

The Marketplace for PRNs

Market Status Report *By Tom Rickerby, Head of Business Development*



Total traded volumes were up 71% this quarter as buyers looked to the 2018 forward markets to manage emerging risk in the Wood and Paper markets. China's National Sword initiative continues to cause high volatility in the Plastic market where a predicted severe decline in exports has so far failed to reflect in the supply data.

A total of 447,759 tonnes traded during the period, up 72% on the same period last year. Of this 102,900 tonnes traded in the Spot market, 157,359 tonnes traded in the 2017 Forward markets and 187,500 traded in the 2018 forward markets.

Paper

The paper spot price has held firm at £0.95 following its upturn at the end of Q1. Better value for volume buyers could be found in the forward markets where prices traded as low as £0.85 for December delivery. However, the ramifications of China's National Sword initiative continue to cause uncertainty and disruption within the export market. The most recent announcement from China indicates a complete ban on 'unsorted waste paper' from 2018 and mill import licences continue to be suspended pending environmental investigations. This discernible change in mood has prompted buyers to mitigate against the emerging risk by locking in prices for the 2018 compliance year. The January, April and July 2018 Forward markets all opened in excellent volume this quarter, trading from £1.20 to £0.90 per tonne depending on volume. It was a record trading quarter for Paper PRNs with over 300,000 tonnes traded across all markets, up 300% on the previous quarter.

Plastic

Buyers hoping that an unexpected oversupply in Q1 would help to stabilise the volatile PRN price were left frustrated as overwhelming bullish sentiment and uncertainty surrounding China's National Sword policy continued to push PRN prices higher. Spot prices broke the £50.00 per tonne milestone by late May before pushing on to a year high of £67.50 by the 3rd week in June. Despite a brief retrace to £62.25, spot prices returned to year highs on the eve of the Q2 figure release amid fears of a verified market slowdown in the data. Those fears proved unfounded as the data suggested a far more resilient market than the doomsayers' predictions. The unexpected strength of the data prompted an immediate 8% price correction with prices falling to £61.25 before strong buying resistance at this level stabilised the market at the quarter close. News of a ban of waste plastics into China from 2018 is likely to galvanise sellers who fear worse is yet to come. Others would argue this uncertainty is already priced in. Average spot prices were up 54% on Q1.

Steel

The 2017 Steel market recorded its best ever opening 6 months of PRN generation, up 7% on the previous record set during the same period last year. The strength of the supply side of the market is reflected in the declining value of the PRN. Spot prices fell 36% to £4.50 during the quarter. Whilst a year low of £4.00 per tonne was traded in the October forward market.

Glass Remelt

Glass Remelt continues to trade with a high degree of stability

within very narrow price parameters. The predictable nature of the market and the lack of price movement have led to limited trading opportunities during the quarter. 11,090 tonnes were traded during Q2 across all markets – the lowest quarterly volume in over 2 years and down 65% on the previous quarter. Prices remain locked at around £12.50 per tonne with little in the supply data to suggest much change from the status quo in the 3rd quarter. A 2018 price picture is emerging with offer prices made available at £13.00 per tonne in the April forward market.

Glass Aggregate

Trading in Glass Aggregate saw a similar drop in volume, down 61% on the previous quarter. Prices remain flat across both the spot and forward markets, trading between £12.00 and £11.20 during the quarter.

