SALMON MARKET BULLETIN

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June 22, 1998
No. 32

"... NO IDEA HOW THIS THING IS GOING TO TURN OUT."

UNCERTAINTY HANGS OVER MARKETS AS SEASON BEGINS

The 1998 Alaska salmon season kicked off in May with plenty of questions hanging in the air. The biggest, of course: Whither Japan?

The sudden free-fall in the yen, from 130 yen/dollar in early June to 146 yen in mid-June, caught both Alaska processors and Japanese importers by surprise. On June 17, an alarmed U.S. Treasury intervened in the currency markets for the first time since 1992, as Uncle Sam shed greenbacks and snapped up yen in an effort to shore up Japan's faltering currency. Short term, it seemed to be working. The same day Uncle Sam stepped in, the yen rebounded from 146 to 136 yen/dollar. But would it hold?

SELECTED SALMON MARKET DATA

Data	Most recent month(s)	Most recent figure	Previous month(s) figure	% change from previous month	Previous year figure	% change from previous year
US Cold Storage Holdings (000 pounds)						
Frozen chinook		1,527			1,042	+47%
Frozen sockeye		479			2,109	-77%
Frozen coho	Apr-98	2,560			1,200	+113%
Frozen pink		1,881			1,020	+84%
Frozen chum		12,575			3,380	+272%
Cumulative US Imports (metric tons)						
Frozen chums, all sources		6,235			1,908	+227%
Fresh Atlantics, all sources	Jun-97	41,739			39,599	+5%
Fresh Kings, all sources	through	3,297			4,307	-23%
Fresh salmon fillets, all sources	Mar-98	27,165			11,532	+136%
US Wholesale Prices, high ($/lb)						
Fresh Chilean Atlantics, 6-8 lb, FOB Miami	Jun-98	2.30	2.40	-4%	2.00	+15%
Fresh Canadian Kings , 6-8 lb, FOB Seattle		2.00	2.40	-17%	2.50	-20%
Cumulative Japanese Imports (metric tons)	Jun-97					
Frozen sockeye, all sources	through	66,531			93,101	-29%
Frozen coho, all sources	Apr-98	50,028			46,470	+8%
Tokyo Wholesale Prices, high (yen/kilo)*						
Frozen Bristol Bay sockeye, IQF, 4-6 lb		860	850	+1%	670	+28%
Frozen Local Alaska sockeye, IQF, 4-6 lb		930	850	+9%	700	+33%
Frozen Canadian net sockeye, IQF, 4-6 lb	Jun-98	900	850	+6%	670	+34%
Frozen Chilean Coho, 4-6 lb		600	610	-2%	720	-17%
Fresh Norwegian Atlantics, 3-4 kilo		1000	1000	0%	1,000	0%
Tokyo Roe Wholesale Prices, high (yen/kilo)*						
Bristol Bay sockeye sujiko, #1 grade		2,600	2,600	0%	2,000	+30%
Chum sujiko, #1 grade	Jun-98	2,300	2,400	-4%	2,600	-12%
Pink sujiko, #1 grade		1,500	1,500	0%	1,500	0%
Ikura, imported, Alaska #1 grade		4,000	3,500	+14%	2,500	+60%
Japanese Exchange Rate						
Value of 100 yen, in dollars	Jun-98	0.72	0.75	-4%	0.86	-17%
Value of dollar, in yen**		139	133	+5%	116	+20%
Cumulative US Exports (metric tons)						
Frozen sockeye	Jun-97	44,254			69,417	-36%
Canned sockeye	through	12,118			16,240	-25%
Canned pink	Mar-98	14,776			17,856	-17%
Avg. Canned Wholesale Case Prices ($/case)						
Sockeye, 48-talls	Mar-98	139.34			119.04	+17%
Pink, 48-talls		53.56			41.20	+30%
US Average Canned Retail Prices ($/can)						
Sockeye (talls)	Mar-98	4.40	4.58	-4%	3.90	+17%
Pink (talls)		1.65	1.79	-8%	1.38	+30%

*Prices shown in table are "list" prices. Actual sales prices may have been slightly higher or lower.
**The value of the yen is currently extremely volatile, and may change significantly from day to day.
Notes: Figures for Exchange Rate, all Tokyo Prices, and US Wholesale Prices are for the first week of the month. All other figures are monthly totals. One metric ton = 2,204.6 pounds. One kilo = 2.2046 pounds. Sources: NMFS; Japan Tariff Association; Bureau of Economic Analysis; Bill Atkinson's News Report; U.S. Bureau of the Census; Alaska Dept. of Revenue; A.C. Nielsen; Urner-Barry. For more detailed information on sources and definitions, and other market data, contact SMIS at (907) 786-7750 or afgpk@uaa.alaska.edu.

