The Marketplace for PRNs

Market Status Report By Tom Rickerby, Head of Trading

It has been an unpredictable three months of trading on t2e as the Covid-19 crisis has impacted the Waste and Recycling sector and the PRN markets. Tentative price rises early in the quarter fuelled by fears of a downturn in generation gave way to universal falling prices later in the quarter, as positive supply data exceeded expectations and restored some calm to an already highly cautious market.

A record 599,076 tonnes (t) traded during the quarter, up 58% on the previous quarter and 33% on the same period last year. 248,146t were traded in the Spot market, 88,435t in the 28-day rolling market, 261,995t in the 2020 Forward markets and 500t in the 2021 Forward markets.

Paper

Q2 saw record Paper volumes trade on t2e as price fluctuations brought a surge in demand for PRNs during the period. Volume more than doubled on the previous quarter. Early reports of a significant decline in recovered paper arisings coupled with the effective closure of key overseas markets such as India, due to mill closures and lockdown bottlenecks in ports, saw early prices maintain the upward trajectory established at the end of Q1. Prices rose 34% to a year high of £21.50 in both the Spot and Forward markets. However, staggered lockdowns have created havoc with international supply chains resulting in a displacement of supply and demand for recovered fibre. An unexpected boom in demand from distressed European paper mills during Q2, has offset the decline in other markets and provided the UK with a strong outlet for a 20-30% spike in domestic kerbside derived material. The net result was a significant but manageable 18% drop in PRN generation on the same period last year. Spot prices began to slide in early June and gathered pace in the second half of the quarter. Spot prices closed at £9.50, down 56% from the year high. The October Forward market saw the highest traded volume in the period as sellers sought price certainty for Q3 in volatile conditions.

Plastic

Plastic is the only material to see no price increase during the Q2 lockdown period. Opening at £250.00 per tonne, Plastic PRNs shed 70% of their value in a series of steep price corrections, closing at a 20-month low of £75.00 per tonne. The falling price reflects the continued strength of the supply data. Another record PRN quarter in a distressed market has yet again raised eyebrows and allegations of fraud will continue to undermine the credibility of the data. However, with virgin prices on the floor, weakening demand and PRN price support evaporating, the economics of plastic recycling will be severely tested in the second half of the compliance year. Plastic traded volumes were up 31% on the previous quarter.

Aluminium

Any sellers' hopes of a Covid-19 influenced recovery in the Aluminium PRN price diminished over the course of the quarter. Early inflationary pressure saw prices strengthen to £110.00 and May's average price improve marginally on April's, hinting at a potential stabilisation of Q1's downward price trend. However, consistently strong supply data and a naturally cautious buyers' market has eclipsed sellers concerted attempts to restore better value in the PRN. A failure to find widespread price support, saw prices capitulate again in the second half of the quarter, falling 68% to a 25-month low of £35.00. Despite no official targets for next year, Aluminium saw the first trade in the 2021 Forward Market. A £50.00 per tonne opening price is around 25% of the current three year rolling average price for Aluminium.

Glass

Glass consumption has moved away from pubs and restaurants and into households during lockdown. A change that has prompted a 13.5% quarter on quarter drop in Re-melt generation and a surge in Aggregate production – Up 63% (68,000t) on Q1. The latter has been met with some surprise given the lack of construction activity and a falling PRN subsidy, however the combined position has placed overall glass supply in good health at the half year point. PRN prices have reflected this improved picture. Remelt prices in the Spot market hit a year high of £32.00 in late May/early June. However, weak buying support saw prices track downwards in the second half of the quarter, falling 42% to £18.50 by the quarter close. Glass Other prices fell faster and further, closing 46% down at £16.00. Q2 saw a record number of Glass Aggregate PRNs trade on t2e during the period.

