

The Marketplace for PRNs

Market Status Report May - July 2016 By Tom Rickerby, Head of Business Development



Following a record Q1, traded volume on t2e fell 33% in Quarter 2. Despite the quarter on quarter decline, traded volume is up 32% on the same period last year. Q2 PRN supply data showed a surplus of PRN evidence at the half year point resulting in a general softening of PRN prices across all materials during the period.

259,581 tonnes traded in the quarter, of this, 165,414 tonnes were traded in the spot market and 94,167 tonnes were traded in the forward markets.

Paper

The decline in overall quarter on quarter trading was largely down to a fall in paper traded volume. Traded volume fell by just over 150,000 tonnes as prices stabilised at sub £1.00 per tonne. The spot average of 84p was in line with the same period last year and was equally matched by forward trading up to the end of the current compliance year. Paper recycling's record first half of the year has resulted in a glut of PRN's within the market. If this continues PRN prices look set to remain at 'administrative' levels for the foreseeable future. This sentiment was echoed in an early 2017 April forward trade at 95p.

Plastic

Despite additional closures in the UK domestic plastics recycling capacity, Q2 saw a record number of PRNs produced, beating the previous record set in Q4 2015 by nearly 3,000 tonnes. However the PRN market remains unpredictable and price volatility continues to be a defining feature of the market. Following a period of relative price stability in May, strong buying demand in the market pushed prices to a quarter high of £40.50 by mid-June. However strong monthly data published at the start of July provided credible insight into the potential strength of the overall Q2 performance resulting in an early sell off. By the quarter close prices had fallen 22% to £31.50. Traded volume was up 3% on the previous quarter. The Average spot price was down 6%.

Glass Aggregate

Glass Aggregate trading saw a 300% growth on the previous quarter, boosted by a 21% increase in the average spot price. The Q2 supply figures show Glass Aggregate to be 16% undersupplied at the half year point, a statistic that has seen its PRN value close the gap on the price of its higher valued sibling Glass Remelt. The top price for the quarter was paid in the October forward market. At £13.00 per tonne, this mirrors the quarter high price for Glass Remelt.

Glass Remelt

Glass Remelt saw its highest volume traded quarter since Q4 of 2014 following a period of strong price fluctuation during which the market saw a 16% price swing. Prices bounced between £14.00 and £12.75 for much of the period but traded down to a year low of £11.70 in excellent volume prior to the release of the Q2 figures. Prices immediately bounced to £13.00 following the release of the data. Oversupply in Glass remelt has helped to offset the shortage of Aggregate PRNs, however the situation in glass continues to split opinions between buyers and sellers. The in-year supply of glass is undoubtedly tight but the inclusion of carry-in

glass paints a much more comfortable picture.

Steel

Steel PRN generation benefited greatly from an upswing in the commodity price at the beginning of the quarter. PRN generation in April was 27% higher than the monthly average for the year. A strong May and June contributed to the best steel recycling quarter since Q4 2009. The result was steel exceeded its quarterly PRN target by 31% and is currently 18% oversupplied for the year (excluding carry-in). The impact on the market price has been significant with spot values falling 36% from £23.50 to £15.00 at the quarter close. Forward trading was active across all markets as sellers looked to hedge against further price falls.

Aluminium

Prices tumbled in Aluminium this quarter on sporadic trading as the market reacted to strong supply figures and weak liquidity on the

