

Alaska Salmon Market & Fishery Update

NOTE: This is the third update of a document first produced during the first week of August 2015. Harvest data in the table reflects catches through 8/15/2015. Price and other information is as of early August. Additions or changes to the previous version are highlighted in yellow.

Executive Summary

Alaska fishermen caught 206 million salmon through the end of last week, and harvest totals continue to rise. Through last week, this season ranks as the 6th largest harvest on record (in terms of numbers of salmon caught). The fishery is on pace for a total harvest of 238 million salmon. It is likely this season will end up being the second-largest harvest on record – eclipsing 2005 (221.9 million fish) but probably falling short of the 2013 record (272.6 million fish).

Prices for sockeye and pinks are down (significantly so for sockeye) – the two most valuable commercial species overall. The decline in ex-vessel prices is due to a softer wholesale market, impacted by a rapidly appreciating U.S. dollar, greater supply/inventory of key Alaska salmon products, and by the Russian import ban.

This market brief summarizes Alaska’s salmon harvest, wholesale market conditions, and explains important shifts in currency valuations.

Alaska Salmon Harvest

- Through August 1st, Alaska salmon fishermen caught 138.5 million fish. The total harvest is on pace to exceed the pre-season forecast; however, that is due to the pink salmon harvest being ahead of schedule. Historical run timing suggests we are about two-thirds of the way through the harvest, but again, this has been an unusual year for run timing, evident in the sockeye harvest.
- Through August 8th, Alaska salmon fishermen caught 163.4 million fish. The total harvest is still on pace to exceed the pre-season forecast; however, that outcome is much less certain given a lower than expected harvest of pinks last week. Historical run timing suggests we are slightly over three-quarters of the way through the harvest, but total harvest figures will be highly impacted by the next two weeks of pink salmon harvests.
- Through August 15th, Alaska salmon fishermen caught 206.0 million fish. The total harvest is still on pace to exceed the pre-season forecast and, given pink salmon catches in recent days, it is likely the forecast will be exceeded. If the forecast is exceeded by more than a million fish (roughly), it would rank as the second-highest harvest on record. Harvests are on pace for 238 million fish.
- It is very likely that sockeye harvests will not meet their forecast. Sockeye came in late, but a surge of late running fish in Bristol Bay will likely produce the largest Alaska sockeye harvest in 20 years (since

1995, when 63.5 million fish were caught). KDLG reports the 2015 Bristol Bay sockeye run is the fifth-largest on record.

- As a result of the unexpectedly large sockeye harvest last year, and forecast of an even larger harvest this year, ex-vessel price of sockeye has declined sharply. The 2014-season base price was \$1.20 in Bristol Bay, while many other areas saw prices around \$1.75 to \$2.25. This year the base sockeye price for most Bristol Bay processors is \$0.50.
- The ex-vessel value of Bristol Bay's sockeye fishery will be down significantly this year. Last year it was worth \$192.7 million in ex-vessel terms, not including bonuses/adjustments. Based on the 2015 harvest and a base price of \$0.50 per pound, we'd expect the 2015 ex-vessel value to be in the \$100-\$110 million range (not including bonuses/adjustments). However, when 2014/2015 are averaged together, the ex-vessel value is consistent with those seen during 2010 to 2013.
- Keta harvests are posting another weak showing in 2015. Last year's harvest was only slightly more than half the forecast, and this year might be slightly better than 2014, but will almost certainly fall well below the preseason forecast. Harvests are lagging well behind the forecast in both AYK and Southeast, where they are key species for setnetters and driftnetters (respectively).
- Pink harvests have been strong in Prince William Sound, but well below what was expected in Southeast. Last week (8/2 to 8/8) tends to mark the peak harvest period for pink salmon; however, pink harvests actually declined slightly from the prior week based on preliminary data. Although the pink season has reached a point in the season where traditionally three-quarters of the harvest has been attained – there is still a lot of fishing left. Harvests could exceed or fall well below the forecast, depending on what happens in the next two weeks.
- Southeast fishermen were dealt a blow this year with a nearly 50 percent reduction in Chinook allocation through the Pacific Salmon Treaty, finalized just days before the summer troll season. However, Chinook harvests in other areas of the state (particularly in Bristol Bay) have been robust and the total commercial harvest is likely to be much higher than originally expected and possibly higher than last year. This is significant in light of the chronic below-forecast Chinook harvests outside of Southeast Alaska, including the politically sensitive Chinook fisheries of Cook Inlet.
 - The Chinook harvest is not expected to growth much further, as there will not be a second opening for Southeast trollers.

