

Bear signals: Reasons for weak salmon prices

Fish Pool Christmas Seminar 2023

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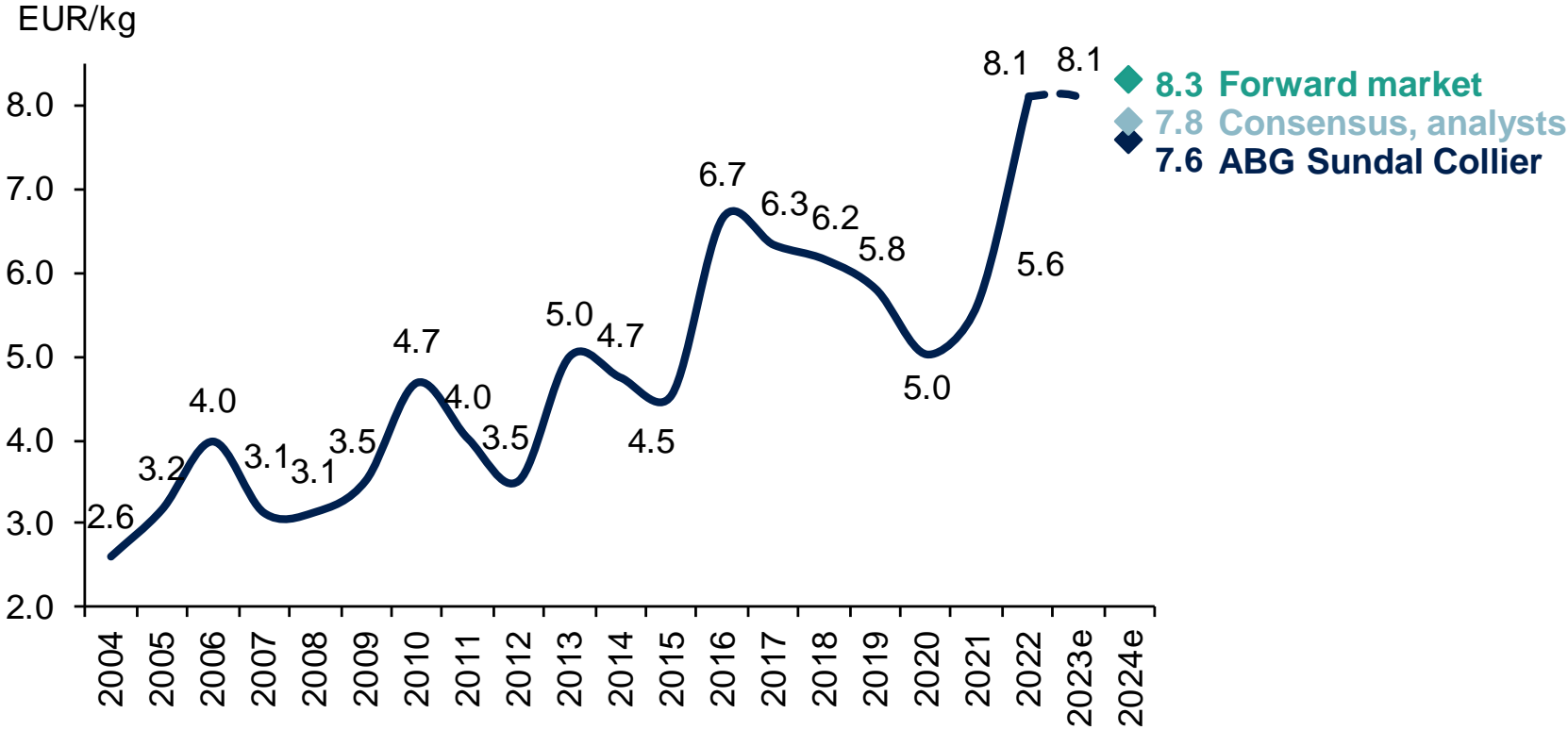
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Market participants are slightly cautious about the salmon price outlook for 2024

The financial analysts (including ABG) expect lower prices in 2024, the forward market is more optimistic

Historical salmon price vs. expectations for 2023 and 2024

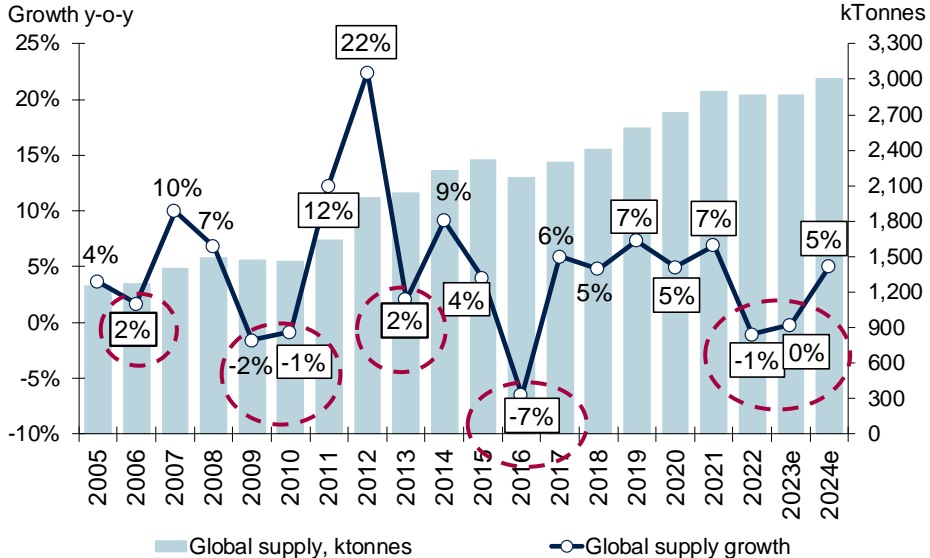


What can make this even weaker?

