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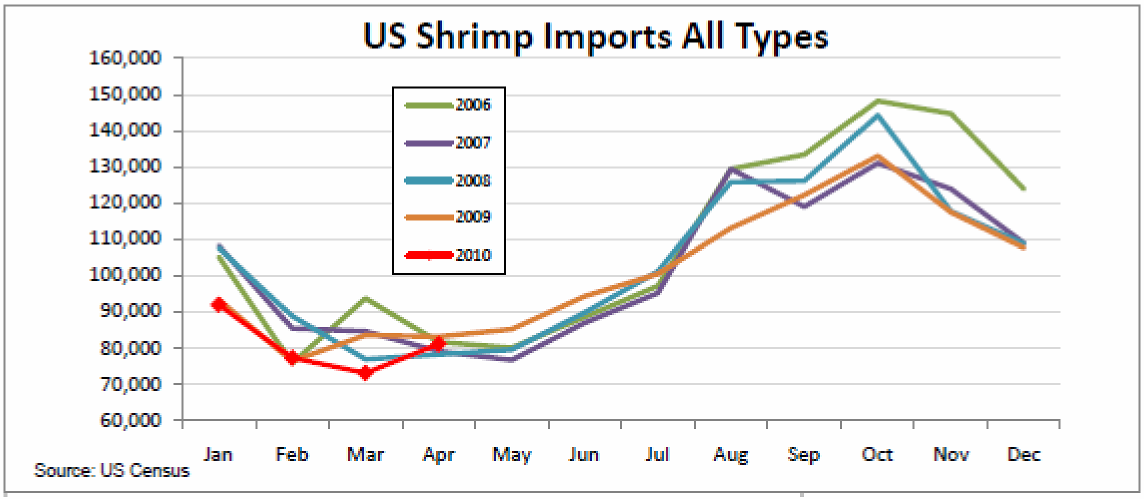
Shrimp Market Update

July 16, 2010

Overview: Shrimp imports were down for the third consecutive month in May, falling 9.9% from year ago and YTD imports through the first 5 months of the year are down by 5.1%. In fact, imports have been down in 10 of the last 11 months. The early part of the year is a seasonally slow production period but the shortfall in imports is contributing to the price pressure currently seen in the shrimp market. The shortfall in imports combined with production fears related to Gulf of Mexico wild shrimp are exacerbating this tight supply as buyers seek to cover their needs due to harvest uncertainties.

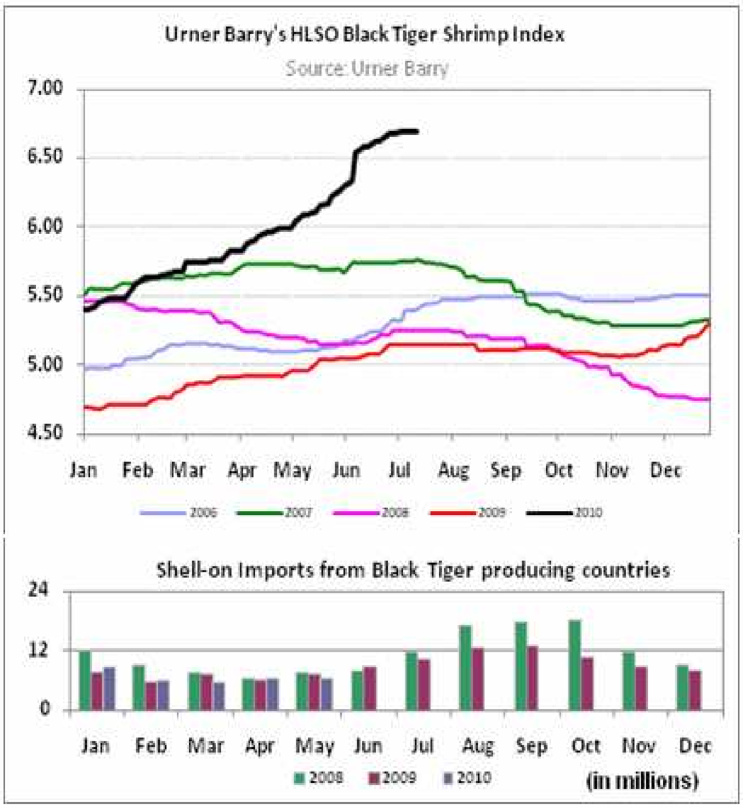


Raw shell-on imports were -6% last month and -10% YTD, while raw peeled shrimp imports were -15% last month and -6% YTD. Cooked shrimp imports were -8% last month and flat YTD, coldwater were +155% last month and +9% YTD, while breaded imports were -7% last month and +14% YTD. The strongest import volume YTD has come from Thailand (+13.6%), Ecuador (-1.7%) and Indonesia (-30.2%). China (+7.8%), Mexico (-2.0%) and Vietnam (+2.8%) round out the top six. Imports from Thailand were up essentially flat in May (+.5%), while Ecuador was +20% and Vietnam +14%. The main problem is Indonesia, last year's #2 shrimp supplier to the U.S., where shrimp farmers are battling a virus outbreak and production has continued in a downward spiral from the end of 2009. Chinese imports were down in May but up YTD due to increased breaded imports. The struggling world economy, reduced production in certain regions, tariffs and deteriorating consumer confidence all continue to impact the global shrimp industry.