After several years of strong ex-vessel values for salmon, the 2015 season presents a new (or at least recycled) challenge for salmon fishermen. The declining price per pound can be solved by putting in strong production numbers in high-volume fisheries like seining and Bristol Bay gillnet, but thousands of active permit holders will see a combination of low poundage and low price this year. For instance, Southeast power trollers and driftnetters accounted for nearly 1,200 active permits in 2014, but fishery reports to date indicate both fisheries are seeing the combination of low volume and low price.

Alaska Salmon Harvest, Thousands of Fish, 2015 (Through 8/15)

Species	YTD Harvest (through 8/15)	Est. Percent Complete ¹	Est. Total Harvest ²	Pre-Season Forecast	Prior Year Harvest
Sockeye	51,875	98%	52,900	58,773	44,058
Pink	138,902	83%	166,700	140,268	219,160*
Keta	12,668	91%	14,000	17,216	11,332
Coho	2,061	50%	4,100	4,580	6,272
Chinook	449	~100%	~449	349	487
Total	205,955	87%	238,079	221,186	156,676**

*Represents prior odd-year harvest, which provides a better basis of comparison for pink salmon. 2013 was a record harvest.

**Total 2014 harvest, does not sum because the pink salmon figure in this column is from 2013.

¹ Based on prior five-year average harvest rates and run timing.

² Assuming run timing is consistent with prior five-year average from this point forward. Estimates will be less accurate for fisheries which are less complete (in terms of harvest relative to run timing).

Note: Prior year harvest data represents preliminary data (except for pinks). Statewide Chinook forecasts were not available, so McDowell Group has estimated the forecast based on input from ADF&G and other sources.

Source: ADF&G In-season timing charts, ADF&G forecast/harvest data, and McDowell Group estimates, compiled by McDowell Group.

At this point, many of the volume-driven success stories of the 2015 season are occurring in fisheries with low residency; Bristol Bay driftnet (48 percent of permits fished by AK residents) and Southeast seine (54 percent AK residents). In contrast, the lower-volume fleets like Southeast driftnet, AYK setnet, and Southeast power troll tend to be mostly AK residents, all are over 80 percent Alaska resident.

Depending on how the pink and coho fisheries finish up, this year will likely fall short of meeting the preliminary ex-vessel value of 2013 (\$691M) or 2014 (\$576M). Based on the price quotes we've received and the harvest volume thus far, the salmon fishery is on track for roughly \$450-515 million in ex-vessel value in 2015 (don't quote this figure, we're just trying to put this year in perspective, value-wise – it's a very rough estimate at this point).

Currency Market Impacts

- The U.S. dollar (USD) is up significantly against all of Alaska's seafood major buyers and major competitors. This makes Alaska seafood products relatively more expensive in export markets and lowers the cost of competing species, both at home and abroad. What tends to happen in these cases (when the USD strengthens significantly) is U.S. export prices come down, in U.S. dollar terms, but not necessarily in terms of the foreign currency.
- In general, when the dollar is strong, imported products become cheaper for American consumers.
- Alaska typically exports over 60 percent of its salmon production (a bit over 50 percent if you exclude product which gets secondarily processed in China and other countries and shipped back to the U.S.). As a result, foreign currencies can have a significant impact on wholesale market prices – which drive ex-vessel pricing.

U.S. Dollar (USD) Versus Currencies of Major Markets and Competitors

Currency	August 2014 (Average Exchange Rate)	August 2015 (Average Exchange Rate)	Pct. Value Lost vs. USD
Major Markets			
Euro	1.33	1.10	-17.8%
Japanese yen	102.9	124.1	-17.0%
Canadian dollar	1.09	1.31	-16.7%
Major Competitors			
Russian ruble (wild salmon)	36.2	62.2	-41.8%
Chilean peso (farmed salmon)	579	677	-14.5%
Norwegian kroner (farmed salmon)	6.20	8.22	-24.5%

Note: August 2015 represents monthly average rate through 8/5/2015.
Source: OANDA, average monthly foreign exchange rates (ask).

