

Spring 2016 – Alaska Salmon Market News

The Seafood Market Information Service (SMIS) is funded by a portion of the seafood marketing assessment paid by Alaska seafood producers. McDowell Group provides the service as a research contractor for the Alaska Seafood Marketing Institute (ASMI). Seafood Market Bulletins are typically published twice a year and are available to permit holders, processors, other industry participants, and the public free of charge. Email info@alaskaseafood.org if you would like to receive new bulletins via email.



This bulletin summarizes important market developments which will likely impact Alaska salmon values in 2016. The material contained in this bulletin is primarily intended to provide transparent market information for salmon fishermen, policy makers, media outlets, and the public.

Market news summarized in this bulletin generally focuses on the wholesale market. Although the relationship between first wholesale prices and ex-vessel prices fluctuates from year to year, historical data show that when wholesale prices increase fishermen tend to receive a larger share of first wholesale value than when prices are low. As such, movements in the wholesale market are seen as a leading indicator of changes in ex-vessel prices for Alaska salmon.

Summary Analysis

In general, market factors heading into the 2016 season suggest “cautious optimism” for Alaska salmon values. Last year, most key variables such as supply, currency conditions, and trade restrictions acted to depress Alaska salmon prices. This year, competing supply is expected to be lower and currency conditions have stabilized, and even improved slightly against the yen and euro. Canned inventories remain elevated, but other products are likely to find more demand due to less expected competing supply and investments in promotional efforts during recent years.

Market Shaping Headlines Leading into 2016

The following developments are expected to impact demand for wild Alaska salmon in 2016:

Algae Crisis in Chile = Less Farmed Salmon in 2016/2017

An unprecedented algal bloom in Chile has killed over 25 million farmed salmon, and industry analysts project the global supply of farmed Atlantic salmon will decline by 6 percent in 2016 as a result. The “red tide” event is also expected to reduce Chilean coho production by 29 percent this year.



Lower salmon production in Chile will likely benefit Alaska salmon producers. Although many consumers now differentiate between wild and farmed salmon, Atlantic salmon supply and pricing still has a significant impact on demand for wild salmon products. Further, Chilean coho salmon are the primary competitor for Alaska sockeye in Japanese markets, so less supply in that market could improve prospects for frozen Alaska sockeye exports to Japan.

Less Sockeye and Pinks from Alaska

Sockeye harvests are expected to decline 11 percent in 2016 to 47.7 million salmon, but last year salmon fishermen collectively posted their largest harvest since 1995. The 2016 sockeye forecast is still well above the recent average harvest level. Fishermen and biologists will again be keeping a close eye on the size of sockeye this year. Average fish size has decreased considerably over the past two seasons. One theory is that warmer waters in the Gulf of Alaska is raising the metabolism of sockeye causing them to be smaller. A smaller forecast, building demand through domestic promotional activities in recent years, and other factors suggest demand for sockeye will be stronger in 2016.

The 2016 pink forecast of 90.1 million fish is well below last year's near record harvest of 190.5 million pinks, but the 2016 forecast is 5.4 percent above the 2014 pink harvest. Pink salmon tend to follow an even-odd year abundance cycle where odd years tend to produce significantly more pink salmon than even years. Therefore, pink forecasts and harvests are typically compared to the prior even or odd year, rather than the prior calendar year.

Dollar is Still Strong, but Generally Weaker than Last Year

The strength of the dollar has a major impact on the value of Alaska salmon products (see chart below). Over two-thirds of Alaska's salmon production is sold to export markets and it all competes against salmon from other countries like Russia, Norway, and Chile.