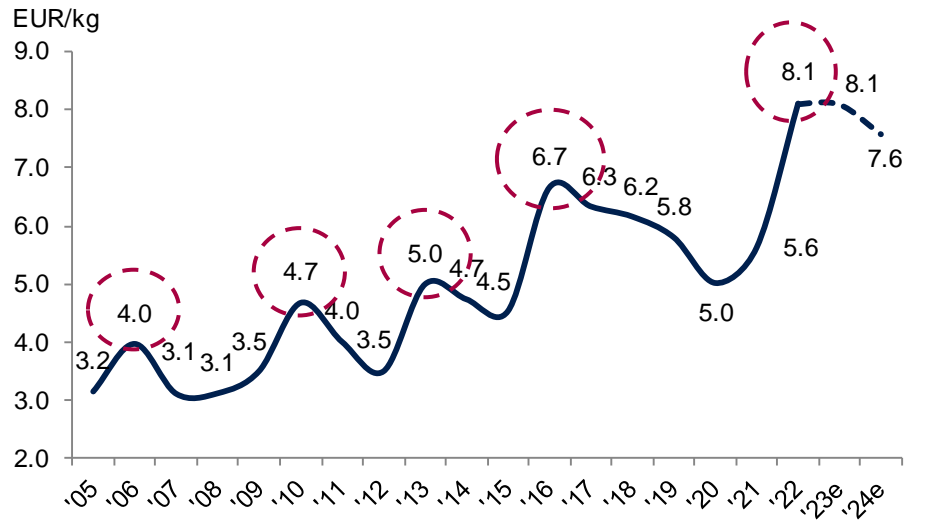
Supply and demand dynamics for Atlantic salmon

The big picture: Salmon farming is a supply driven industry - Expect price drop due to higher supply growth

Global supply growth, Atlantic Salmon



Salmon price, Atlantic salmon, FCA Oslo (EUR/kg)

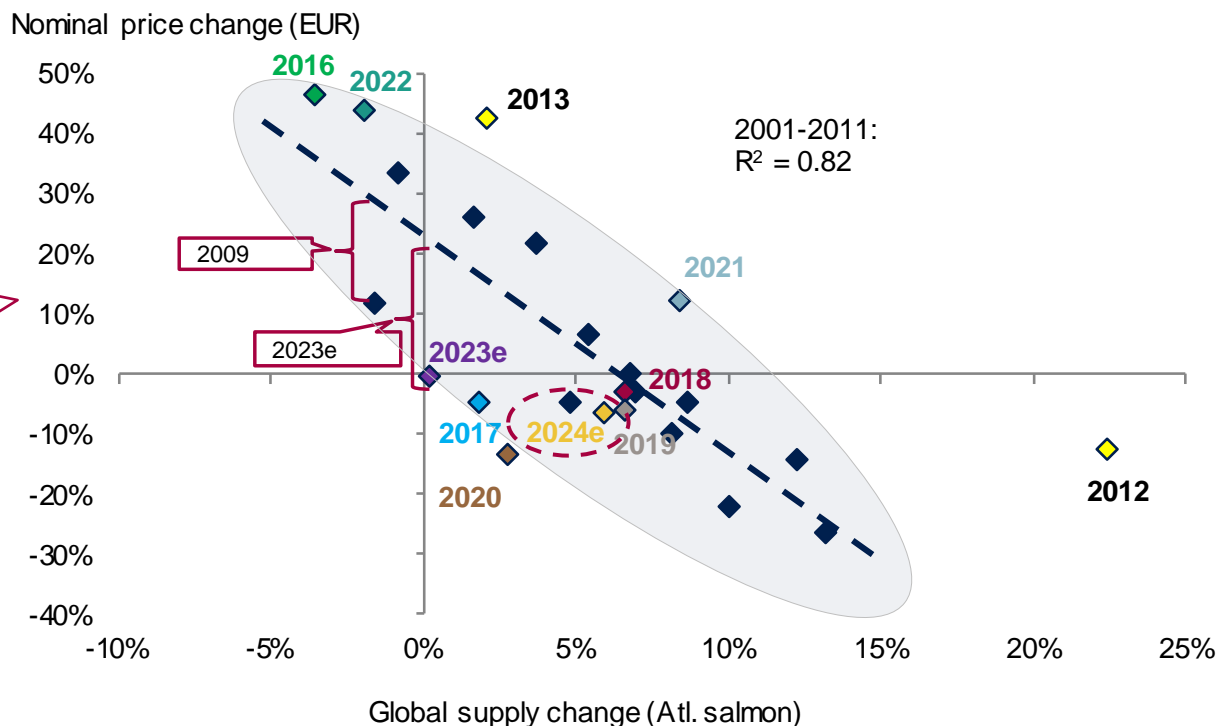


Salmon price primarily driven by supply growth – historical price jumps explained by low single digit supply growth

Supply and demand dynamics for Atlantic salmon

Demand has played an important role in recent years – Weak demand impulse so far in 2023

Global salmon supply vs. salmon price change



Similar weakness in 2023 as in 2009 (last time with negative global GDP growth)

Note: The global supply change includes inventory effects

We can look at demand as the salmon price change not explained by supply

Breaking down the relevant factors for a weak salmon market

What can drive supply growth higher or demand lower than expected?

Supply-factors

- 1 Upside risk to productivity in Norway after weak 2023
- 2 Smaller farming regions to recover after recent setbacks
- 3 Significant frozen inventories to lift effective supply growth

Demand-factors

- 4 Weaker macro to shift volumes from foodservice to retail
- 5 Salmon is expensive vs. other meats compared to history
- 6 Less fixed-price contracts, more volumes in spot market



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Moderate growth in global harvest volumes expected in 2024e

We expect +5% growth in global harvest volumes in '24 – marking a return of positive supply growth

