

China's changing demand dynamics to put price pressure on shrimps: Icra

FE BUREAU

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GLOBAL SHRIMP PRICES are expected to face pressure over the next few months as global trade adjusts to the changing demand dynamics in China, a key importer and consumer of farmed shrimp, credit rating agency Icra said on Friday. The report revealed that India is also likely to be affected from not only a reduction in Chinese demand but a correction in prices as the supply-demand dynamics, worldwide, is disturbed.

The sizable domestic production, estimated at over 10 lakh tonne, and good consumption of shrimp in China, make the country a key price-mover in the global market. In fact, it was a market stabiliser in calendar year 2019, when global demand from the US, the EU and Japan floundered.

Pavethra Ponniah, vice-president and sector head, Icra, added, "The reactionary, unprecedented, massive shutdown in China will lead to contraction in Chinese demand for seafood, leading to a supply glut in the global market. Apart from the reduced demand, disruption in China's internal logistics for unloading, storing and further processing will play havoc with all types of seafood, impact of which will be felt along the entire value chain, leading up to the farmers. Port clearance for seafood containers in China would be difficult in the current environment, effectively cutting off the supply pipeline temporarily."

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CHINA'S CASE

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ally been the largest importer of shrimp, with imports of 6.98 lakh tonne of frozen shrimp in CY2019. China closely followed the US with imports of 6.5 lakh tonne despite it being the largest producer globally. During the second-half of CY2019, China overtook the US to become the largest shrimp importer globally, with its rising domestic consumption far surpassing disease-hit domestic production. Demand peaks in December and January each year,

before falling to seasonal lows in February, after the Chinese New Year. The Chinese New Year in January is a critical period of heightened consumption in local markets, which clears the channel inventory, leading to fresh buying by March, which will not be curtailed.

Over the years, India's shrimp exports have increased at a steady rate and stood at 6.7 lakh tonne in CY2019, ICRA said.

With China cracking down on imports via Vietnam, India's direct exports to China jumped in FY2020. Now, China and Vietnam together account for 25% of shrimp exports from India (in value terms) while 45% plus of India's exports are shipped to the US.

As far as impact on India is concerned, Icra noted that with China largely importing lower-value added and block frozen shrimp from India, the demand is serviced by several smaller exporters and a few large players. Companies with high concentration on the Chinese markets would be impacted immediately as demand falls. Smaller companies with limited financial flexibility will be impacted the most.

"India, like all other large exporters, including Ecuador, would have to wait-and-watch for the spread and severity of the pandemic and the impact on demand in China, post the Chinese lunar holiday in February 2020. While a confluence of factors like the ability to find alternative markets, reduction in supply over the next three-four months, early harvesting, and delayed stocking will determine how the dynamics play out, the immediate term correction in shrimp prices is a given," added Ponniah.