Continues on Page 4

	High	Low	Traded This Quarter	Quarter Average Traded Price	YTD Average Traded Price	Year to date aggregated traded
Paper						
Spot 2017	£0.95	£0.90	20,254	£0.94	£0.88	54,540
Jul Fwd 2017	£0.90	£0.90	8,481	£0.90	£0.87	37,892
Oct Fwd 2017	£0.95	£0.90	42,301	£0.91	£0.84	112,301
Dec Fwd 2017	£0.85	£0.85	50,000	£0.85	£0.93	100,000
Tran Jan Fwd 2018	£0.95	£0.95	10,000	£0.95	£0.95	10,000
Apr Fwd 2018	£1.20	£0.90	115,000	£0.95	£0.95	115,000
Jul Fwd 2018	£0.90	£0.90	55,000	£0.90	£0.90	55,000
Plastic						
Spot 2017	£67.50	£47.00	51,478	£57.22	£46.30	101,614
Jul Fwd 2017	£55.00	£47.00	1,650	£53.06	£39.52	11,438
Oct Fwd 2017	£62.50	£48.00	4,900	£59.48	£43.55	15,900
Dec Fwd 2017	£65.00	£47.00	8,200	£57.48	£47.22	17,700
Glass Aggregate						
Spot 2017	£12.00	£11.20	435	£11.38	£11.62	3,099
Jul Fwd 2017	£11.20	£11.20	2,200	£11.20	£11.42	17,200
Oct Fwd 2017	£11.20	£11.20	2,000	£11.20	£11.20	200
Dec Fwd 2017	£11.50	£11.20	1,784	£11.20	£11.20	1,784
Glass Remelt						
Spot 2017	£12.75	£12.25	3,090	£12.32	£12.49	8,964
Oct Fwd 2017	£12.50	£12.50	6,000	£12.50	£12.48	6,300
Dec Fwd 2017	£12.50	£12.50	2,000	£12.50	£12.50	200
Steel						
Spot 2017	£7.00	£4.25	8,180	£5.15	£6.56	22,921
Jul Fwd 2017	£6.00	£6.00	750	£6.00	£6.78	5,763
Oct Fwd 2017	£6.00	£4.00	9,093	£5.50	£5.72	11,093
Dec Fwd 2017	£4.50	£4.50	1,000	£4.50	£4.50	1,000
Wood						
Spot 2017	£2.50	£1.75	11,204	£1.96	£1.93	14,573
Jul Fwd 2017	£2.00	£2.00	1,000	£2.00	£1.75	11,021
Tran Jan Fwd 2018	£4.15	£3.75	6,000	£3.86	£3.86	6,000
Apr Fwd 2018	£5.30	£4.50	12,500	£4.74	£4.74	12,500
Jul Fwd 2018	£4.50	£4.50	5,000	£4.50	£4.50	5,000
Aluminium						
Spot 2017	£12.25	£9.50	1,333	£10.19	£10.10	2,413
Recovery						
Spot 2017	£0.50	£0.40	6,926	£0.41	£0.44	15,694

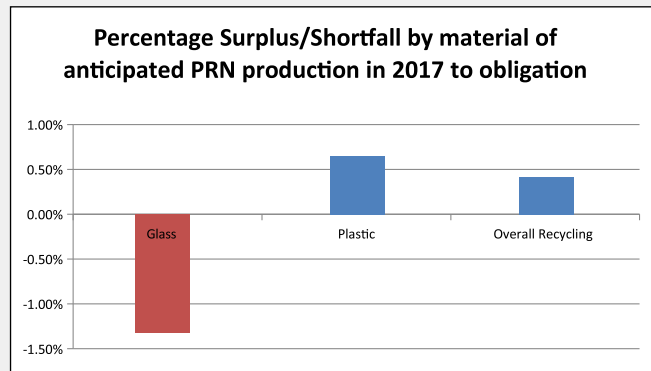
The Marketplace for PRNs

Managing Directors Comments – August 2017



The politicians must be ruefully considering the saying “A decision taken in haste is regretted over time”. Firstly the Prime Minister’s snap election to reinforce her position has turned sour leaving her with an hung parliament as elements of the British public reacted against the ‘Hard Brexit’ rhetoric having begun to understand some

of the implications of their decision (hasty?) of the previous year. It remains to be seen whether hindsight will be kind to the decision to trigger Article 50 before the election. With this background DEFRA’s confirmation of their commitment to the PRN system is reassuring. However some elements are still looking for it to deliver more. The Agencies have now released the confirmed Q2 data. It does not offer comfortable reading. Meanwhile t2e has seen another strong quarter of trading, in particular trading in the 2018 forward markets.



PRN System

DEFRA, the ACP and ESA have all recently conducted reviews on the PRN system and come to the same conclusion. Although it is not perfect, like a curate’s egg, there are some parts that are good and some, surprisingly few, that are not. The good elements are that the system has met all challenges that it has had to face to date; all targets have been met, both packaging recycling and data on it have increased significantly, those that have contributed to this growth have been rewarded and it has all been delivered at relatively low cost to industry.

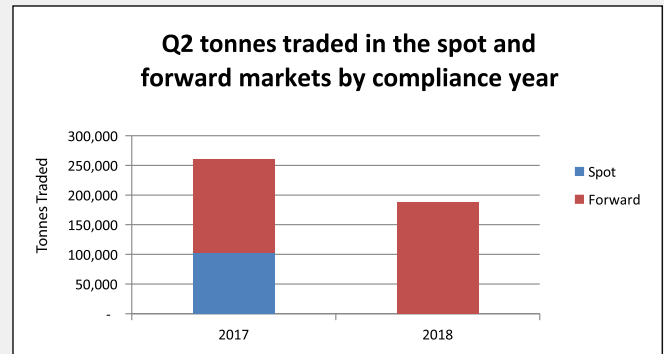
Issues that can be resolved within the current regulations are: Certainty of targets; definition of costs to be covered by the system; timely and accurate submission of data; adjustment of reprocessing and exporting protocols; robust penalties for fraud; opaqueness of spend and a centralised communications campaign.