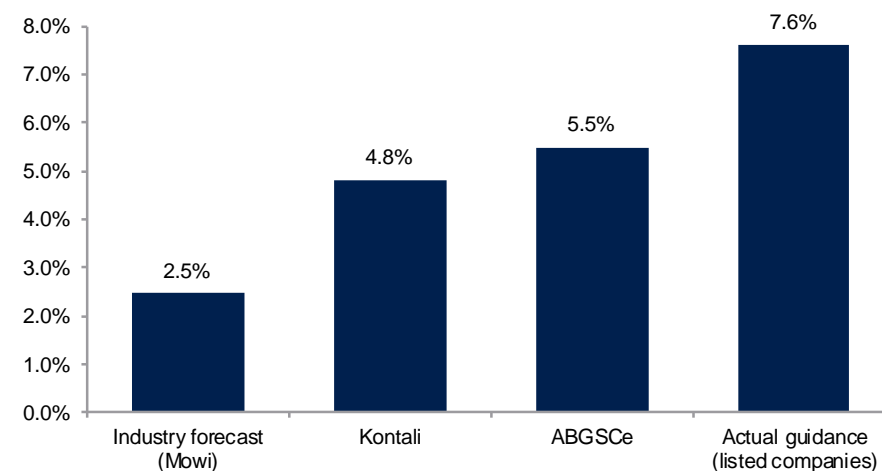
Global supply growth by region, ABGSCe

ANNUAL SUPPLY FIGURES

k Tonnes WFE	2018	2019	2020	2021	2022	2023e	2024e
Global	2,406	2,582	2,710	2,898	2,867	2,834	3,006
<i>y-o-y growth</i>	5%	7%	5%	7%	-1%	-1%	6%
Norway	1,253	1,333	1,369	1,532	1,517	1,506	1,595
<i>y-o-y growth</i>	4%	6%	3%	12%	-1%	-1%	6%
Chile	660	690	778	720	753	763	785
<i>y-o-y growth</i>	17%	5%	13%	-7%	5%	1%	3%
UK	154	191	181	199	165	162	178
<i>y-o-y growth</i>	-13%	24%	-5%	10%	-17%	-2%	10%
Canada	146	138	137	142	132	117	125
<i>y-o-y growth</i>	5%	-6%	-1%	4%	-7%	-11%	7%
Faroes	72	87	81	106	100	91	106
<i>y-o-y growth</i>	-11%	21%	-7%	31%	-6%	-9%	17%
Other	120	143	164	200	201	195	217
<i>y-o-y growth</i>	-5%	19%	15%	22%	0%	-3%	11%

Global supply growth forecast

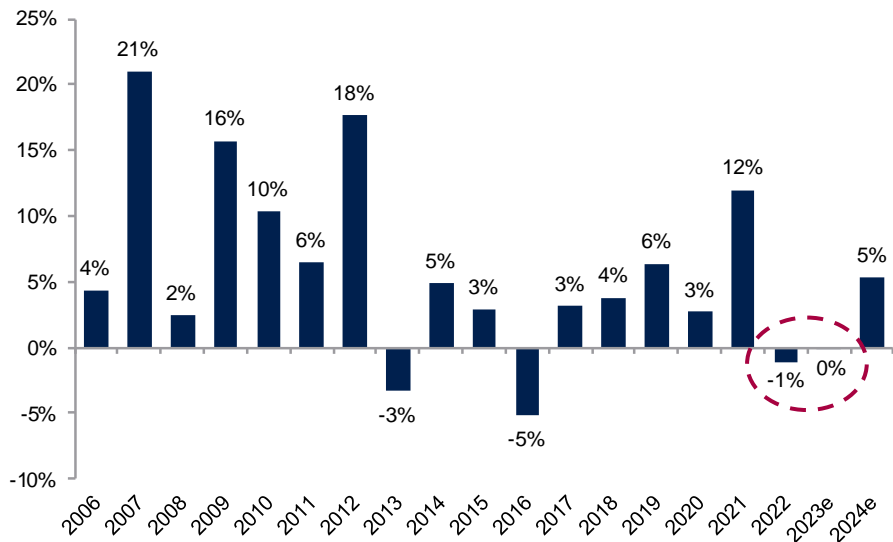
Volume growth, y-o-y %



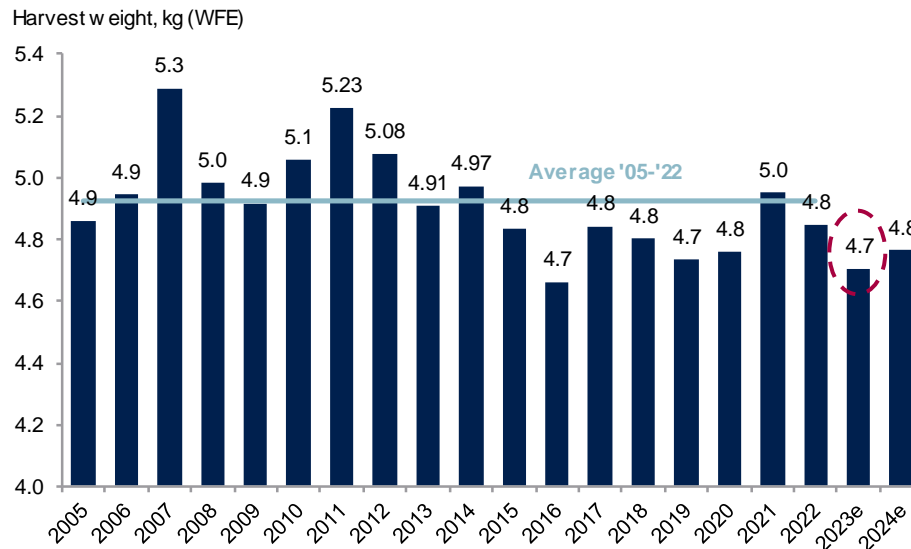
Record low harvest weights in Norway; only upside from here?

If harvest weights return to the long-term average, global supply growth could increase to +7%

Weak supply growth from Norway in 2022 and 2023...



...driven by declining harvest weights and productivity...



...which leaves significant growth potential if harvest weights recover to the long-term average

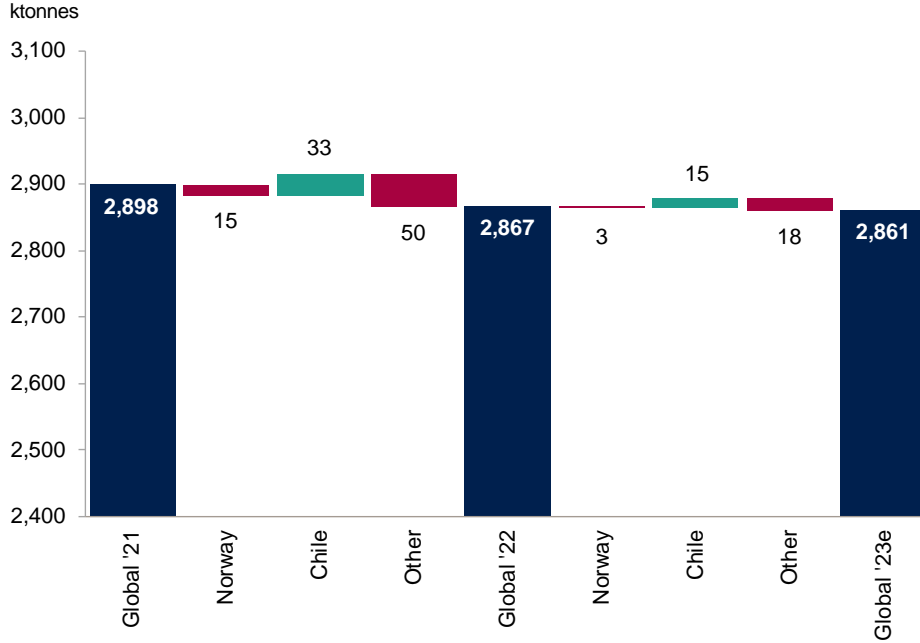
2024e sensitivity to Norwegian harvest weights