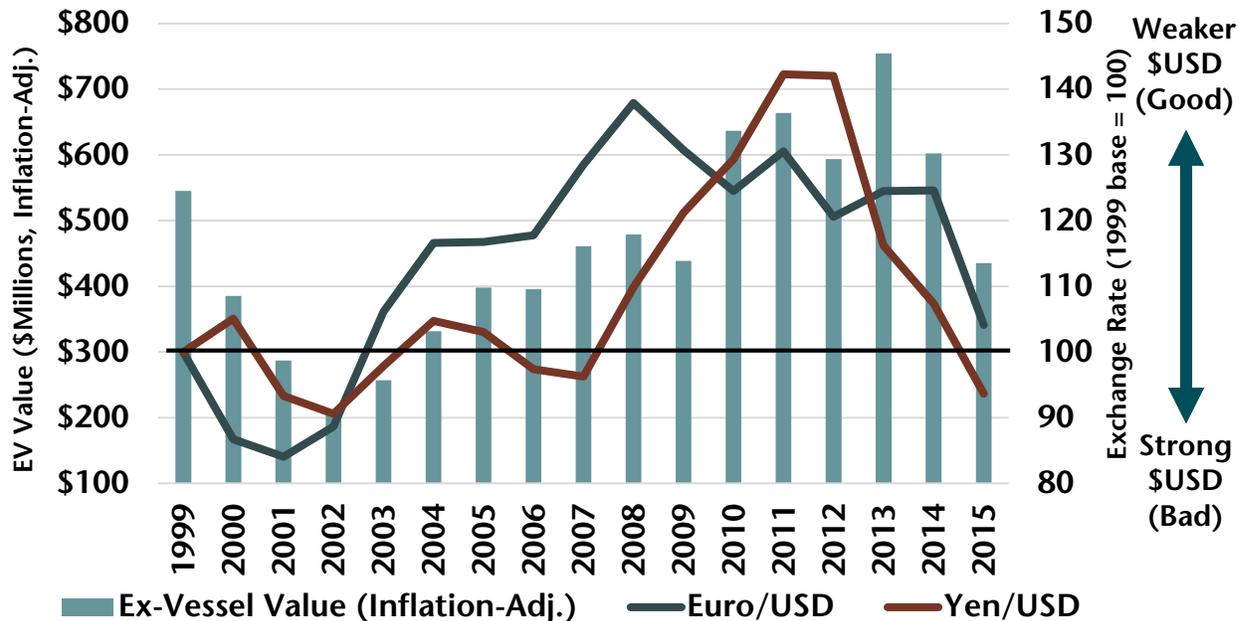
When the value of the dollar goes up (i.e. becomes "stronger") it requires foreign buyers to pay more for U.S. goods. A strong dollar also makes foreign goods cheaper from an American's perspective. Unfortunately for Alaska salmon producers, the U.S. dollar has become substantially more valuable (i.e. stronger) than the currencies of its buyers and competitors over the past three years – which made for a particularly rough market in 2015. In general, 2015 currency conditions were the worst they have been since the early 2000s.

Currently, the U.S. dollar remains relatively strong in historical terms versus the currencies of Alaska salmon's buyers and competitors; however, currency conditions have improved somewhat over the past six months. The U.S. dollar has weakened versus the Japanese yen and euro (major consumers), although the Norwegian kroner and Russian ruble (major competitors) have weakened further.

See chart comparing ex-vessel value to currency movements on following page.



Ex-Vessel Value of Alaska Salmon Harvest vs. Euro/Yen Currencies, 1999-2015



Note: 2015 ex-vessel value is estimated.
 Source: ADF&G, OANDA.com, and McDowell Group estimates.

Russia to Ban Offshore Driftnet Fishery for First Time Since 2009

Russia has stated it plans to ban the use of offshore driftnets this upcoming season, for the first time since 2009. The Kuril Islands driftnet fishery is comprised of a few dozen large vessels from Japan and Russia that target sockeye salmon returning to the Sea of Okhotsk region as they pass through the Kuril Islands area. The driftnets used in the fishery are extremely long and critics accuse the fishery of significant volumes of by-catch. The last time this fishery was closed, Russia produced a record salmon harvest driven by larger pink salmon harvests. However, with this being an even year the impact of the fishery closure is less certain. It could lead to less high-quality sockeye supply into Japan but it could also lead to higher Russian harvests of all species.

Russian Embargo Displaces Norwegian Salmon and Pressure Roe Market

The Russian government banned imports on selected food products from the U.S., Norway, and several other countries in August 2014. The embargo has had a significant impact on exports of Alaska pink salmon roe. Russia is a key market for pink salmon roe and imported \$46.6 million of Alaska salmon roe products in 2013. That figure fell 78 percent in 2014 and no salmon roe was exported to Russia in 2015. Not only does the embargo eliminate one of Alaska’s major salmon roe markets, but it pushes more roe into the Japanese market leading to lower prices on roe exports. The ban was originally supposed to last one year, but there are no indications it will be lifted any time soon.

Perhaps a larger consequence of the Russian embargo is the impact it has had on farmed salmon supplies. Prior to the embargo, Russia was the largest importer of Norwegian salmon. After the embargo, all that product was re-directed into other markets – primarily in the U.S. and Europe. The impact can clearly be seen in trade data. U.S. imports of Norwegian farmed salmon have nearly doubled since 2013, an increase of 42.1 million pounds. In the absence of Norwegian salmon, Russia has begun importing more salmon from Chile – a country not



included in the embargo. However, the increase in Chile-Russia salmon trade is relatively minor compared to the volume of Norwegian salmon displaced.

