



Date: 10/1/2022
To: Heron Point Customers
From: Heron Point Seafood, LLC
Re: October Market Outlook – *Portunus pelagicus* and *Portunus haanii*

Blue Swimming Crab / *Portunus pelagicus* (SE Asia)

As we move into October, it appears that the aggressive efforts made by most importers to move off expensive inventory have worked, albeit at an enormous cost. This has been great for operators/retailers, allowing for more attractive pricing and increased consumer demand. Having set on the sidelines during the spring and early summer, many importers jumped back into the buying fray in August, taking advantage of more attractive pricing. These purchases, arriving in October/November, will result in a more stable blue crab market. The bad news is that the lack of spring/summer purchasing has resulted in a supply 'gap' reflective of the 90 day average from PO to port. After a precipitous decline in pricing over the past four months, it appears now that the bottom has been found, and prices are now stabilizing. This market stabilization should be further evident with the new inbound arrivals, as most importers will be working off a similar cost basis.

Shift Towards Value

Driven by the rapid price increases experienced in 2021, many operators and retailers sought out cost effective alternatives. In some cases, this was a step down in grade. In other cases, it was a move to another species (red crab). What we've noticed throughout this year is a pronounced increase in the demand for Claw, Special and Lump and a pronounced decrease in the demand for Colossal and Jumbo Lump. As prices soften, this should change, but at present, there is less available inventory for the lower priced value-oriented grades.

The Retail Opportunity

Over the past 8 months, demand at retail has been very soft. High inflation has negatively impacted demand for premium commodities like lobster and crab. With replacement costs now at much lower levels, the time is right to promote crab for the holidays. For example, six months ago it wasn't uncommon to see Lump at \$40/lb. at retail. Today, that same can could be offered at similar mark up for -50% less. One thing to watch is tied to shelf life. Most plastic cups offer 12 months from production date. Many large retailers demand a minimum of 6-9 months remaining upon receipt. This reality means importers must move inventory out or risk not being able to sell



it as is. With retail demand soft over the past year, many plastic cup producers are facing costly repacks or discounting. As a note, Heron Point's successful 6 oz. retail cans have 18 month shelf life, providing better quality and more flexibility with inventory.

Red Swimming Crab / *Portunus haanii* (Vietnam, China)

The Vietnamese fishery continues in mid-season form, with inbound containers at a steady pace. Supplies of all grades have been good and should continue so through year end. China commenced production in August, but due to an overabundance of last season's production still in country, demand has been sluggish so far. Many importers are still working through inventories and are reticent to bring in new Chinese production in a flat market. Pricing for red crab continues to soften, mirroring the blue crab fisheries. Deals are common, particularly for Chinese Jumbo Lump.

Supply Chain Update

Fuel costs have seen a pronounced correction over the past 90 days, with No. 2 diesel pricing down 13% since June, now averaging \$4.99/gallon (US Energy Administration). Regular gas is also down 22%, now averaging \$3.78 nationwide. (Source: AAA). However, the recent decision by OPEC to reduce their production by 2M barrels a day will surely change this trend. Expect higher fuel costs in the fall. Challenges persist with staffing, particularly within warehouses and logistics positions, but improvements have been noted for driver staffing. In a recent study conducted at the University of Mississippi, 74% of respondents indicated that they didn't have the staffing talent to meet their current requirements/challenges. (Source: Logistics Management). Despite these decreases, importers continue to absorb these higher than normal costs while attempting to remain competitive in price driven market.



Port congestion seems to be improving, largely driven by the reduction of imports into the US market. Container delays are averaging 1-2 weeks, down from 3-4 weeks a few months ago. We expect this to be challenged further as more inbound containers arrive in late October/November.