	4.60	4.65	4.70	ABGSCe 4.75	4.80	4.85	4.90	4.95
Harvest weights Norway, kg WFE	4.60	4.65	4.70	4.75	4.80	4.85	4.90	4.95
Global supply, ktonnes	2,956	2,973	2,989	3,006	3,023	3,040	3,056	3,073
Global supply growth y-o-y	3.3%	3.9%	4.5%	5.1%	5.7%	6.3%	6.6%	7.2%
Implied salmon price estimate, NOK/kg	92	90	89	88	87	86	85	84

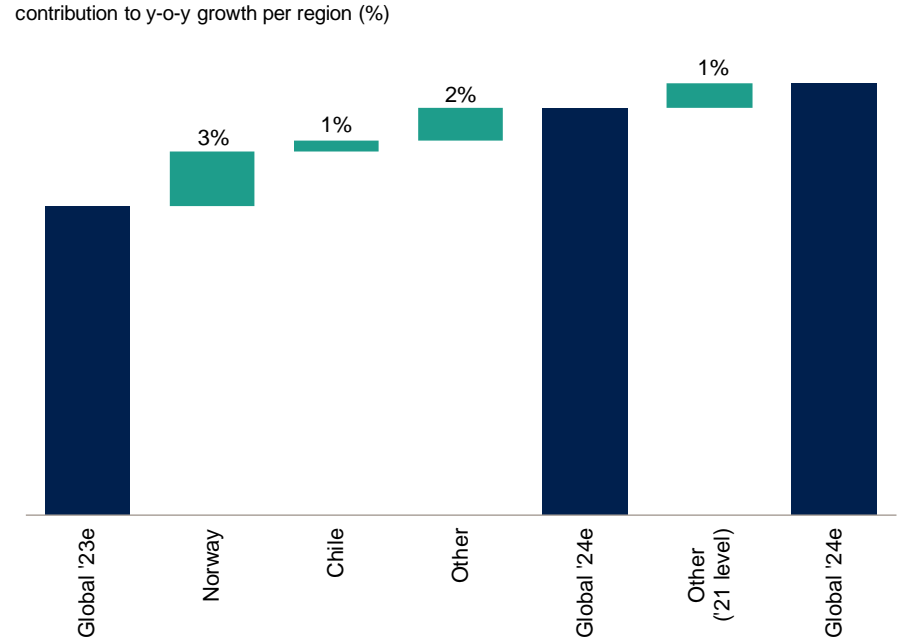
What if smaller regions recover?

Assuming the smaller regions to return to its '21-levels, these could alone add 3% to global supply growth

Negative growth driven by supply shortfall in smaller regions...



...which suggests upside risk to supply in a recovery scenario



The smaller regions have seen a setback in supply, primarily due to biological issues. In a scenario in which these regions see improved biological conditions, and return to a supply level in line with '21, this would mean that these regions alone could add 3% growth in '24

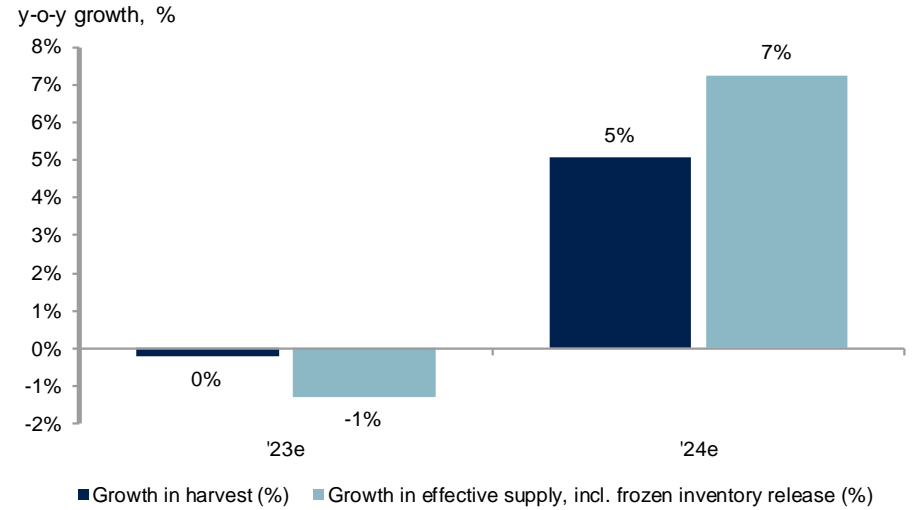
Larger frozen inventories than last year?

Frozen inventories drives effective supply growth higher than harvest volumes in 2024, not in 2023

Export volumes to key processing countries for inventory up 10%...



...which drives effective supply growth in '24e +7% higher y-o-y



Export assumed to inventory is up 10% y-o-y YTD. Assuming ~10% of global supply to frozen inventory per year, this means an additional 1% growth y-o-y in effective supply growth. Hence supply growth could come from -1% in 2023e to +7% in 2024e

Breaking down the relevant factors for a weak salmon market

What can drive supply growth higher or demand lower than expected?