Others such as litter; standardisation of collection, introduction of a bonus/malus system for incentivising the use of secondary raw materials can be added to the PRN system but consideration should be given as to whether it is the most suitable or the fairest way to deliver these objectives.

PRN Price Volatility

Some express concern about PRN price volatility, in year and year on year. However price volatility is an inevitable reflection of the inherent volatilities in a global economy, exchange rates, shipping costs, fuel prices, etc. t2e expresses caution about introducing a floor price. Firstly who will be responsible for covering this additional cost and secondly by the judicious use

of forward contracts either bi-lateral or traded through t2e it is possible for both buyers and sellers to fix costs/income and hence reduce the impact of this volatility. It is good to see this service being utilised so much for 2018.

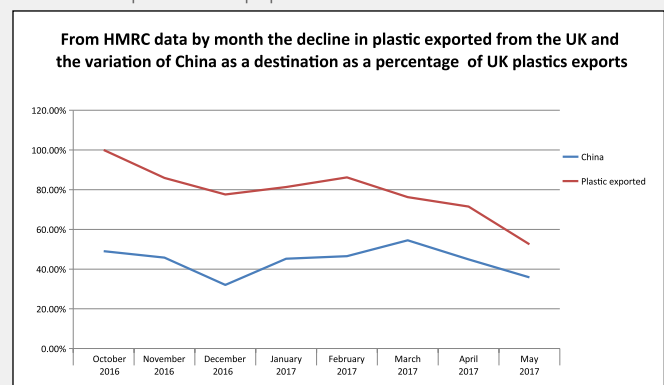


Additional cost

Some view industry should be paying more but this argument is flawed, assuming that what is provided either elsewhere or as a replacement to the PRN system would be better than the current PRN system appropriately adjusted. If the changes result in a worse system, any costs, additional or otherwise, must be considered undesirable. While additional obligations must be anticipated to bring with them additional costs, the aim should remain to achieve the maximum impact for the minimum cost.

Q2 Data

Q2 Data does not make comfortable reading. Most are aware of China’s Operation National Sword. Its impacts are now being reflected in the data with exports led by paper and plastic falling by 15% quarter on quarter and year on year, the second successive drop quarter on quarter from the record level in Q4 2016. China’s restrictions are due to continue until November and potentially import bans will be introduced thereafter for “unsorted” plastic and paper.

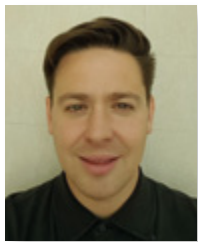


Although reprocessing is up by 9%, it is insufficient to offset the loss of exports. This in turn puts pressure on all materials with Glass, Plastic and Overall Recycling potentially reliant on the carry forward from 2016 to meet their targets.

Thank you for your support this quarter and to Mark Hayton for his contribution. There are some rocky times ahead. We look forward to continuing to be of service to you during these difficult times.

Angus Macpherson
Managing Director

Q4 Supply Analysis *By Andrew Letham, Sales and Marketing Manager*



A very healthy 248,527 tonnes (t) of plastic were recycled in Q2 with trading conditions rumoured to be worse than ever. This should have been enough to see a significant price correction off the back of a very strong first quarter however Plastic never seems to be that simple. A Chinese statement released to The World Trade Organisation indicating an outright ban on lower grade materials entering the country in 2018 was released just prior to the figures and tempered the market reaction. Prices did still fall 8.5% over the course of 24 hours, down to £61.75 from a yearly high of £67.50 but nervous buyers re-entering the market held the price up above £60.00.

Suggestion that the Plastic situation may worsen remains rhetoric but with exporters in theory able to load boats to China up until late October we may not see the full impact until Q4 when the curtain will have already been drawn on the 2017 compliance year. Regardless of market sentiment data shows Plastic to be in a very strong position as we enter Q3. 508,697t have been reported as recycled to date and alongside a carry in of 64,709t shows 57% of target has already been met at the half way point in the year. It remains to be seen how 2017 will finish but with goal posts continually being moved and prices not reflecting market data it is a long wait for the release of Q3 figures on 22nd October.

Paper suffering from largely the same affects as Plastic posted the worst quarterly return for 2 years and a 7.3% decrease on Q1 of this year. News from China of import licenses being revoked or their renewal being delayed has drastically changed what was a buoyant market and uncertainty has begun to creep in. Paper targets will still be met with 73% of Obligation already achieved (including carry in), however the price stability we have seen in recent months looks under threat which will likely also put pressure on 2018 where we have seen excellent trading to date.