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	High	Low	Traded This Quarter	Quarter Average Traded Price	YTD Average Traded Price	Year to date aggregated traded
Paper						
Spot 2016	£1.35	£0.75	41,155	£0.84	£0.89	53,802
July Fwd 2016	£0.85	£0.85	8,969	£0.85	£1.04	48,440
Oct Fwd 2016	£0.90	£0.75	20,656	£0.83	£1.10	121,156
Dec Fwd 2016	£0.90	£0.85	10,000	£0.88	£0.99	112,000
Apr Fwd 2017	£0.95	£0.95	10,000	£0.95	£0.95	10,000
Plastic						
Spot 2016	£44.00	£31.50	56,703	£36.58	£38.02	96,220
July Fwd 2016	£38.50	£36.50	800	£37.75	£37.28	12,750
Oct Fwd 2016	£38.00	£31.50	6,500	£36.92	£37.29	15,500
Dec Fwd 2016	£40.50	£35.00	5,500	£38.45	£38.33	7,500
Glass Aggregate						
Spot 2016	£12.75	£11.50	10,870	£12.43	£11.91	14,171
Oct Fwd 2016	£13.00	£13.00	500	£13.00	£13.00	500
Glass Remelt						
Spot 2016	£14.00	£12.75	15,159	£13.06	£12.46	27,186
July Fwd 2016	£12.75	£12.75	1,594	£12.75	£12.75	1,594
Oct Fwd 2016	£13.00	£11.70	18,400	£11.88	£11.93	21,400
Dec Fwd 2016	£13.00	£11.75	4,000	£12.38	£12.38	4,000
Steel						
Spot 2016	£25.00	£15.00	15,103	£20.89	£22.95	35,902
July Fwd 2016	£23.00	£22.00	600	£22.50	£21.58	1,900
Oct Fwd 2016	£20.00	£15.00	2,100	£17.38	£18.23	3,100
Dec Fwd 2016	£20.00	£15.00	2,000	£17.50	£18.33	3,000
Wood						
Spot 2016	£3.25	£2.00	14,774	£2.62	£2.64	15,365
Dec Fwd 2016	£2.75	£2.75	1,000	£2.75	£2.25	2,000
Aluminium						
Spot 16	£25.00	£15.00	2,169	£21.12	£22.12	3,058
July Fwd 2016	£20.00	£20.00	200	£20.00	£23.22	4,500
Recovery						
Spot 2016	£0.80	£0.65	9,481	£0.73	£0.80	8,335
Oct Fwd 2016	£0.80	£0.80	1,348	£0.80	£0.80	1,348

MANAGING DIRECTOR'S COMMENTS - AUGUST 2016



What a difference a year makes! Last year the idea that the UK may wish to part from the EU was peripheral now it is central. While last year concerns were expressed that the Circular Economy package had lost momentum now the question is whether it is relevant. Last year mid-year

figures predicted a shortfall this year there appears to be a glut. Meanwhile a report has identified that there is more paper and wood packaging placed on the market than had been realised, which could mean that this is a false impression. Some things stay the same. It has been another busy quarter of trading through t2e.

Potential consequences of Brexit

Superficially the doom and gloom predicted should the UK vote to leave the EU has not come to pass. An illusion has been created through the fall of sterling, that occurred as a consequence, and interest rates that the economy is doing better. Undoubtedly it has been a windfall for exporters as has been reflected in the PERN figures and overseas visitors but the inflationary impact in the medium term on consumer spending and manufacturing has yet to occur.

As of yet no action has been taken by the UK Government to leave the EU and in fact as became clear in the immediate aftermath of the referendum, there was no plan as to how to make an orderly withdrawal from the EU. Much of the debate focused on the Sovereignty of the UK and its parliament but there is little coherence in what needs to be done to achieve and sustain that without the EU yet still within a global economy and currently little appetite to sign Article 50 which is necessary to start the process of exit.

Against this background of unknowns it is difficult to predict potential consequences. At its most extreme it may result in the disintegration of the UK, if Scotland can secure a better deal direct within the EU than it can with the UK, but at this stage that looks unlikely.

Circular Economy

The EU has traditionally led the UK on the environment, all be it on many occasions implementing ideas generated within the UK, and the ambitious if as yet still fluid Circular Economy package is a keystone of future EU environmental policy within which producer responsibility is an integral part. So Brexit could be viewed as a threat to the PRN system.