Supply-factors

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Demand-factors

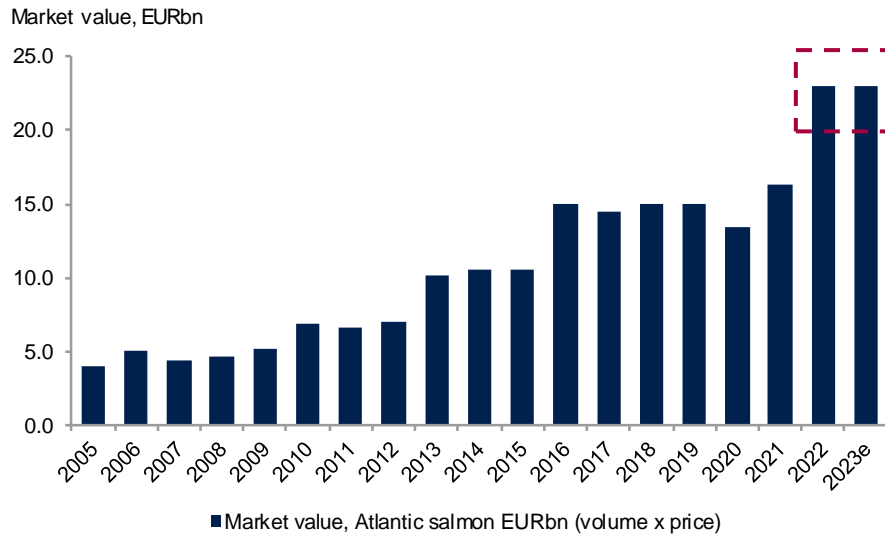
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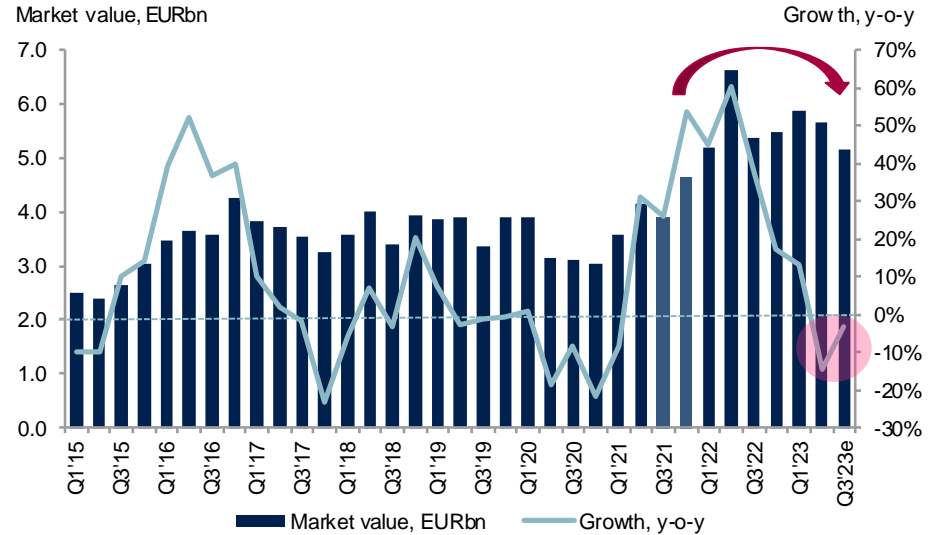
Spending on salmon to come down from record levels?

Demand boost with reopening after the pandemic, but the market value of salmon has turned down

Underlying demand (here: market value) holding up well...



...but looks to be trending lower in recent quarters

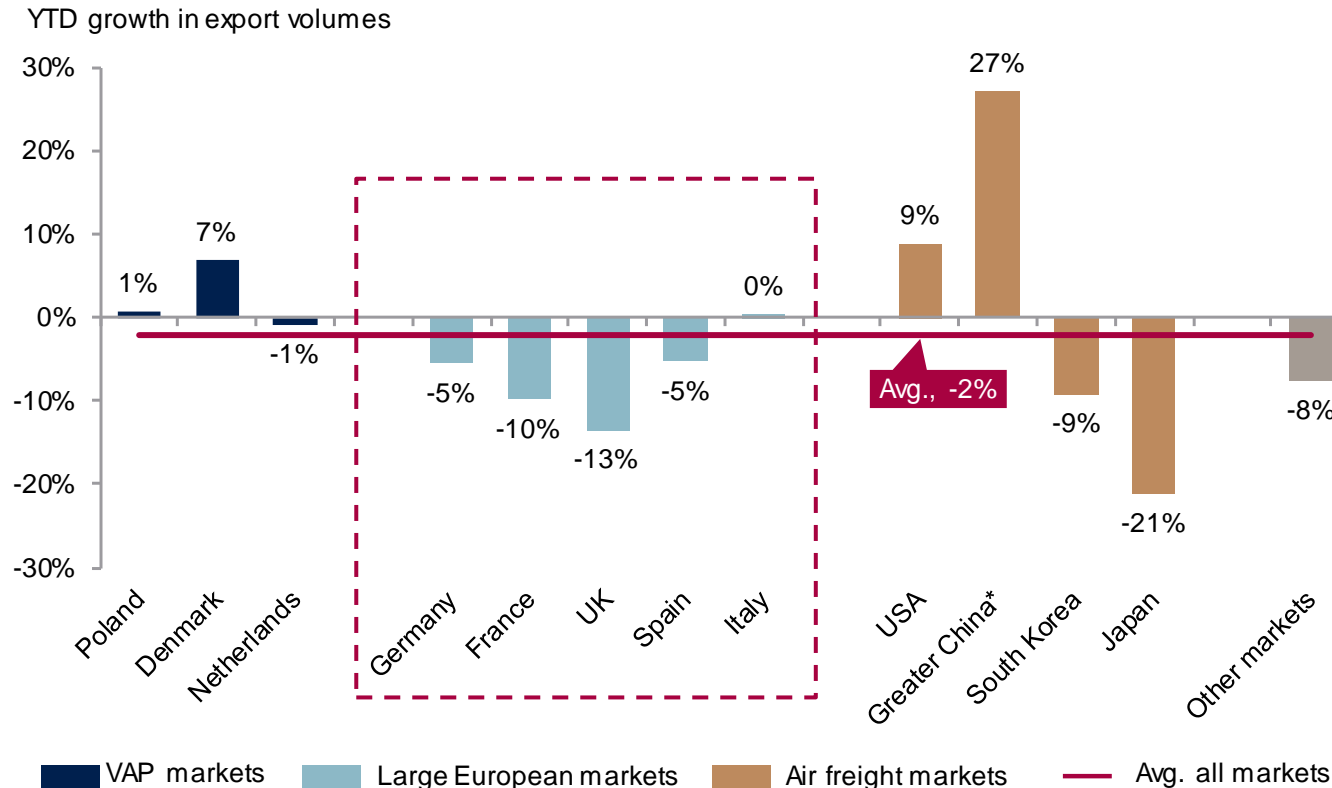


Strong growth in total market value over time suggests solid demand, but clear signs of weakness in Q2 and Q3 2023 (market value down y-o-y)

Clear signals of weaker demand in key European markets...