Black Tiger Market: **In Vietnam, black tiger shrimp prices, especially on larger sizes, continue to increase due to severe supply shortages and increased demand.** Competition for raw materials is fierce, as suppliers are trying to fulfill pending orders. Many producers are two months late on shipments due to the scarcity of supply.

Currently, raw material from extensive farms is coming and the main sizes expected are 26/30 and 31/40 count. Large sizes, from 4/6 through 21/25 count are in a critical shortage and prices are expected to remain high. During the season, market prices are expected to remain firm due to the delayed harvest, strong demand, limited supply and unfavorable hot weather conditions. Additionally, inflation as well as rising utility and production costs has also contributed to the steadily increasing prices in the black tiger market.

Black Tiger Shrimp Index—Prices continue to escalate each week and are at a 5-year high, up 35% since the beginning of 2010. Prices are approaching levels not seen since 2004 but are still well below pre 9/11 levels.

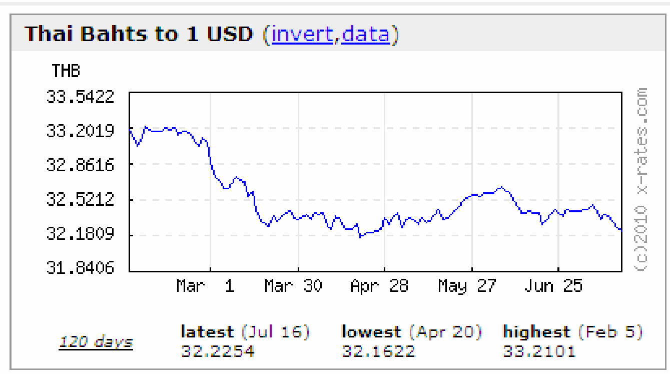


Seafood firms in the Mekong Delta region will continue to face shortages and many factories are running at 20-40% capacity. One reason for the shortage is prices on small size shrimp increased, which encouraged local farmers to sell and start a second crop sooner than usual. Additionally, many breeders lack the capital for production as shifting weather conditions and a long-lasting drought have damaged thousands of shrimp breeding farms. The situation is expected to get worse and many firms are considering importing shrimp from Thailand or Indonesia.

Overall, Vietnam's seafood exports came to $US 2.02 billion in the first 6 months of 2010, up 14.2% from the same period last year. The revenue hit $US 390 million in June alone, a 2.2% increase from a year ago. The EU continued to the biggest importer, followed by Japan and the US. Demand in the US market is expected to increase after the oil spill that seriously hurt the domestic seafood industry.

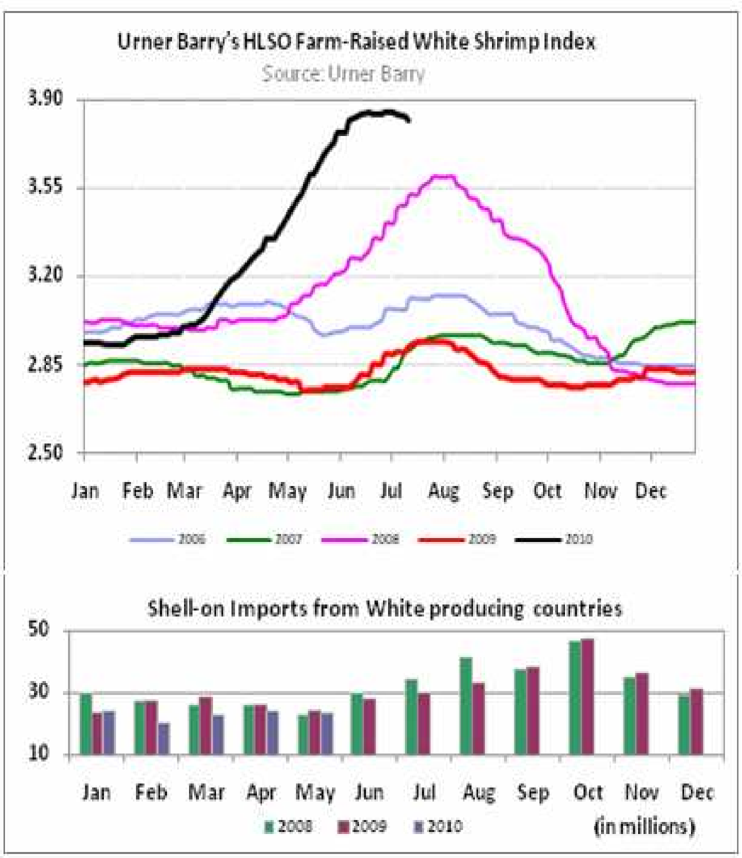
In Indonesia, a virus which stunts shrimp growth by lowering their appetite, is expected to lower production, with estimates at just 88% of the original target. They expect Vannamei to comprise almost 60% of the volume and black tiger the remaining 40%. There has been no government assistance in dealing with the virus situation and there is concern for small and medium-scale shrimp farmers, which will face difficulty in carrying on business because of the production decline.