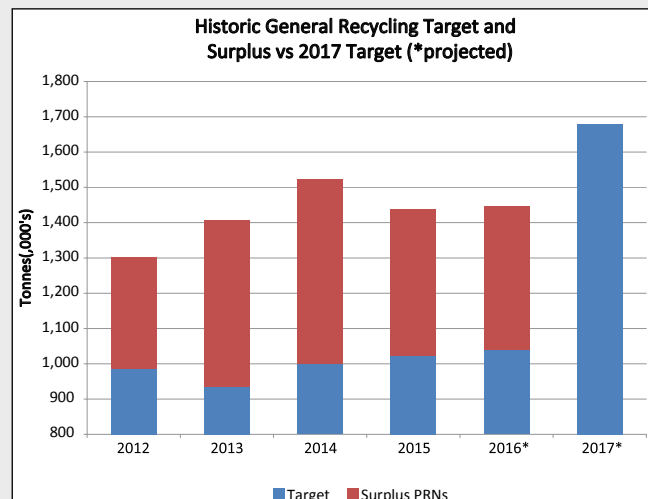
However it is unlikely that the UK would wish to be seen to be dropping its environmental credentials and it is probable that the EU would insist that at least broadly equivalent standards are implemented by its trading partners. Furthermore the PRN system is already a uniquely British mechanism of compliance with producer responsibility so the threat could be perceived to be low!

However local authorities are striving to gain more out of the PRN system. What is realistically achievable and even if nothing

further can be achieved by the system, is that grounds for starting again from scratch are a topic for debate?

Paper and Wood Packaging

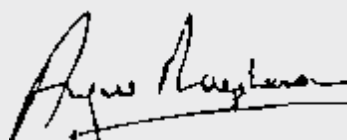
A report compiled by WRAP and Valpak has identified that 1,138,000 tonnes more paper and wood packaging was placed on the market in 2014 than previously realised, an increase of 23% on the figure previously used by DEFRA. Even with these revised figures the UK reached the EU material specific recycling targets for paper and wood and going forward will most probably continue to do so. However this additional tonnage will add a further 683,000 tonnes to the overall Recovery Target of which 626,000 tonnes will be within the General Recycling Target. Even with the revised protocol of 23% for mixed papers the latter target in particular will not be easy to achieve. The targets for 2025 and 2030 within the Circular Economy package look even more challenging which gives a greater incentive to develop measurement mechanisms and incorporate the proposed re-use targets.



Malcolm Valentine

As I have been writing this article I have learnt that my friend and colleague, Malcolm Valentine, a man well known within the recycling community, has died. He will be much missed.

Thank you for your support over the last quarter. Going forward we look forward to being of service to you. Thank you too to Philip Law for his comments. I look forward to seeing you at the Recycling and Waste Management Show and if you have time please look into the panel debate at the Local Authority Theatre at 14.30 on Tuesday 13 September 2016.



Angus Macpherson
Managing Director

Summary of Q2 supply figures *By Andrew Letham, Sales and Marketing Manager*



With news of positive trading conditions and the expectation that this would be reflected in the Q2 supply figures prices had started to slide downwards across a number of materials prior to their release on the 22nd July. The resulting figures compounded

these expectations as we saw further price movement following their release with the biggest movers falling 40% from the high point in quarter.

Plastic registered the biggest return seen to date with the 265,889 tonnes recycled this quarter usurping the unprecedented Q4 of 2015 by 2,860 tonnes and putting to bed any notion that that was to be a one off event. Prices fell £12.50 from a high of £44.00 in the middle of June to close the quarter at £31.50.

Steel slid from a quarterly high of £25.00 to £17.00 the day before the figures were released as sellers looked to lock in tonnage fearing further devaluation. When the biggest return (120,177 tonnes) we have seen since 2009 was reported it fell a further 15% to £15.00 where it closed for the quarter. Aluminium performed similarly although the initial movement came earlier. With buyers thin on the ground and supply plenty it had slumped to £18.00 by the end of June from a high of £25.00 where it remained until falling a further 20% to £15.00 a day prior to the Q2 release with no further trading in the quarter.

