is exactly the type of market in which relatively small production changes can create disproportionately large price movements.

3. COFFEE

Coffee deserves attention but regional dynamics are complex.

Robusta production across Vietnam and Indonesia is vulnerable to hotter and drier conditions, while Brazilian arabica may experience different effects depending on the timing of rainfall.

Latin American production is already showing signs of stress. Colombia's coffee federation expects 2026 production to decline roughly 8%, with El Niño posing an additional threat into early 2027.

Key insight: The investment opportunity is likely to come from scarcity in individual agricultural markets rather than from indiscriminately owning the entire agricultural complex.

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3. 2027 MATTERS MORE THAN 2026

Perhaps the most important macroeconomic observation is the time lag. Historically, the food-price effects of El Niño tend to appear roughly a year after the weather shock. That means 2026 is principally the commodity-market story; 2027 could become the consumer-inflation story.

This has potentially significant consequences for central banks. A temporary increase in fruit, vegetable or grain prices can normally be looked through. The problem however arises when food inflation becomes embedded in broader inflation expectations and starts driving demands for higher wages creating an inflationary feedback loop.

The result: Weather shock = higher agricultural prices = higher grocery prices = increased inflation expectations = higher wages/services inflation = potential forced monetary policy action.

Within this framework the greatest macroeconomic exposure is likely to occur in economies where food represents a large share of household consumption. India is a prime example (agriculture represents 18% of GDP; 43-45% of employment). For developed economies, the effect should be smaller.

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4. RISKS TO MY THESIS

The bullish agricultural thesis cannot be overstated. With that said, there are risks to my thesis.

IMPROVED TECHNOLOGY

The global food system is materially more resilient than it was several decades ago: Crop yields have improved; Irrigation is better; Seed genetics have advanced; Precision agriculture allows more efficient fertilizer and water use. Production has also become geographically diversified and inventories in several important crops remain healthy.

In line with this the World Bank's baseline forecast remains relatively benign. In its April outlook, it anticipated global food commodity prices increasing only modestly, despite much larger increases in energy and fertilizer. These baseline forecasts however assume that several things go reasonably well.

- They assume Middle East disruptions ease and fertilizer availability improves.
- They assume healthy inventories compensate for weaker production.

As outlined on Aug 19 (US-IRAN CONFLICT: NEXT STEPS), I expect a step-by-step de-escalation not an outright deal which makes some of this easing likely. The critical problem though is that the World Bank forecasts were established before the probability of an exceptionally strong El Niño increased.

This is why The World Bank itself acknowledged that the risks have subsequently skewed higher.

INDEPENDENT RISKS ARE CORRELATED

Food systems can absorb isolated shocks surprisingly well.

- A poor wheat harvest can be buffered by inventories.
- Higher fertilizer costs can be absorbed when crop prices are strong.
- A transportation disruption can be managed when alternative routes are available.

The danger however arises when several shocks occur simultaneously. For context, today we have:

- **Ukraine.** Driving geopolitical vulnerability in grains and fertilizer
- **Middle East/Hormuz**. Driving energy and fertilizer disruption.
- **El Niño.** Driving potential yield and transportation disruption.

- **Higher energy.** Driving higher farming and transportation costs.
- **Lower fertilizer affordability.** Driving potential future yield pressure.
- **Trade restrictions**. Governments potentially protecting domestic food supplies.

Key insight: Even if the global food system avoids severe shortages, declining outputs and therefore lower margins of safety should cause asset prices to adjust accordingly!

5. POSITIONING

An allocation to agriculture exposure should be viewed as a satellite allocation (and viewed through a quality lens) rather than a wholesale macro bet. The most attractive exposures, sit along a hierarchy.

1. AGRICULTURAL PRODUCERS

Well-capitalized producers with productive land, favorable geography and manageable input costs can benefit from higher crop prices.

Importantly, El Niño will create winners as well as losers. Argentina, for example, could potentially enjoy improved rainfall after periods of drought, making geographic selection critical.

The objective is therefore exposure to higher realized agricultural prices without equivalent deterioration in production volumes. I like AGCO and Corteva.

2. FOOD COMPANIES WITH PRICING POWER

Higher commodity prices will not benefit all food companies. For processors and consumer brands, agricultural inflation represents higher cost of goods sold.

The differentiator becomes pricing power. Businesses selling commoditized food products with limited brand differentiation can experience significant margin compression. In contrast companies with strong brands, premium positioning and relatively low raw-material costs as a percentage of the final selling price can pass inflation through more effectively. Here, I like Walmart.

6. CONCLUSION

The first great food shock of this decade originated in Ukraine. The next source of pressure came from fertilizer constrains due to Middle Eastern conflict. The final source of pressure is coming from one of the strongest El Niño events in modern history. None of these forces alone guarantees dramatically higher global food prices. Together, however, they create something more important for investors: a global agricultural system with less room for error.

For UHNW portfolios, I believe a satellite allocation to quality equities that are the beneficiaries of scarcity. These include agricultural producers and food companies with pricing power.

Over the long-term, inflation poses a risk. This is especially true if El Niño develops as currently expected. As this inflationary pressure is supply driven its unlikely to buckle the path for lower rates over the short term. If these risks however become rooted, an inflationary feedback loop may force central banks hands.

The key take away is that the world is increasingly being defined by geopolitical fragmentation, constrained resources and volatile weather. This means food security is no longer simply an agricultural issue. It is becoming an investment theme, an inflation variable and a strategic national asset.

CONTACT

James Dixon, CIM ®
Investment Advisor, CIBC Wood Gundy
277 Lakeshore Rd E, Oakville, ON, L6J 6J3
Tel: 905-631-3905 (w)
James.dixon@cibc.com

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