

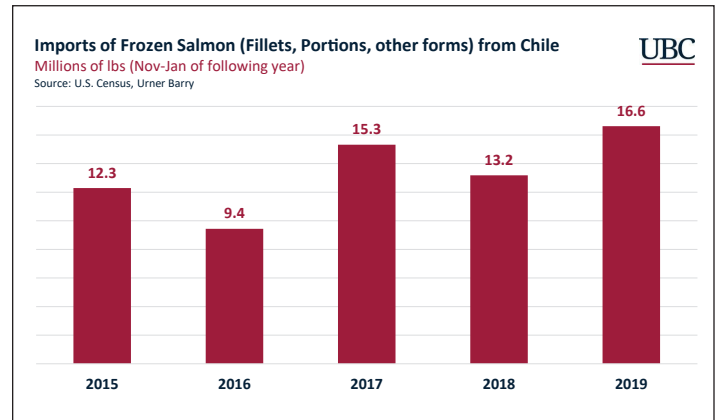
March 24, 2020

Impact of Covid-19 on Salmon Market: Quick Reference

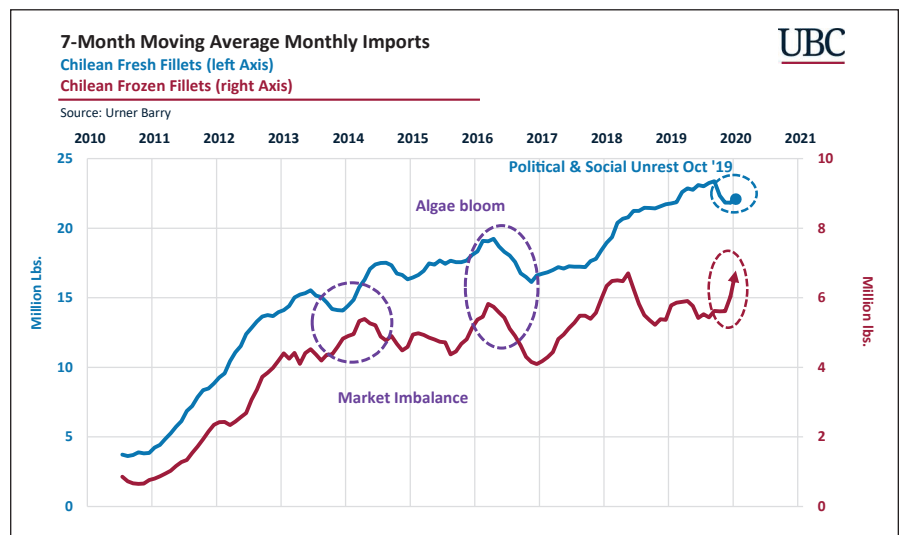
The immediate impacts of COVID-19 on the salmon market are clear from a logistical point of view. The assumptions are obvious. If flights are diminished or cancelled, and we assume production can continue, a lot of this fish will go into the frozen products. For example, political and social unrest in Chile in October 2019 caused shipments of frozen fillets (which include portions and other forms) to the U.S. to reach large volumes in December 2019 and a monthly record high of 8.9 million pounds in January 2020. Naturally, this came as a result from the disruptions to air shipments of fresh fillets.

The COVID-19 situation all around the world is not so different from a logistical stance. Assuming demand is constant, a disruption in the supply chain would cause prices to rise. However, with foodservice demand basically stopped and retail demand surging as buyers make panic buys, the situation could not be more uncertain. For salmon, we believe it will be hard for retail demand to offset the lost movement in the foodservice sector in the medium to long term.

We could make some assumptions. Given imports of frozen fillets and assuming that inventory rotation is approximately 6-8 months, the U.S. seems to be well supplied. In the past we have seen imports of frozen fillets surge relative to fresh fillets due to fundamental market forces or supply shocks. In less volatile times these imbalances correct themselves over time. In the COVID-19 era, the first assumption is that shipments of fresh fillets will basically come to a complete halt for the foreseeable future, which is not an assumption we have experienced for an extended amount of time. So, if production overseas, particularly in Chile remains equal, we could see imports of frozen product increase considerably in the upcoming months. This is highly unlikely given the labor situation in Chile will be further exacerbated by the effects of COVID-19.



In the U.S., retail demand has been characterized by purchases of eggs, chicken, and other lower priced proteins, with Urner Barry quotations near-record high weekly increases over the last three weeks. Fresh Chilean salmon prices, however, have moved slightly lower during this three-week period despite major disruption in shipments, while prices of frozen items have remained flat. One assumption is that demand has shifted towards other lower priced proteins and frozen products.



For salmon, we believe there is a silver lining in the frozen retail sector, albeit at the right price as people's incomes inevitably fall in the upcoming weeks. We will continue following this situation closely.