

## ANALYSIS

# Market Focus Packaging

BY TOM RICKERBY  
Senior market operator, The Environment  
Exchange (t2e)  
www.t2e.co.uk

Last year witnessed some of the most challenging trading conditions for the UK's recycling and export markets since the financial crisis of 2008, which had a knock-on effect in the PRN market. The 2015 compliance year saw widespread price volatility across all materials, much of which was concentrated in the final quarter as concerns over tight supply and compliance pressures escalated.

## Plastic

Plastic entered Q4 having failed to hit its 2015 target for the previous three quarters and with PRN prices already heading towards £50 per tonne. It was estimated that around 215,000 tonnes would be needed in Q4 to meet overall UK compliance once the carry-in was factored in. In context, this quantity had been achieved only twice previously.

PRN prices continued to climb, reaching a year-high on the spot market of £76 per tonne at the end of October. A period of acute volatility followed before closing November at £60 per tonne.

Prices yo-yoed between £65 and £45 per tonne in December and January – 2015 prices fell from £55 to £42 per tonne during the last weeks of trading.

The average Q4 plastic price was £60.66, the highest quarterly average price since Q3 of 2013 and more than six times the 2014 Q4 average. Traded volume was up more than 100% on the same period last year.

## Paper, wood, recovery and general

The oversupply in paper, wood and recovery in recent years has led to a habitual expectation that, by Q4 of the compliance year, buyers would receive change from £1 for one PRN in any of these materials. It is the mark of a highly turbulent compliance year when these expectations are not met and a reminder that complacency is a dangerous thing.

Until the beginning of October, cheap and abundant paper PRNs had been traded to cover the deficit in recovery as well as the majority of general recycling obligations. But paper PRNs rose before spiking at £7 per tonne in mid-December – the highest since January 2009.

The wood market was also entering a Q4 liquidity crisis. With the majority of wood tied up in bilateral supply contracts, and with surplus wood PRNs being held against general obligations, spot availability dried up almost completely for a four-week period from early November to early December.

But on 9 December the spot market sold out in a volatile 90-minute trading period, taking the price from £10 to £25 per tonne – the highest achieved in more than a decade. Prices eased in the following weeks with the year closing at £2.50 per tonne.

Recovery prices were pulled up by the resurgent paper and wood prices, reaching a year-high of £4.95 per tonne in late December before collapsing in January as more recovery accreditations came online and sellers competed for the final trading opportunities.

## Steel, aluminium and glass

Steel's 2015 compliance year could be described as a story of two halves. A strong first six months saw PRN generation oversupplied by around 8%, with a healthy 24,000-tonne carry-in from 2014 in reserve. PRN prices were in decline having fallen from a year-high of £15 per tonne in March to £6.50 at the end of Q3.

What followed was one of the most dramatic market swings in PRN history. With cheap Chinese steel being dumped across Europe, production overcapacity, scrap prices in freefall and stagnant export markets, the UK steel industry was rapidly heading towards a crisis.

Fearing a significant reduction in PRN generation in Q4, buyers rushed to close out final obligations. The result-



ant shift to a sellers' market saw prices on the t2e spot market increase 450% in a month to a six-year high of £53 per tonne by mid-November. Later that month, as buying pressure began to ease, prices softened and the year ended at £15 per tonne, with transitional tonnage trading in the 2016 market from £21 up to £28 per tonne where prices are expected to remain buoyant.

The opposite was true for aluminium. A weak first half of the year had left the market 23% undersupplied and, with the PRN market heading north of £50 per tonne, prices continued to climb, hitting £75 in early November. But this would turn out to be the high point for the year as demand weakened, prices followed, closing the year at £40. The Q4 aluminium average of £52.50 is the highest since Q3 2009.

Compared with other materials, Q4 for glass was a period of calm and stability. Supply remained healthy throughout, with remelt surpluses offsetting the deficit in aggregates supply.

In conclusion, someone looking at the Q4 recycling figures may be surprised to learn of the PRN volatility and high values seen in late 2015. Paper and plastic were up 15% and 20%, respectively, on their previous best.

After such a volatile year, the PRN system is likely to come under scrutiny again as to how it has performed so well in such challenging conditions. But it is a reminder that PRNs are a dynamic, market-based solution designed to help subsidise and stimulate the UK recycling markets during periods of under-performance.

The result for 2015 is another example of the system working correctly. 