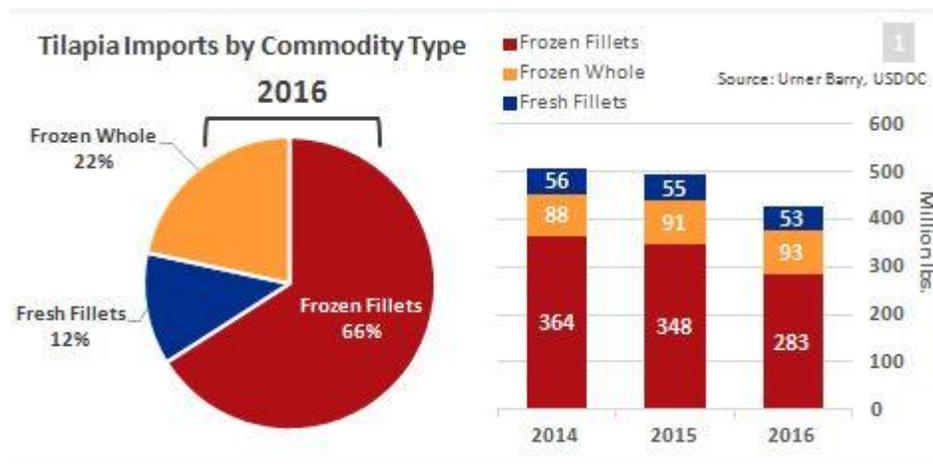


The pangasius and tilapia markets in the U.S.

The tilapia market in the U.S. is not much different from last year; imports continued to decline for both the fresh and frozen fillets and prices are trending lower. Imports of *pangasius*, however, reached record highs in 2016 and surpassed total imports of tilapia frozen fillets for the very first time. Meanwhile, imports of channel catfish remain flat with prices trending slightly lower. From the data what we have been collecting, in addition to looking closely, we believe demand for tilapia has contracted since 2014; as falling prices along with diminishing supplies could not otherwise suggest either a flat or expanding market. Such an assumption appears to be holding true through and up to press time. Import of frozen fillets continue to decline amid flat prices while at the same time imports of *pangasius* frozen fillets increased; *pangasius* and channel catfish are on the verge of hitting a major roadblock as the USDA will start to inspect a significantly greater amount of imports come September 2017.

Frozen Tilapia Fillets, *Pangasius* and Channel Catfish

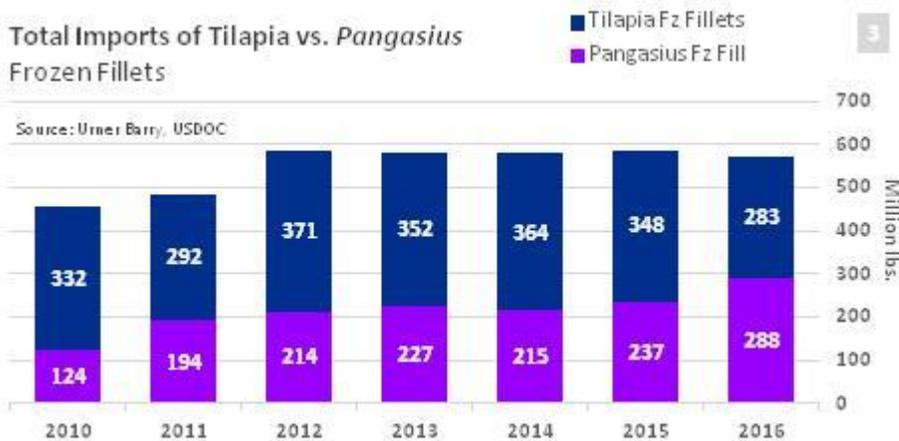
Last year, imports of tilapia frozen fillets, which comprised two thirds of all tilapia imports into the U.S., declined 18 percent compared to 2015, registering the largest percentage drop on record.



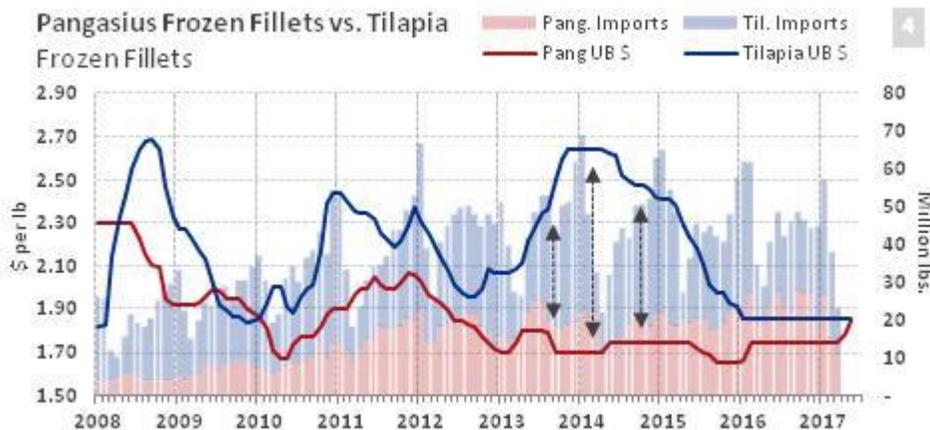
In addition, total annual imports of frozen fillets fell to their lowest level since 2009. The reason why demand for tilapia waned so much in the last two years is still up for debate. Some believe demand gradually shrank because of bad publicity; others believe it was comparatively low prices for pangasius—when tilapia prices reached record highs in 2014—and salmon; still others believe the market simply got saturated after growing at an annual average rate of nearly 15 percent from 2004 and 2014.