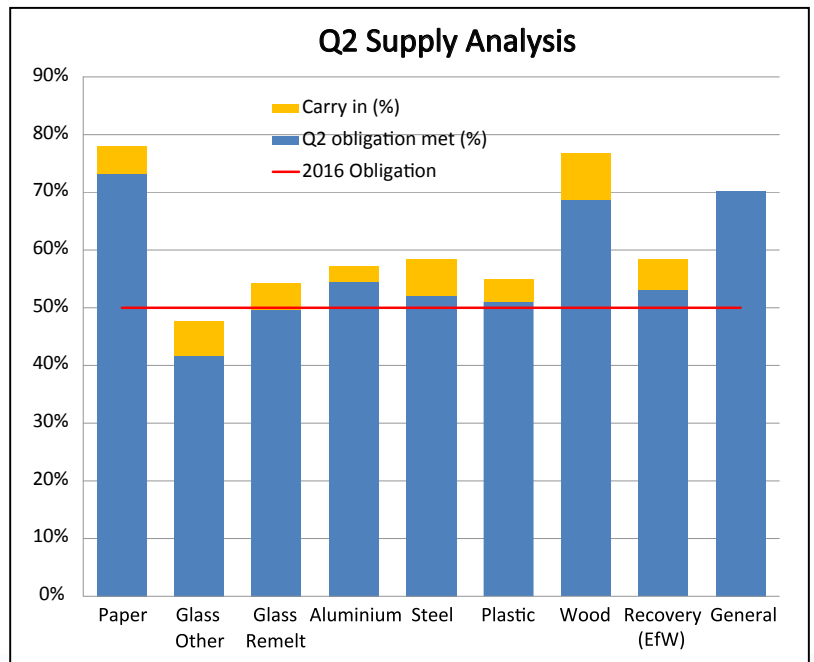
Despite another very positive Q2 return taking the Wood oversupply to in excess of 92,000 tonnes (75%) wood sellers showed their resolve in keeping prices at or above £2.75 (the price at which the quarter closed) after a small amount of trading activity at £2.00 in late May.

With both Paper and Recovery continuing in abundant supply from Q1 paper trading took place at below a pound for all but the smallest clips with recovery positioning itself at a £0.10p differential for most of the month. With the most recent Packflow report suggesting that there may be far more paper and wood packaging handled in the UK than currently assumed and DEFRA's tendency to heed this advice 2017 could be a lot tighter.

Glass gave the only real cause for concern as although remelt performed much better, producing 30,000 tonnes more than in Q1 it wasn't enough to make up for a repeat performance from aggregate which again fell 20,000 tonnes short of the quarterly target. Common wisdom is that Q3 is always the biggest quarter for glass and with a substantial carry in of 80,000 tonnes across both grades we should meet target, but this is by no means guaranteed. The tightness in aggregate meant that the two grades finished the quarter with a much smaller price differential than we have seen in previous years closing the quarter with average prices less than 5% apart at £12.43 for aggregate and £13.06 for remelt.

Material	Carry In	Q1	Q2	50% Obligation	YTD Supply + Carry In	Annual Obligation	Balance
Paper	128,418	1,007,002	937,734	1,373,382	2,073,154	2,746,764	699,772
Glass Other	31,229	110,629	111,491	264,645	253,349	529,289	-11,296
Glass Remelt	49,586	266,415	291,713	537,309	607,714	1,074,617	70,406
Aluminium	2,224	22,601	22,916	41,471	47,741	82,941	6,271
Steel	23,021	94,784	120,177	182,246	237,982	364,491	55,737
Plastic	37,596	246,246	265,889	482,279	549,731	964,557	67,453
Wood	19,945	85,802	111,698	124,807	217,445	249,613	92,639
EfW	29,944	153,035	195,774	287,701	378,753	575,401	91,053
General *	0	365,127	358,550	520,155	723,677	1,040,309	203,522
Total	321,963	1,986,514	2,057,392	3,813,991	5,089,546	7,627,982	1,275,555

* * 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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buy side. The average spot price fell 14% and traded volume was down 62% on the previous quarter. Prices are 30% down on the same period last year.

Wood

The Wood market had another strong trading quarter, up 110% on the same period last year. Despite the spot quarterly average falling 15% on the previous quarter, prices have held up well in light of the 58% oversupply and the collapse in the paper price. Of the 15,774 tonnes traded in the period, 93% was trade in the Spot market. This shows a marked shift from the reliance on forward trading in the 1st quarter and highlights the significant improvement in liquidity.

Recovery

The Recovery price continues to track 5 to 10p below the paper price. The quarterly average price was down 7p (9%) on the previous quarter. Traded volume was up 30% on the previous quarter.