At the same time the state's largest sockeye run was building, Alaska seafood processors and importers were scrambling to figure out how the yo-yoing yen and a steadily worsening Japanese economy might combine with tighter supply to affect sockeye prices over the next few months.

Adding to the uncertainty: an e-coli outbreak in Japan in late May, which was traced to Japanese chum ikura served by a sushi bar. With five children hospitalized and Japanese supermarkets pulling ikura from their shelves, processors and importers feared ikura prices, which had strengthened over the winter, could plunge.

"I have no idea how this thing is going to turn out," concluded one of the state's largest processors, when asked about the outlook for the upcoming season.

COPPER RIVER SOCKEYE CATCHES DOWN, KINGS UP

The Copper River fishery lived up to its volatile, unpredictable reputation again this year. After blowing out the projections last year with a record sockeye harvest of 3 million fish, this year it looked like the Copper River sockeye catch would fall far short of the harvest forecast of 1.9 million fish. Catches as of June 17 totaled only 750,000 fish, barely one third of the 2.2 million harvested by the same date last year.

> "... NO DOUBT THE JAPANESE WANTED SOCKEYE."

With slow fishing in May, the U.S. market, which has a growing appetite for this "first-of-the-season" wild salmon, easily digested the early sockeye catch at wholesale prices that reached as high as $4.00/lb. FOB Seattle—up from $2.60/lb. last year. By mid-June, as landings elsewhere in the state picked up and processors started freezing Copper River fish, fresh wholesale prices fell to $3.15/lb. FOB Seattle.

With fewer fish and more buyers this year, prices to fishermen rose from $1.45/lb. for the first opening to $2.15/lb. by the third opening, dropping down to $1.20 by mid-June (last year, prices started at $1.55/lb. and fell to $.80/lb. by the fifth opening).

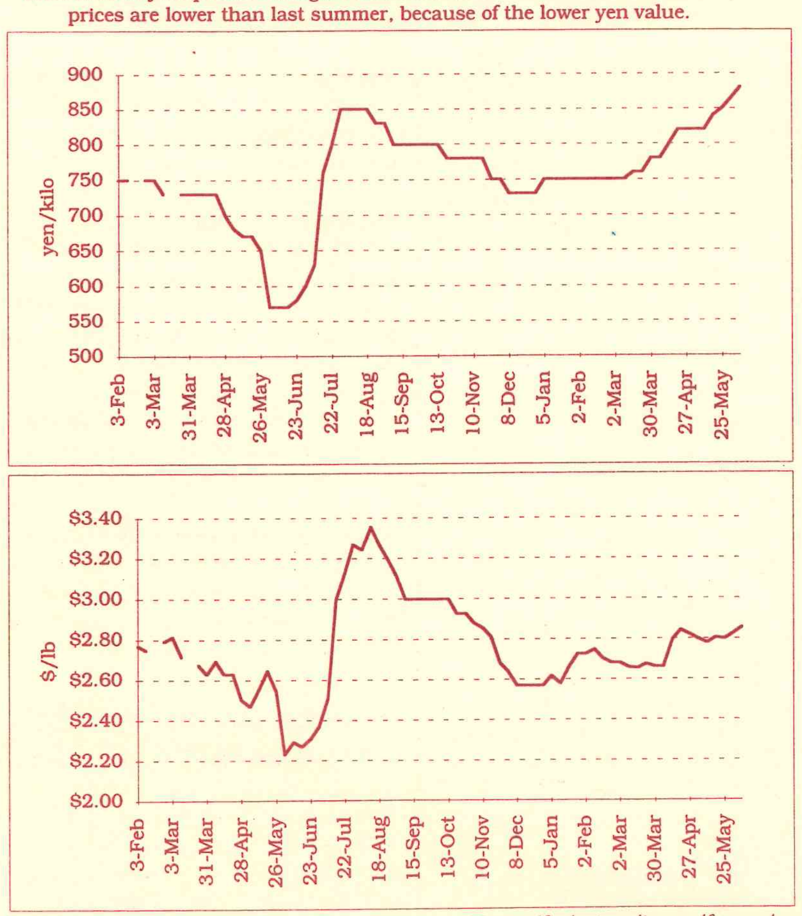
With the sockeye pipeline in Japan dry, Japanese importers were paying $2.70-$2.80/lb. for 4/6 Copper River sockeyes in mid-June, FOB Alaska. By way of contrast, last year prices for frozen Copper River sockeyes fell to $2.00/lb. before sales stopped as nervous Japanese buyers waited for a Bristol Bay harvest that never arrived.

