

PRODUCT SUPPLY REPORT

September Quarter 2014

The improvement in total product volume traded through SFM for the month of September, has helped arrest the recent declining trend of production after the weather-affected months of July and August. The regular intense low pressure systems that caused much of the decline in volume had more impact on areas south of Sydney.

The September turnaround in SFM's supplies was largely due to more favourable fishing conditions in Central & Northern NSW and all other states apart from VIC & TAS. Sea Surface Temperature (SST) anomalies that constrained supply in various regions over the past two years are finally weakening, due to the climatic shift toward more El Niño-like conditions. Although still a low possibility at this stage, a weak El Niño may develop over this summer. This should see a further cooling of East Australian SST's and result in more regular fishing conditions. Southern NSW, Victoria and Tasmanian waters are gradually returning to normal temperatures although, the persistence of above-average water temperatures in this region remains a concern.

The July-August period was defined by a sustained period of low supplies of fresh chilled seafood to all key markets, which reflected in higher than usual prices – up to 10% higher than the previous corresponding period. September's results helped to bring the running annual totals for volume and revenue back on par with previous years.

The most recent charts of the CSIRO's Integrated Marine Observing System (IMOS) showed surface waters as much as 3°C higher than normal in October 2014 (Diagram 1).

Diagram 2 illustrates the large body of warm water in southern NSW, VIC and SA during October 2013. Water surface temperatures have generally improved but some patches of warmer water continue to prevail. Yellow (0.5°C) to orange (3.0°C) indicate the level of above normal water temperature.

Diagram 1

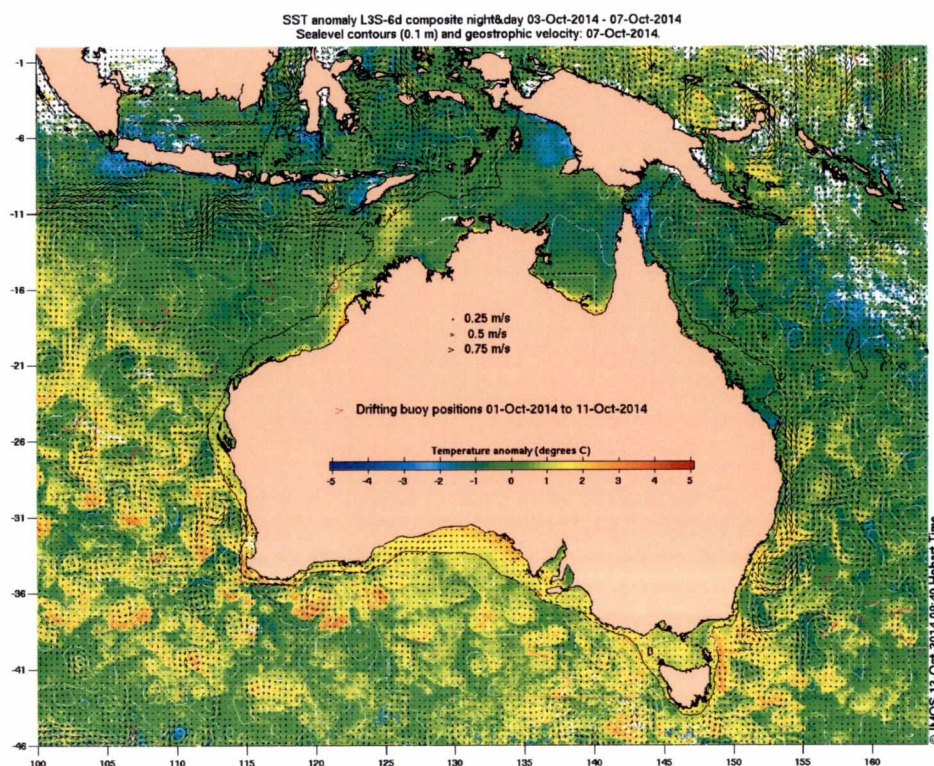
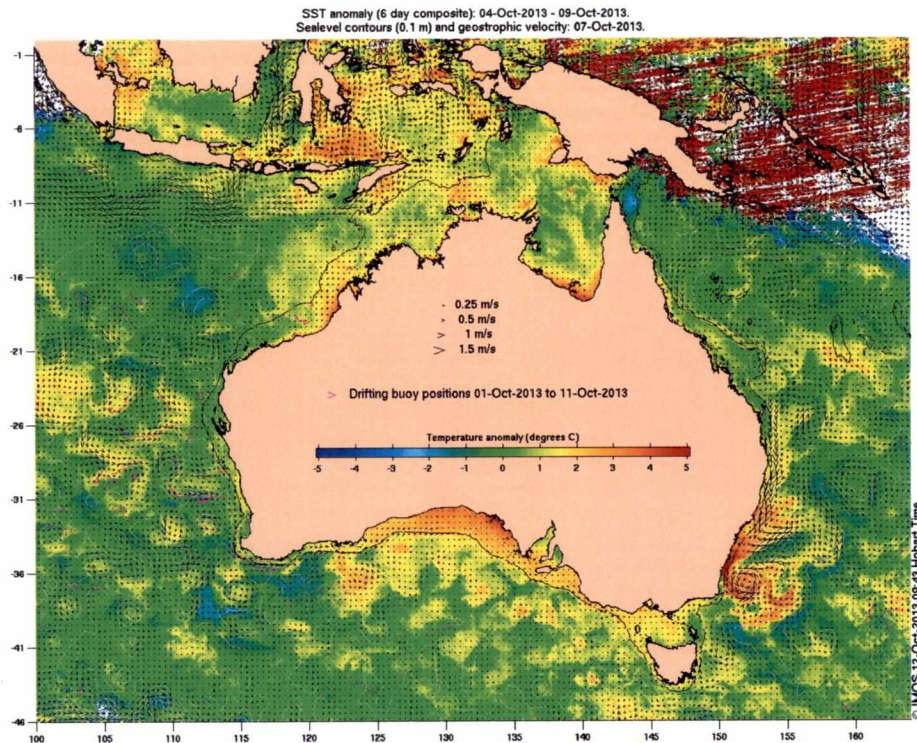