ASMI Promotions and USDA Canned Salmon Purchases Help Move Inventory

ASMI has responded to large harvests and falling prices by expanding promotional efforts. Last year, ASMI coordinated Lenten (April-June) promotions to move out inventories of 2014 frozen sockeye. It partnered with 10 major U.S. grocery chains to conduct nearly 5,000 in-store demonstrations using Alaska sockeye. On the heels of the large 2015 sockeye harvest, ASMI funded an additional 650 in-store demonstrations showcasing “Cook-It-Frozen” techniques and recipe ideas. In-store demonstrations were again used during the 2016 Lenten season to move frozen inventory in advance of the 2016 fishing season. ASMI retail partners sold sockeye at discounted prices during these in-store demonstration periods. In-store demonstrations and lower prices resulted in significantly high sales volumes, which has helped clear product that might have otherwise been held as inventory. The 2015 Lenten promotion resulted in a 29 percent retail price reduction and a 56 percent increase in sales volumes (for January through early June, compared to the same period in the prior year).



ASMI has also been working with international partners to conduct canned salmon and roe promotions over the past couple years. Promoting Alaska pink salmon products was made a priority in 2013 and sockeye promotions have been expanded since harvests rebounded in 2014. In addition, ASMI continues to promote other salmon species and has often been able to expand exposure for other Alaska salmon products through sockeye and pink promotions.

ASMI has also been successful in reducing inventory pressure in the canned market by coordinating food aid purchases of canned salmon through the federal government. The USDA Surplus Removal Program buys surplus U.S. food products and distributes them to food banks and other food aid programs around the country. With declining canned production and manageable harvest volumes, Alaska did not have much need for the USDA program for many years prior to 2013, but large pink and sockeye salmon harvests have led to mounting canned salmon inventories in recent years. ASMI was able to coordinate purchases of approximately 2.1 million cases during 2014 and 2015 worth \$76.7 million. Reducing canned salmon inventories is a critical step in rebuilding salmon prices, as historical data shows the wholesale price of canned pink and sockeye salmon closely tracks ex-vessel prices for those species.

While ASMI promotions, consumer marketing campaigns, and other efforts have not been able to prevent lower prices in the face of large harvest volumes, they have increased demand for Alaska salmon products. These efforts have been critical in mitigating to some degree the market impact of historically large and volatile



Alaska salmon harvests over the past three seasons. Due to the nature of Alaska's wild fisheries, supply typically fluctuates much more than demand, which can lead to volatile price movements. Marketing investments help move inventoried product in the short term, but they also increase residual demand for future years.

Lower Japanese Salmon Roe Production and Inventory

Japanese ikura production fell slightly and carry-over inventories fell sharply in 2015. In addition, Japanese salmon roe consumption increased substantially between 2012 and 2014. Whether consumption increased in 2015 is not yet known. Domestic roe supplies are reportedly tight in Japan and higher prices may have reduced consumption in 2015.

The Japanese ikura market is a key value driver for Alaska chum salmon, as roe typically accounts for a substantial portion of total first wholesale value. Fundamentals in the ikura market are more favorable heading into 2016 than they have been for several years. In addition, the USD/yen exchange rate is more favorable so far this year. The current USD/yen exchange rate is approximately 109.3 yen per one U.S. dollar – showing a significantly weaker dollar than last year's average exchange rate.

Japanese Ikura Market Supply, in Metric Tons, 2011-2015

	2011	2012	2013	2014	2015
Carry-Over from Previous Year	500	700	1,500	2,500	1,000
Market Supply by Source					
Hokkaido	4,900	4,620	5,620	4,400	4,650
Sanriku	840	840	1,500	1,550	1,120
Imported & Other	2,943	2,702	3,109	2,238	2,430
Total in the Year	8,683	8,162	10,229	8,188	9,200
Total Supply	9,183	8,862	11,729	10,688	10,200
Japan Domestic Consumption	8,483	7,362	9,229	9,688	N/A
Carry-Over for Next Year	700	1,500	2,500	1,000	N/A
USD/Yen (High = Weak USD)	79.7	79.8	97.6	105.9	121.1
Alaska Chum Roe Value/lb.*	\$13.02	\$16.76	\$14.63	\$12.87	\$10.20
Alaska Chum Avg. EV Price/lb.	\$0.84	\$0.76	\$0.52	\$0.60	\$0.48

Sources: Hokkaido Fisheries Cooperatives (via Minato-Tsukiji.com), OANDA.com, and ADOR (Alaska Salmon Price Report).