...but lower consumption in these “retail-heavy” markets has (so far) been absorbed by US and China

YTD export volumes of salmon from Norway

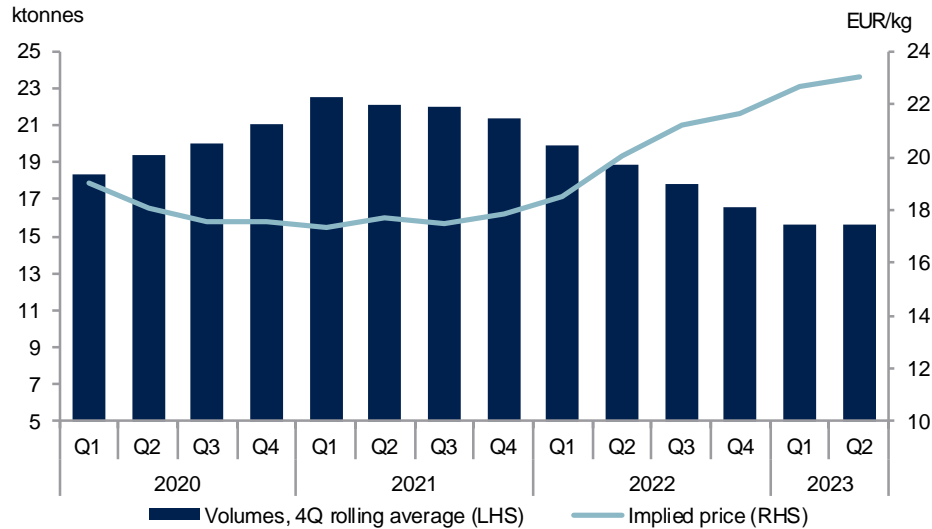


In a scenario with high supply growth, the salmon market usually rely on the “retail-heavy” European markets to clear all volumes. However, a European consumer under pressure has a much lower price point vs. the attractive air-freight and foodservice segments

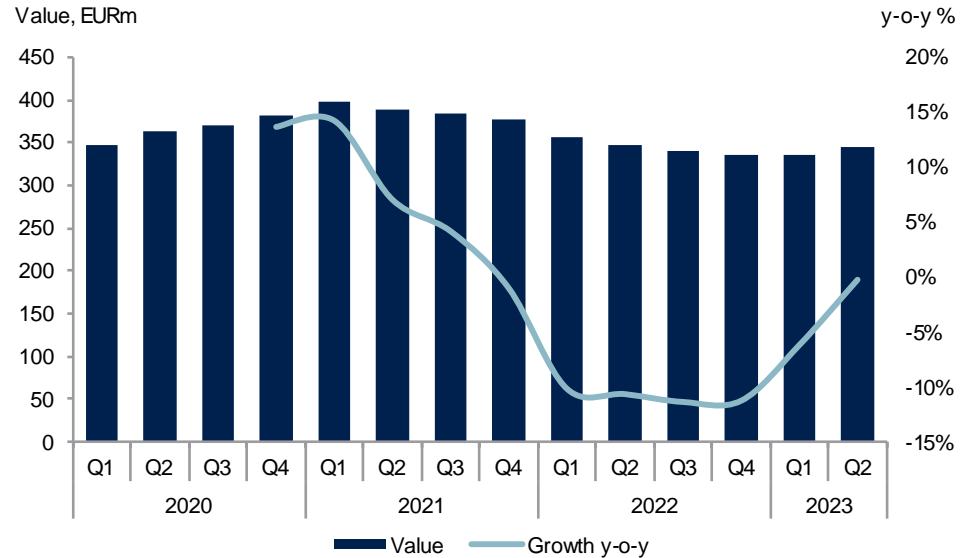
The price to consumers in Europe likely needs to come down...

...in order to stimulate demand

German consumption fell 30% when prices jumped 20-25%...



...which suggests that German demand is down 5-10% from peak



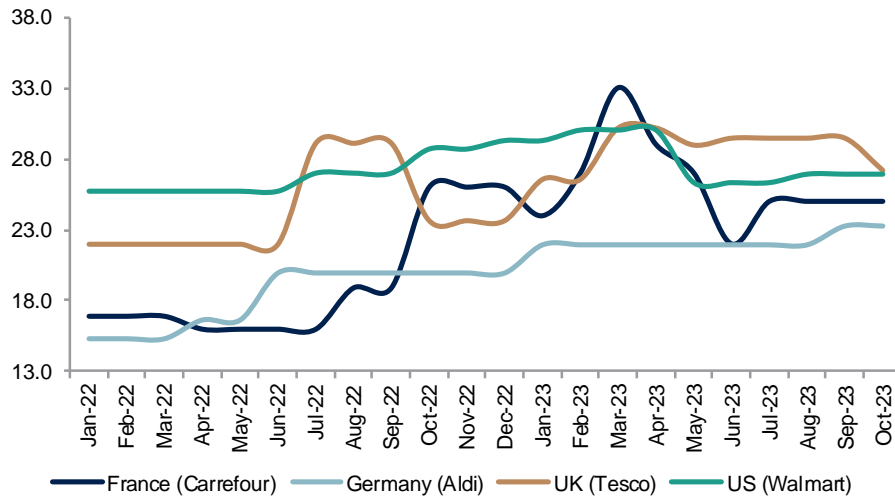
Demand in decline in Germany, as higher prices is not enough to compensate for lower consumption

...but limited signals of retailers lowering prices so far...

Salmon prices still at high levels in most end-markets, likely to negatively impact demand

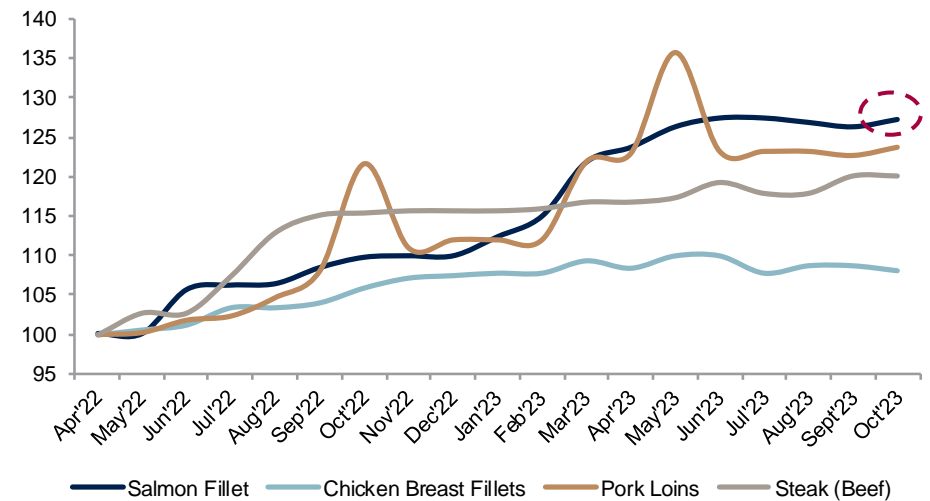
European consumers face 25-50% more expensive salmon in retail...