Diagram 2



The swing in weather patterns back toward more favourable SST conditions should see a gradual return to more 'normal' catch statistics. Evidence of this can be drawn from AFMA's catch watch report for September 2014. Whilst not all species have had improved landings from the corresponding period in 2013, important species to SFM such as flathead, ocean perch and school whiting have all improved, thus resulting in a gradual but steady improvement in supplied volumes. Other species such as morwong and ling have been caught in lower quantities but are improving in percentage compared to past catches.

A renewed focus by SFM management to re-engage with regions that have been steadily declining in terms of their supply to SFM has so far proven successful. A trip to Darwin based suppliers in early September has already seen a turnaround in the order of 63% compared to September 2013. The aim is to roll this out to WA in the near term and other areas where opportunities can be identified.

Summary by Region

New South Wales

North Coast: Northern NSW supplies were highly influenced by rainfall early in 2013 in the river catchments and backed up by generally improved coastal weather conditions. The most recent summer lacked the heavy flooding that had disrupted fishing effort over the previous two summers. The relatively stable river conditions that resulted in the ensuing months allowed increased catches of estuarine species such as yellowfin bream, mud & blue swimmer crab and king prawns further out to sea. School prawn catches have suffered as a result of drier conditions.

As noted in the June report the general feeling amongst suppliers was positive, although, a number of key fishermen's co-operatives expressed some apprehension over their member's decline in catches in the second half of the financial year. On the whole, supplies from this region in the first quarter of this financial year have been favourable across a wide spectrum of species.

Sydney: The Sydney based trawlers contribute around half of this region's sales through SFM, the balance is supplied by operators working in the trap & line and haul fisheries. This September saw a 60% lift in production compared to September 2013. The Cape Conway, Arakiwa, Kirrawa and the Seaport were the most active of the local trawl fleet over the last three months.

South Coast: Both IMOS charts highlighted earlier in this report show a weakening of the penetration of higher than average water temperatures off the south eastern coast of NSW. The SESSF eastern zone is gradually returning to normal water temperatures but the western zone around Tasmania is taking longer.

Whilst the SESSF has occupied much of the attention to-date, the unusual and unseasonal water conditions also adversely impacted other forms of marine fishing. The overall trend of decline in South coast production is finally beginning to plateau and the more favourable SST's should see a gradual return to increasing catches.

Apart from water temperatures, the current Southern Oscillation Index readings are continuing to swing toward a weak summer El Nino, which should see a weakening of the East Australian Current and a return to more normal water temperatures off south eastern NSW. This bodes well for the recovery of catches of temperate species in the SESSF, albeit at the expense of other forms of fishing.

Interstate:

QLD: The past quarter has been relatively stable for Queensland shipments, despite an unusual glitch in August. Overall, the September quarter has maintained this upward trajectory of the previous twelve months with the month of September recording a 22% improvement on the previous corresponding period, thanks largely to a 43% jump in farmed barramundi and a 33% boost from mud crab.

VIC: The landscape for this region's supply, namely that surrounding regularity of freight service and SESSF catches, remains unchanged from previous reports. The species mix consigned from Victoria has changed slightly from that of the previous two years with more non-quota species traded at auction and a shift in the type of farmed species supplied in past months. Supplies from Melbourne-based wholesalers has eased due access to product and local demand.

Lakes Entrance based supplies are in recovery, thanks to one particular operator who has decided to solve their transport woes by operating their own truck to supply SFM. Since beginning direct shipments in August, this supplier's shipments have increased to over 20 tonnes of product during the September quarter.

NT: The key growth area identified in this year's budget was the Northern Territory. This is also supported by the recently identified opportunities in the share of catch project and subsequent supplier survey. The key to maintaining and improving supply from this region will be through continuous engagement with such suppliers.

While the number of fishing operations from this region has remained relatively stable over the years, their allegiances in different markets are easily swayed. As highlighted in previous reports, it is difficult to convince suppliers from this region to remain loyal without giving them certainty over pricing. SFM will continue to work with a small number of operators from the NT to build a mutually beneficial relationship.

WA: The end of the investment phase of the mining boom is starting to see WA operators re-focus on markets other than the WA market. This was highlighted by a mid-year visit to SFM by the major operators from this region. The September quarter has seen an improvement of 146% on the corresponding period last year. SFM will continue to work with these suppliers and implement a similar strategy to that employed successfully in Darwin.

SA: SFM's supplies in the recent past have by and large reflected the changes in State and Commonwealth fisheries management legislation for this region. SST's have also had an impact on this region, as is evident in the two IMOS charts earlier in the report.

The rebuilding in the farmed yellowtail kingfish sector will continue and SFM can expect to benefit from this. Currently the most significant species for SFM is blue swimmer crab, trading between 60% and 70% of the total SA TAC in this species. Aside from oysters and abalone, SFM is well supported by producers of other mollusc species such as pipi, vongole and to a lesser extent blue mussel.

Overseas

NZ: There is no doubt the improving US market will continue to attract NZ exports but at this stage it is limited to a handful of species. The improvement in the AUD/NZD rate (refer to charts below) will help to improve returns for NZ exporters, a proposition that will benefit SFM.

The 6% drop in auction traded product for September is largely due to poor weather conditions and therefore, greater demand for products like snapper to be traded through SFMlive – which saw a near 15% increase in snapper supply compared to the same period last year.