While Copper River sockeye catches were disappointing, kings were a nice surprise. As of June 17, Copper River king catches were a record 70,000 fish. In spite of the big catch, the buoyant U.S. fresh market was able to take almost all the kings, although wholesale prices—which started out as high as $5/lb. FOB Seattle for fish from the first few openings—fell to $3.70/lb. by mid-June as more fish hit the market.

BUYERS READY AS BAY BUILDS

Going into the season, with virtually no sockeye left in Japan, there was no doubt that the Japanese wanted sockeye. "Buyers are waiting with big open mouth," said one Japanese importer in early June, as the Tokyo wholesale price for No. 1 4/6 Bristol Bay reds continued rising to 870 yen/kilo—the highest price since 1994—as buyers scrambled to buy the handful of remaining fish.

Japanese wholesale prices for frozen sockeye since February 1997: Measured in yen, prices are higher than last summer. Measured in dollars, prices are lower than last summer, because of the lower yen value.



Source: Sea-World web site (http://www.sea-world.com/fis/prices/japan/frozen/salmon.html). Prices are for Bristol Bay sockeye, No. 1 4/6.

At last August's exchange rate of 116 yen to the dollar, 870 yen/kilo would have worked out to $3.40/lb. But at 136 yen to the dollar, it works out to only $2.90/lb. If the yen were to fall again to 146 yen to the dollar, it would work out to only $2.70/lb. "At the current exchange rate it's not what it would have been, but it works for the industry," said one large Bristol Bay buyer.

A reduction in Japan's Russian sockeye quota helped bump the starting price of Russian sockeyes up from last year's 800 yen/kilo ($3.13/lb. at the June 1997 rate of 116 yen/$) to more than 1,300 yen/kilo this year ($4.34/lb. at 136 yen/$). Deals for early season sockeye from Kodiak were being made at about $2.25/lb. FOB Alaska for 4/6 pound fish—similar to prices processors received early last year.

Aside from the exchange rate, the lingering question for processors and importers was whether the higher Japanese price levels could be passed on to consumers. "They haven't moved volume at 850 yen/kilo in 3-4 years," pointed out one processor, suggesting that after immediate demand was met, sales would slow until buyers were more confident about this year's production and sales in Japan. "Most of these guys are not in a position to go and finance our pack and take the risk," he said. "Their banking system is just not supporting it."

Given the uncertain Japanese market, Alaska processors were expected to can as many sockeye as they could. Last year, the Alaska canned pack was just 500,000 cases (48-talls) while the Canadian pack was about 400,000 cases, for a total North American pack of 900,000 cases—the lowest since 1988. This year, with a larger projected Alaska harvest and processors looking for alternatives to the frozen Japanese market, one major buyer predicts the Alaska pack could reach 1 million cases, while the Canadian pack could fall to about 225,000 cases, for a total North American pack of about 1.2 million cases.

Value of 100 Yen in Dollars: February 1997-June 1998

Source: Weekly exchange rates reported in Bill Atkinson's News Report.

After last year's short pack, canned red prices rose sharply from about $60/case to more than $70/case for 24-talls. With the weaker British pound, the prospect of a carryover—the result of slower sales—and a projected larger pack, canned red prices softened this spring, and both processors and buyers anticipated they might fall farther. Still, canners were glad to have an alternative to the frozen market. "I have more confidence in the stability of the canned market than the frozen market," said one of the state's largest packers. As another packer put it, "the range of outcomes is a lot narrower than Japan."

In mid-June, Kodiak fishermen settled for a season base price of $.82/lb. for sockeyes, and South Peninsula fishermen were fishing for a June-only price of $.82/lb., after sitting out several openings. Those prices were well above last year's opening prices of about $.65/lb., but below the ending prices of about $.90/lb.

Processors were expected to be extremely cautious when posting ex-vessel prices in the Bay until they got a better handle on the size of the run, what the exchange rate was likely to do, and how the Japanese market would respond once the immediate sockeye shortfall was met.

E-COLI SCARE COULD DAMAGE CHUM EGG MARKET

Until news of Japan's latest e-coli outbreak, the outlook for this year's chum season appeared similar to last year. The winning cost recovery bid for Deep Inlet chums in Southeast came in at $.32/lb., up from $.22/lb. last year. Bids for the earlier Hidden Falls chums were down slightly from $.39/lb. last year to $.36/lb.