Aluminium looked relatively tight as we entered Q2 with the Q1 return of 21,256t not enough to meet target of 87,463t without the help of the 6,839t carry in. All fears seem to have been allayed in Q2 with 26,594t recycled it was a record quarter and 11.6% higher than previous highest achieved in Q3 of 2015. When carry in is considered 63% of target has been achieved and prices began to fall in month to a last traded price of £9.50 reflecting the position of comfort.

Glass buying has been sporadic in Q2 with the lack of urgency from buyers leading prices to soften in recent weeks to a last traded price of £11.50 for Remelt and £11.10 for Aggregate. This downward movement wasn't truly reflected in the supply data with a total of 406,970t of Glass recycled in Q2 only just above the 404,596t required each quarter and not enough to cover the 12,923t shortfall from Q1. The largest Aggregate return since Q3, 2015 (119,666t is positive news but will need to continue as only 53% of target has been achieved to date (including carry in) which leaves little room to manoeuvre in the final half of the year.

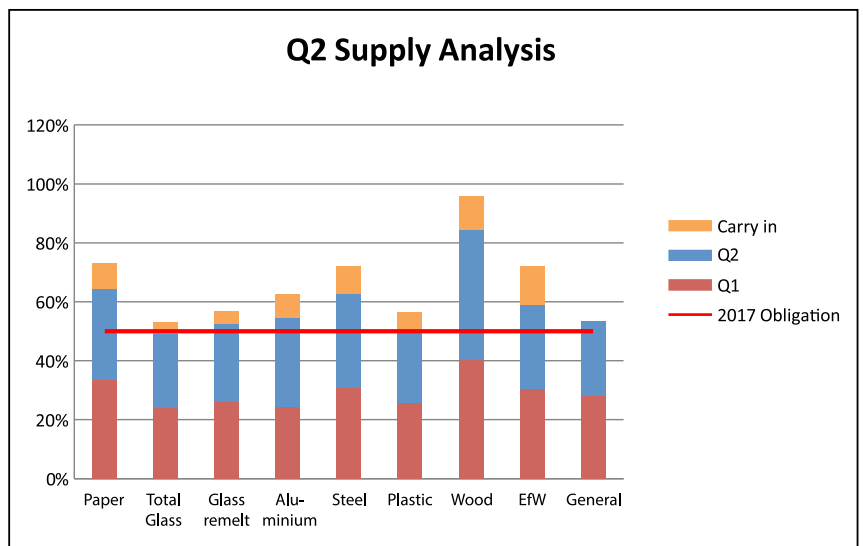
With Steel seemingly in abundant supply trading had already taken place at sub £5.00 prior to the release of the Q2 figures. A very strong 116,072t return means that just over 50,000t are required for each of the remaining quarters and barring any exceptional events prices are likely to soften further.

Wood prices have held up well this year, owing more to the uncertainty that 2018 will bring as opposed to any pressure in the current year. Another strong quarterly return of 106,558t means that 96% of target has been achieved when carry in is considered and 2017 looks to be a done deal. With 2018 markets already trading above £5.00 you would expect all transitional tonnage to be pushed into next year where we will need to see an upturn in PRN generation as based on current demand, year to date supply would not be enough to meet the increased 2018 target. The recovery market remains incredibly flat. A slight down turn in Q2 won't be enough to stimulate the market with the 172,390t recycled still 14.5% above the 150,534t required each quarter.

Material	Carry In	Q1	Q2	2017 Obligation	YTD Supply + Carry In	Balance
Paper	246,360	960,800	890,416	2,873,917	2,097,576	-776,341
Total Glass*	61,218	391,808	406,970	1,618,385	859,996	-758,389
Glass remelt	45,343	283,115	287,304	1,084,318	615,762	-468,556
Aluminium	6,839	21,256	26,594	87,463	54,689	-32,774
Steel	34,610	112,637	116,072	365,998	263,319	-102,679
Plastic	64,709	260,170	248,527	1,011,511	573,406	-438,105
Wood	26,900	97,350	106,558	241,275	230,808	-10,467
EfW	77,900	183,856	172,390	602,136	434,146	-167,990
General *	0	294,384	245,500	1,050,559	539,884	-510,676
Total	502,661	2,027,877	1,967,527	7,851,244	4,513,940	-3,337,304

*Total Glass consists of the combined total supply of Glass Remelt and Glass aggregate.

* Please note the general supply figure has been generated from calculating the surplus material PRNs in each quarter and does not include carry in tonnage.