Meet the Market: Brexit Special: Phillip Law, Director General, British Plastics Federation



Q: Have you seen any immediate impact from the Brexit fallout?

Our latest Business Conditions Survey, which we conducted in the weeks following the referendum result, showed that the business expectations of members have become more cautious as, due to currency fluctuations, they face an increase in the prices of imported materials and machinery.

Q: Who do you think will be the biggest winners/losers after Brexit?

This is very difficult to predict as we do not know what trading arrangements will be in place post Brexit. Nor do we know how currency will move. It would be rash to suppose that a weaker sterling helps exporters if they have to pay more for the imported materials on which their products are based. A further unknown is the future pattern of government expenditure. Will Theresa May really abandon austerity and will the government throw money at exports? Who knows?!

Q: What do you think the longer term implications for the industry will be following Brexit?

We don't yet know what form Brexit will take. Commentators are talking about 'hard Brexits' and 'soft Brexits', with all the shades of grey in between. Whatever happens, the plastics industry, along with other sectors, will have to make the best of it. It will not be a time for a 'glass half empty' approach. Key fundamentals will remain in place. We will need access to skilled labour, competitively priced materials and equipment, growing markets, a high level of innovation and access to finance. The extent to which these requirements are met will depend not just on the competence of the plastics industry but on the government's management of the economy and its negotiating skills in a myriad of trade talks.

Q: Do you think there are any major threats to the industry following the Brexit vote?

The fall in the currency hasn't helped international competitiveness. At the current time, nearly a third of all plastic and plastic products manufactured in the UK are exported. Much of our industry in the UK is foreign owned, as are many downstream customers here. Much will depend on the perceptions and investment intentions of the parent entities.

Some have already stepped forward and recommitted to the UK. We are a large market with a fund of innovation.

Our recently published BPF strategy for the plastics industry (available at bit.ly/plasticstrategy) maps out how we intend to further consolidate our leadership position in plastics internationally through a progressive environmental agenda, strengthening our public reputation, support for the use of UK shale gas in the manufacture of plastics raw materials, closer collaboration with the world-class UK design community, exploiting the efficiency possibilities offered by 'Industry 4.0' and by developing a specialisation in energy saving products. We also put a key focus on collaboration within the industry to exploit our many national strengths to the full.

Q: If you had one message for Theresa May at the start of her tenure what would it be?

The key message is to take notice of the UK plastics sector, which represents GBP 23.5 billion in turnover and 170,000 employees. Without this industry, whole swathes of British business would come to a standstill and the UK's carbon footprint would significantly increase!

With an estimated 18,000 workers in the industry coming from the EU, we would like assurance that existing EU workers can stay and we would like to maintain access to the single market.

Q: What do you think the biggest opportunities for the industry are moving forward?

In general terms, with or without Brexit, plastics materials will be the materials of choice in the 21st Century. Their potential for carbon saving through the lightweighting of products and their insulating properties is huge. They are resource efficient, with a record of preventing food wastage. Hence they will be great allies in mitigating the effects of climate change and in facilitating the food supply of a global population already at 7.4 billion and rising fast. The UK is already a global leader in energy-saving plastics products and in plastics packaging technology.

Q: Is there any European driven policy that you would be keen to see the back of if scrapped?

Well, we have to be clear that even if we didn't like an EU directive or regulation, if we aspire to sell into the EU then we will have to conform to it. We couldn't get rid of it.

Also, we have to be practical. The entire generation of civil servants we have in UK government has not been used to operating any other system than that agreed by the EU member states. Some elements of EU policy and legislation reflect global trends and concerns and are seen to represent best practice. Historically, a lot of it has been transposed into our national law in quite a different way compared to elsewhere in other parts of the EU, packaging legislation being a case in point.

There could therefore be significant shadowing of EU legislation. To do otherwise is likely to increase the UK government's costs. However, in the coming months and years we will be analysing the legislation incumbent upon us currently to see if it is really fit for purpose.

Visit us @ RWM, Stand 4H60-J61

Join Angus Macpherson at 14:30, 13th September at the Local Authority Theatre for a live panel debate on: **Future-proofing the recycling sector. How can the sector stay competitive with 'virgin materials'?**