<u>White Shrimp Market</u>: **In Thailand, the main harvest season has begun and is expected to last until late August or early September. Prices for Vannamei white shrimp have stabilized over the last couple of weeks but higher demand, fewer raw materials and a strong Thai baht will ensure prices remain firm.**



Hot weather conditions in Thailand have also caused a high shrimp mortality rate. Many shrimp are dying before they reach full size, causing a limited availability of larger sizes out of Thailand. This situation is expected to last throughout the main harvest season. Additionally, due to the recent outbreak of infectious myonecrosis found in Brazilian and Indonesian shrimp farms, demand is expected to increase. **Therefore, prices of Vannamei white shrimp are expected to remain firm due to limited supply, stronger demand, currency exchange factors and the continued instability of Thailand's political situation.**

<u>White Shrimp Index</u>—Prices have escalated significantly since March and are up almost 30% since the beginning of 2010, surpassing the previous high seen in 2008.



Overall, Thailand's shrimp industry should improve in 2010, as they are expected to benefit from the virus outbreak in Brazil and Indonesia as well as a lower catch rate in the U.S. as a result of the Gulf oil spill. Thailand's farmed shrimp production is expected to total 570,000 to 580,000 tons this year, up 7% from last year. Exports should reach 350,000 tons, up 8% with a value of 70-80 billion baht. After the first three months of the year, Thailand's exports were already up 34% over year ago.

<u>Food Safety Update:</u> Currently in the gulf area, the Food and Drug Administration are pulling seafood right from the dock or distributor floor and subjecting it to lab tests to rule out the presence of harmful chemicals found in the oil spewing from the spill. According to the NOAA, about 400 samples have been tested and given a clean bill of health. The goal is for the consumer to know, with confidence, that the seafood they are eating is safe from harmful chemicals or compounds. In addition, states such as LA or FL also have a say in testing and can run their own tests. An additional issue still being discussed is whether the dispersants used in fighting the spill are harmful or threatening.

<u>Gulf / Wild Mexican Shrimp</u>: On April 20th, a Deepwater Horizon oil rig exploded and sank in mile-deep water off of the Louisiana Coast, killing 11 workers. Thousands of barrels of oils poured into the Gulf for almost three months until a recent capping effort may have put an end to the spewing oil. **The immediate impact on the seafood market was a widespread perception of rising prices and closure of 32% of federal waters.** At the time of the spill, the region was not open, so there was no sudden cut-off in shrimp production. **However, since markets anticipate and worldwide shrimp prices were already on the rise, the disaster has compounded the increase and led to a significant spike in prices.** Demand for Gulf Shrimp is rated fair at best and sellers are beginning to discount across the board to stimulate buying interest due to the build up in inventories and anticipation of the new Texas season, which opened July 15th.

The National Marine Fisheries Service reported US Gulf landings are off to a slow start. May headless weight was 7.1 million pounds, down 56% from last year. Cumulative landings for 2010 are 18.9 million pounds, running roughly 37% below last year.

Another issue impacting the region is the U.S. embargo on Mexican wild shrimp due to the failure to pass a turtle excluder inspection. The new wild season begins in September and the situation will need to be resolved at that time. However, in the meantime, more uncertainty exists. **Wild Mexican Shrimp supplies are limited and prices will remain firm until new production in September or October. Prices had been climbing substantially in 2010, approaching levels last seen in 2002, but have now stabilized.**

<u>Northern Shrimp</u> – Canada's coldwater shrimp (Pandalus borealis) industry had a difficult year in 2009, marked by weak demand, reduced supplies, low prices and declining foodservice sales. A tough global economic climate and a depreciated Canadian dollar have resulted in unfavorable returns for Canadian shrimpers but favorable prices for seafood buyers worldwide.

<u>Consumer Insights:</u> A recent internet survey shows Japanese consumers are getting tired of being thrifty and cooking at home in the prolonged slow economy. Seafood consumption is showing signs of improvement.

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Sources:			
	Contessa Procurement Team	Seafood.com	Intrafish
	National Oceanic and Atmospheric Association	Seafoodnewssource.com	Urner Barry
	National Fisheries Institute	Seafoodsource.com	Wall Street Journal
	National Marine Fisheries Service	Globefish	