Buyers were striking deals for Fourth of July ads at prices that were averaging between $1.30-$1.40/lb. delivered to buyers in the Lower 48. As long as the landings were light, fresh markets would have no trouble absorbing the fish. Prince William Sound fishermen got $.45/lb. in the first opener—with processors reporting prices of $.90-$1.10/lb. FOB Anchorage for fish trucked to the Lower 48 at a cost of about $.20/lb.

The main concern for processors was the pile of chums still sitting in U.S. cold storages: at the end of this April, there were a record 12.6 million pounds of chums in cold storages, compared to just 3.4 million pounds last year. Even though a lot of the chums in the freezer were lower-quality Hokkaido fish imported last fall from Japan, processors were uncertain how quickly they should go to the freezer with this year's fish. With frozen dark chums selling for $.65-$.75/lb. in Seattle, the "frozen market is just not a viable market right now," commented one processor, pointing out that the stronger dollar might attract even more Japanese chums next year.

The dilemma was that if too many processors tried to avoid freezing by selling fresh, they ran the risk of watching a flooded fresh market quickly collapse. "The fresh market will pay a decent price for chums," said one Southeast processor in mid June, "but the day it's oversupplied it will drop to a bloody level."

The good news *had* been that chum ikura markets looked brighter. With lower Alaska and Japanese chum harvests in 1997, the glut of ikura in Japan had cleared out. Wholesale prices for Alaska chum ikura were at 4000 yen/kilo in early June ($13.34/lb. at 136 yen/$), compared with 2500 yen/kilo a year earlier ($9.78/lb. at 116 yen/$).

But as reports hit that Japan's major supermarkets were pulling ikura off their shelves after the e-coli incident, the market for ikura ground to a halt, and nervous processors began to rethink the chum market. "If the egg component goes away there's going to be some really serious problems," said one processor. At a net egg value of about $4.00/lb., and roe recovery rates exceeding 5%, processors had expected the value of chum salmon roe to be well over $.20 per round pound delivered by fishermen. "The potential is there for a really negative impact," said another processor. What actually happens will depend on how consumers and supermarkets react: "It's probably beyond the control of anyone in the seafood industry," he added.

PINK PRICES HOLDING STEADY

In contrast to the uncertainty hanging over the sockeye and chum markets, the pink market looked stable heading into the 1998 season. For the second year in a row, processors will have practically no canned carryover inventory.

With the projections for a higher Alaska harvest of 85.6 million fish but a lower Canadian harvest, processors were optimistic that the higher case prices established last fall (about $27 per case of 24-talls) would continue to hold—unless the run came in way over projections. A planned $10 million USDA purchase of canned and pouched pink salmon and chum salmon nuggets should also help. However, processors pointed out that with continued weakness in the pink sujiko market and the sagging yen, most of the roe value for pink salmon has evaporated.

SPLIT DECISION ON CHILEAN DUMPING

U.S. salmon farmers were unhappy with the final Department of Commerce ruling on charges that Chilean salmon farmers were dumping salmon on the U.S. market. The decision, which was announced June 2, placed an average duty of 5.19% on Chilean Atlantic salmon. However, two of the largest Chilean companies were not found to be dumping and hence will be subject to no duties. The Commerce decision was a far cry from the 40% duty asked for by U.S. salmon farmers who filed the claim last year. The final decision on the case will come in July, when the U.S. International Trade Commission decides if in fact U.S. farmers were injured by the Chilean dumping. If the ITC decides there was injury, the duties stay for at least three years. If there was no injury, however, the duties are waived.

Duty or no duty, the ITC decision appears unlikely to slow the rising tide of imported Chilean fillets into the U.S. Through April, U.S. imports of Chilean Atlantic fillets were 9,828 tons, more than double imports for the same period last year.

In other news from the farmed front, farmed competition for Alaska salmon may decline next year in some markets. Chilean salmon farmers have suffered from the low prices in Japan last winter, which in February dropped below 480 yen/kilo ($1.74/lb. at the February exchange rate of 125 yen/$) for trout and 520 yen/kilo ($1.89/lb.) for cohos. As a result, bloodied Chilean farmers say they plan to reduce production of both coho and trout next year in an effort to get prices back up. Elsewhere, a rapidly expanding outbreak of disease in New Brunswick has forced farmers to slaughter millions of Atlantic salmon, which could cut production there by as much as 30% this year.

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A Publication of the Salmon Market Information Service

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The Salmon Market Information Service is funded by the Alaska Seafood Marketing Institute from part of the 1% salmon marketing tax paid by Alaska salmon fishermen.

The Salmon Market Information Service is based at the UAA Institute of Social and Economic Research, working in cooperation with Sea Fare Group.

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