EUR/kg, fresh salmon fillets 200g



...with signals of salmon prices increasing more than competing alternatives

Price development for various meat and fish fillet products, UK retail (indexed)

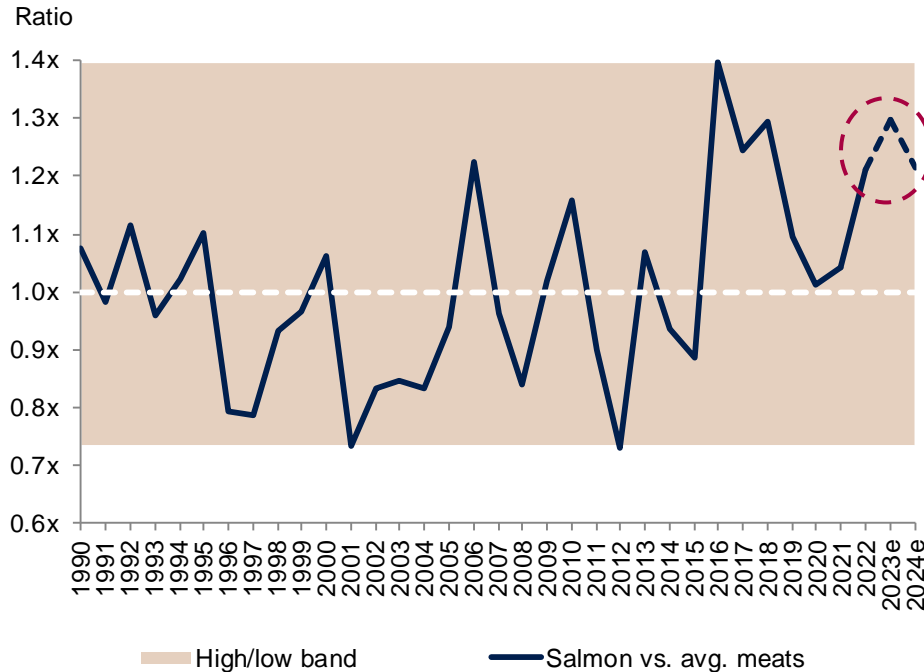


Surging spot prices have translated into much higher prices to end-consumers in retail, negatively impacting demand. For specific products, salmon prices seems to have increased by 25-50% in certain key outlets, and more so relative to alternative proteins

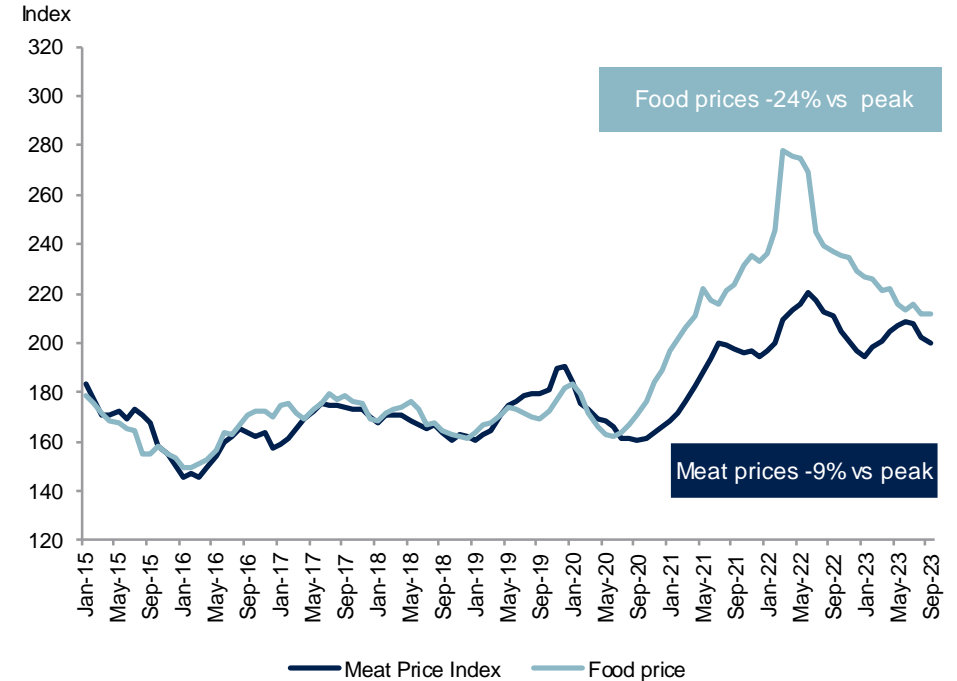
...leaving salmon expensive compared to other meat

Salmon has weakened its relative competitiveness, which could make it vulnerable in a recession

Salmon vs. other meats (indexed so historical avg. = 1.0x)