- There are many factors that have led to large currency market swings, which are not normally this volatile. None of the reasons have anything to do with seafood. The euro and yen are weaker primarily because of central bank actions in those countries. The ruble and Norwegian kroner are down due to lower oil prices (and economic sanctions on Russia). Also, the U.S. economy and trade balance have improved significantly, so that makes the currency stronger.
- Sockeye is the single largest value component of the Alaska salmon harvest and the currency problem has a major market impact on species value. In recent years the overall sockeye market has developed into three segments of similar size; Japan, Europe and Domestic market. The strong dollar has eroded wholesale value in two of the three segments and creates incentive to divert additional volume to the (now oversupplied) Domestic market. This affects sockeye prices directly and exerts downward price pressure on Alaska salmon products of similar character, such as troll-caught coho.

Wholesale Market Conditions

- Wholesale prices and/or overall value for almost all key Alaska salmon products are down significantly, compared to this time last year.
- The average value per pound of frozen H/G sockeye is down 37.5 percent, or \$1.36/lb, when comparing April-June 2015 exports to the prior year. Values for canned red salmon are down 13.0 percent, or \$0.52/lb., during the same period.
- The industry entered calendar year 2015 with significantly more inventory of canned and frozen sockeye than previous years. This increase in market supply has led to a lower price environment. However, more supply and lower prices will lead to increased consumption and more demand in the long run. The challenge and opportunity for ASMI and industry is to capitalize on this opportunity to introduce new consumers to fresh/frozen sockeye, and canned sockeye in particular.
- Prices for canned pink are down slightly, partly due to large USDA buys that supported the market last year. However, the total export value of canned pink and frozen pink and keta salmon is down

significantly in recent months (April-June) compared to the prior year. This means less sales revenues for processors heading into the 2015 season.

- Ex-vessel prices are primarily driven by the wholesale price; however, the amount of revenue available to buy fish tends to increase when total sales value increases. When sales revenue declines, either due to lower prices or smaller harvest volumes, the amount of revenue available to buy fish declines – which can result in lower ex-vessel prices relative to changes in wholesale price.
- Frozen H/G coho prices are down 9.0 percent, or \$0.20/lb. Despite lower prices, total export value of frozen coho increased in recent months, compared to the same period last year. Market demand for coho is strong compared to Atlantic salmon.
- The roe market has been hit the hardest of all, as prices and Alaska production declined in 2014/2015. Roe typically accounts for 10-20 percent of total first wholesale value for Alaska salmon, exceeding \$200 million in some years. Export data lumps roe from all salmon species together, but the data still indicates a significant decline in both total value and price. In fact, the total export value of U.S. salmon roe fell by roughly 50 percent (about \$130 million) during the most recent 12 months, compared to the 12 prior months.
- Imports of farmed salmon into the U.S. are up significantly, and prices have declined due to increasing global supply, the stronger U.S. dollar, and Russia’s embargo on Norwegian salmon. Imports of fresh farmed Atlantic salmon are up 26 percent (20 million pounds) during the most recent 12 months, compared to the 12 prior months.

Wholesale Prices for Key Alaska Salmon Products

Product	Price Type	April-June 2014 (Average Price)	April-June 2015 (Average Price)	Change (\$Dollars)	Change (Pct.)
Frozen H/G Sockeye	Export	\$3.61	\$2.26	-\$1.36	-37.5%
Canned Sockeye Salmon	Export	\$3.98	\$3.46	-\$0.52	-13.0%
Canned Pink Salmon	Export	\$1.61	\$1.56	-\$0.05	-3.1%
Frozen H/G Coho	Export	\$2.18	\$1.98	-\$0.20	-9.0%
Frozen Roe	Export	\$6.92	\$4.07	-\$2.85	-41.2%
Fresh Atlantic Salmon	Import	\$3.49	\$2.82	-\$0.67	-19.2%

Source: NMFS Trade Data, compiled by McDowell Group.