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Meet the Market: Wood Reprocessor, Mark Hayton Director, Egger Timberpak Ltd



EGGER is a family business established in 1961 and has developed into one of the most important wood-based material manufacturers in Europe. Timberpak Ltd is EGGER's own Wood Recycling Business and processes in excess of 350,000 tonnes of recycled wood per annum.

Q: Next year's wood recycling target increase is likely to increase demand by around 70%. How easily can the wood market reverse the current trend to ensure targets are met going forward?

If the demand grows and the price for Wood PRN's increases there will be more money in the supply chain to subsidise gate fees, hopefully making it more attractive to recycle wooden packaging rather than burning it. The Biomass industry is already subsidised by the Government so they have an advantage. To be able to effectively subsidise the gate fee using PRN money will hopefully start attracting more wood back into the recycling sector.

Q: What are the current key challenges facing the wood recycling and panel board sector?

There are currently a number of challenges, including the recent introduction of new FPP (Fire Prevention Plan) guidance by the EA to try to tackle an increasing number of fires in the general waste sector. The initial guidance was completely inflexible and unworkable for many recycling businesses, heavily restricting the storage of wood and maximum stock pile sizes. This posed a real danger to wood availability. The Wood Recyclers' Association (WRA), of which EGGER sits on the Board, has worked closely with the EA to develop a template FPP for wood recyclers. This work is ongoing but we are hopeful it will ease the pressure for the sector whilst ensuring the EA is satisfied with safety standards.

More recently the WRA has also begun working with the EA on the classification of waste wood. This is another on-going project and needs to achieve an outcome which enables the sector to continue operating.

For the panel board sector the main challenge is still the threat posed by biomass. Due to subsidies the biomass sector receives, it has a far greater ability to pay for material than the traditional panel board

industry. Currently one in every two homes in the UK contains EGGER products. We significantly invest in our facilities to be the best at what we do, and want to achieve the goal of being the first name people think of when they have wood to dispose of.

Q: How do ROC subsidies in the biomass energy sector affect your ability to compete in the waste wood market?

We simply can't compete on the same level as the ROC subsidies. Recycling wood costs money and to that end we need to charge a gate fee that reflects the work required by the grade of wood being recycled. Doing the right thing for the environment, is more important to lots of people and organisations. We have to rely on the fact that wood waste producers care about the environment to ensure their wood waste goes to the best possible use. Recycling waste wood not only extends its lifecycle but is the best use of what is a valuable resource. If it goes to biomass it is burnt and that is the end of it. However, if we recycle it into a product (in our case chipboard) we can not only extend its life, lock in the CO2 but the new product can then be recycled again.

Q: What threats/opportunities does Brexit pose to the UK Wood recycling industry?

We are shortly going to see a far greater demand on the wood supply in the UK from the growing Biomass industry, the demand on our small island will soon equal the supply. With seasonal variations in the supply and demand of wood, there will be a real need to import wood from Europe. The weak pound is going to impact on the cost, currently the surplus of wood in Continental Europe does mean that prices in Europe are low - which will help. I think, like most people, the true impact of Brexit will not be realised for a number of years. At the moment we are looking at the short-term impact and trying to visualise issues that haven't happened yet.

Q: Reform in the PRN system seems to popular topic at the moment. Are there any specific changes you would like to see?

Supply and demand is the key driver in PRN prices, we need higher revenues for our wood PRN's in order to drive more wood back into the recycling route to meet the targets set. I think increasing the targets will jump start this process once again and this in my opinion is a great move.

Market Status Report *Continued from Page 1*

Wood

The Wood Market was one of two materials to see quarter on quarter growth in Q2. Volume was up 122% on the previous quarter; buoyed by strong trading in the transitional and 2018 forward markets. Next year's increase to the wood recycling target is projected to raise wood demand by as much as 70%. This significant change in the risk profile of next year's market has prompted many buyers to lock in price security early in the 2018 forward markets. Opening trades ranged from £3.75 to £5.30. The average 2018 wood PRN price is already around 70% higher than the average wood price from the previous 10 compliance years. 2017 markets remain flat at £2.00 per tonne.

Aluminium

Aluminium prices drifted down in the second quarter, falling 22% to a year low of £9.50 in the Spot market. A record quarter 2 supply, boosted by a 43% growth in exports, has more than compensated for the unexpected poor performance in Q1. A return to significant surplus and weak demand is likely to see more downside in the PRN price in the second half of the year.

Recovery

All trading was focused on the Spot market this quarter with prices remaining at an administrative level. Average prices slipped a further 15% during the quarter to £0.41 per tonne. Stable, rock bottom prices have limited trading opportunities resulting in the lowest quarterly traded volume since Q2 2015.