Retracting prices for some alternatives represent a risk

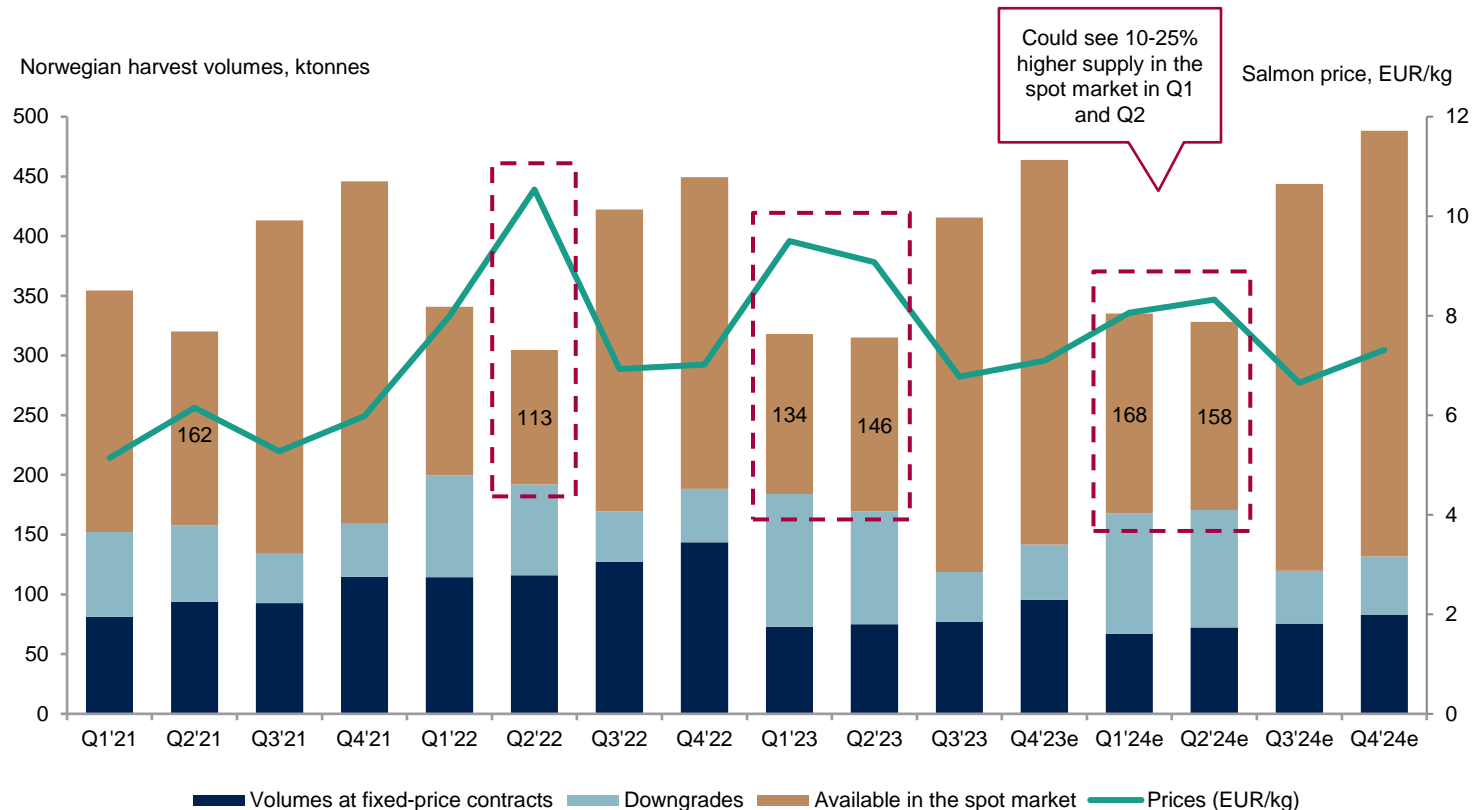


Salmon is currently 30% more expensive vs. other meat compared to its long-term average. The weakened competitiveness relative to alternatives is a clear downside risk to demand, especially given its higher price point in the current recessionary environment

Low spot market volumes have boosted the reference price

...in Q1 and Q2, but lower volumes on contract and positive supply growth can easily change that

Norwegian harvest volumes in the spot market vs. salmon price

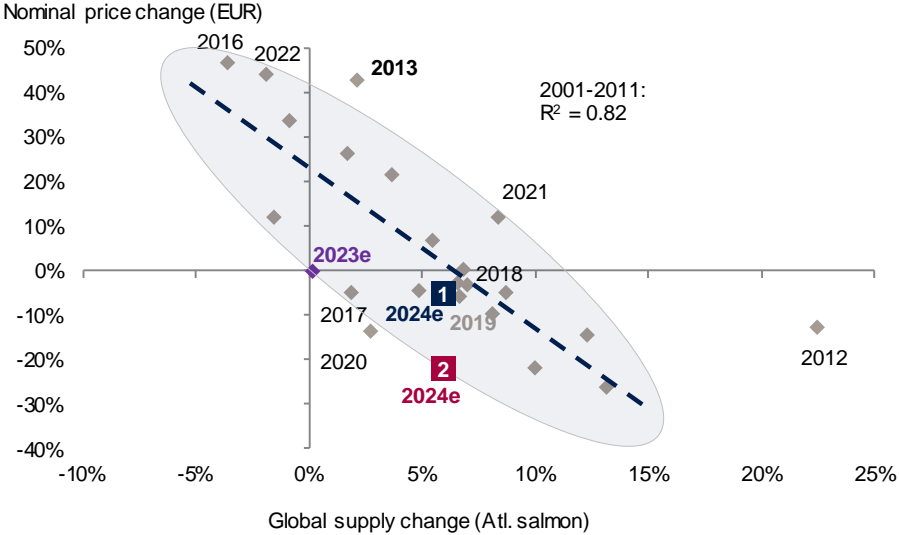


Despite Norwegian supply growth of ~5%, the increase in spot volumes could be as much as 10-25% in Q1 and Q2. Additionally, increased local processing capacity for downgraded fish could reduce the price difference of downgrades and superior grade

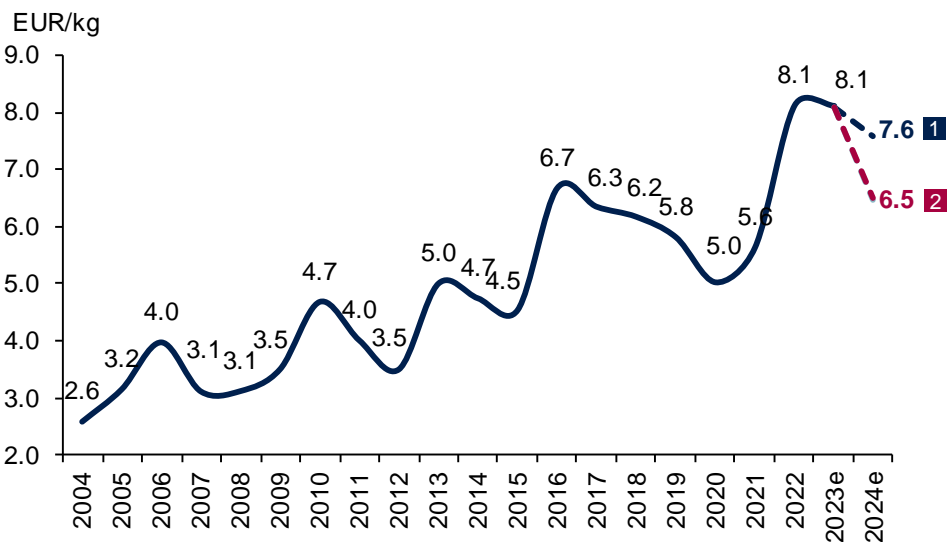
Conclusion: What can bring the salmon price down?

Negative demand impulse and high supply growth can drive salmon prices to EUR 6.5/kg in 2024e

Global salmon supply vs. salmon price change



Salmon price, Atlantic salmon, FCA Oslo (EUR/kg)



Two bear scenarios

- 1** ABGSCe (small negative demand impulse, +6% supply growth)
- 2** More negative demand impulse, +6% supply growth

A negative demand impulse would be a downside risk to our 2024e salmon price estimate

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