Since the end of 2014, imports of frozen tilapia fillets decreased at a monthly rate of 1.1 percent, which translated into total imports in 2016 registering the lowest volume since 2010. Similarly, both replacement costs and prices in the U.S. adjusted lower to levels not seen since 2010.

After a slight decline in imports in 2014 from the previous year, pangasius imports grew 10 percent in 2015 and 21 percent in 2016. In 2016, imports of pangasius frozen fillets surpassed those for tilapia frozen fillets by nearly 6 million pounds.



Though the theories mentioned earlier could explain the reason behind such growth for pangasius frozen fillets and the decline for those of tilapia, the fact of the matter is that price could really explain everything. When replacement costs rose in 2013-2014, and thus prices in the U.S. reached a record high for tilapia frozen fillets, prices for pangasius frozen fillets remained steady and at a much lower level. Therefore, we believe it is safe to assume that demand for tilapia frozen fillets suffered due to the price difference between two items that can be considered substitutes.



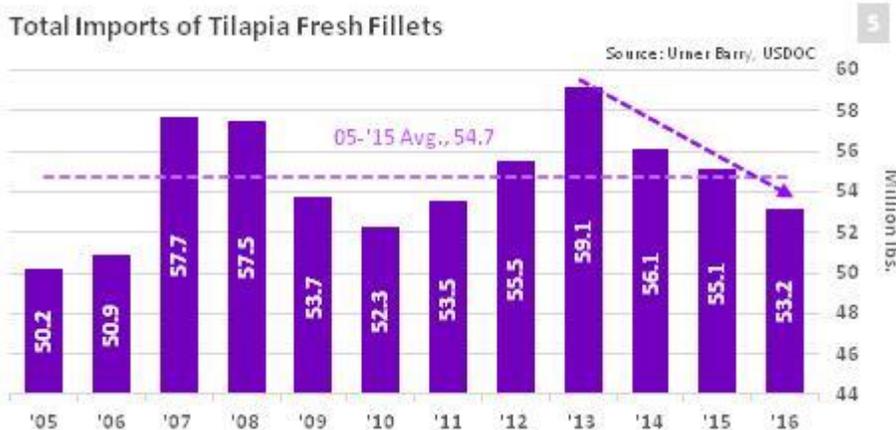
By September 2017, USDA inspections for catfish and pangasius are set to increase significantly. According to many suppliers, this has raised costs overseas as packing plants in Vietnam and China invest to comply with stricter regulations. Consequently, replacement costs for U.S. importers have also moved up considerably since September 2016, registering an average monthly rate of increase of 3.6 percent until March 2017; this also translates into a 25 percent increase comparing March 2017 to September 2016. Many traders are fully aware of what could happen in the future, not only related to the issue regarding inspections, but also to recent reports that China could become a main destination

for this item. And this makes sense as Vietnamese packers look for alternative markets as regulations and other obstacles continue to increase in the U.S. and Europe.

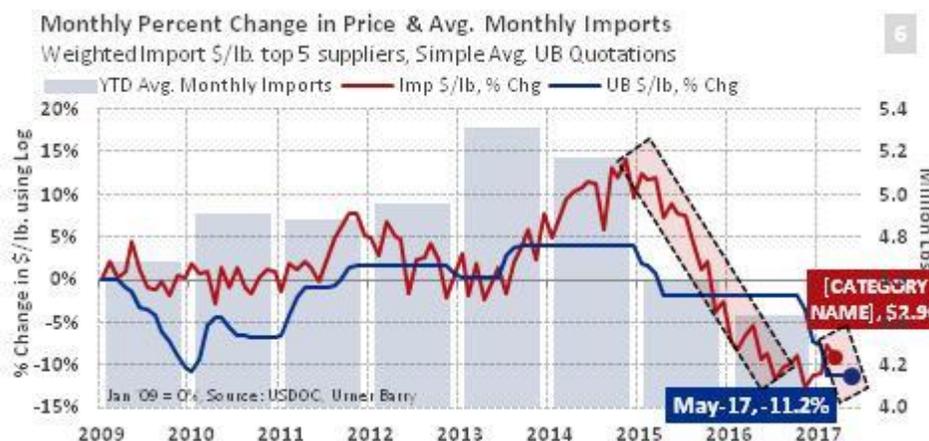
Channel catfish, on the other hand, has become an item not largely traded in the U.S. market. Total imports in 2016 reached 10.5 million pounds, almost flat compared to the year prior. What we have learned from many traders is that this product trades very thinly on the spot market.

Tilapia Fresh Fillets

Similar to the frozen fillet market, imports of tilapia fresh fillets have adjusted downward since reaching a record high in 2013.



Prices adjusted slightly lower in 2015, but it wasn't until Q4 of 2016 and Q1 2017 when prices further tanked in the U.S. market. Replacement costs, on the other hand, continuously fell from 2015 to Q4 2016.



And part of that was due to a sudden increase in imports during March 2017, particularly from Costa Rica which broke the downward trend in imports in that month.



However, expectations going forward is for supply to remain comparatively low to previous years amid lower production levels out of Ecuador. This could provide some pricing support going forward.

Conclusion

This year will undoubtedly be pivotal for all these commodities. From USDA inspections, to a potential revival in demand amid record prices for many other seafood items, tilapia, pangasius, and catfish will probably see the beginning of their long-term fate this year. Will imports of pangasius continue to increase amid higher costs and inspections? Will tilapia frozen fillets be what they used to be back in 2012? Will tilapia fresh fillets result in a viable alternative at the retail case amid high prices for salmon? Many traders are asking these questions because of the very clear uncertainty that presently clouds this market.

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