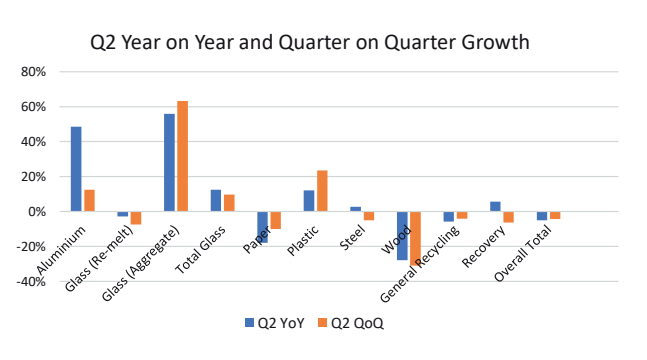
Steel

Initial predictions suggested Steel markets would be hit hard by the Covid-19 crisis driving up PRN prices at the end of Q1. Exports have indeed fallen in Q2, down 37% on the previous quarter. However, a spike in the retail and consumption of canned goods during lock-down has seen a 7.5% increase in PRN generation from packaging grade Steel during the period. This has largely offset the decline in exports and maintained PRN generation above 100,000t for the 2nd consecutive quarter (a 100K quarterly ***[continued on page 2]***

	High	Low	Traded this Quarter	Quarterly Average Price	YTD Average Price	Total Volume
Paper						
Spot 2020	£21.50	£9.50	61,266	£15.12	£11.33	162,915
28 Day Rolling 2020	£21.00	£9.50	47,803	£12.88	£12.88	47,803
JUL Forward 2020	£21.50	£9.50	62,000	£18.15	£15.13	116,000
OCT Forward 2020	£21.50	£8.20	128,000	£13.13	£13.13	128,000
DEC Forward 2020	£21.50	£8.20	13,000	£14.11	£14.11	13,000
Plastic						
Spot 2020	£252.00	£75.00	75,205	£163.74	£231.83	166,871
28 Day Rolling 2020	£206.25	£80.00	13,852	£115.12	£115.12	13,852
JUL Forward 2020	£250.00	£110.00	8,513	£178.96	£233.75	18,912
OCT Forward 2020	£251.00	£76.00	10,723	£158.97	£187.17	13,523
DEC Forward 2020	£230.00	£125.00	3,500	£163.53	£212.78	5,400
Glass Other						
Spot 2020	£30.00	£16.00	37,251	£22.82	£22.07	50,249
28 Day Rolling 2020	£25.00	£19.00	7,800	£19.62	£19.62	7,800
JUL Forward 2020	£23.00	£23.00	2,000	£23.00	£21.02	3,000
OCT Forward 2020	£30.00	£30.00	5,775	£30.00	£28.04	6,775
DEC Forward 2020	£30.00	£30.00	3,225	£30.00	£28.39	3,725
Glass Remelt						
Spot 2020	£32.00	£18.50	35,173	£26.96	£23.69	74,949
28 Day Rolling 2020	£32.00	£20.00	9,300	£25.30	£25.30	9,300
JUL Forward 2020	£24.00	£20.00	3,000	£22.67	£20.39	5,605
Steel						
Spot 2020	£42.00	£22.50	7,632	£33.75	£23.47	39,934
28 Day Rolling 2020	£35.00	£18.00	4,878	£20.25	£20.25	4,878
JUL Forward 2020	£42.00	£25.00	3,800	£35.62	£29.18	11,800
OCT Forward 2020	£35.00	£25.00	4,713	£31.36	£31.36	4,713
DEC Forward 2020	£35.00	£25.00	2,250	£33.33	£33.33	2,250
Wood						
Spot 2020	£29.50	£20.00	23,168	£22.87	£16.75	55,439
28 Day Rolling 2020	£23.00	£20.00	2,982	£22.33	£22.33	2,982
JUL Forward 2020	£24.00	£24.00	800	£24.00	£10.63	10,300
OCT Forward 2020	£30.00	£19.00	3,000	£23.00	£12.89	11,500
DEC Forward 2020	£30.00	£19.00	3,000	£23.00	£18.33	4,500
Aluminium						
Spot 2020	£110.00	£35.00	3,162	£77.02	£131.60	8,170
28 Day Rolling 2020	£70.00	£35.00	134	£37.35	£37.35	134
JUL Forward 2020	£107.00	£85.00	646	£103.59	£258.60	3,246
OCT Forward 2020	£40.00	£35.00	925	£37.97	£196.33	3,375
DEC Forward 2020	£35.00	£35.00	125	£35.00	£147.86	875
APR Forward 2021	£50.00	£50.00	500	£50.00	£50.00	500
Recovery						
Spot 2020	£3.15	£1.90	5,289	£2.64	£2.09	7,829
28 Day Rolling 2020	£2.95	£2.65	1,686	£2.77	£2.77	1,686
JUL Forward 2020	£3.00	£2.00	3,000	£2.50	£1.12	11,965

Managing Director's Comments August 2020

A Quarter of surprises. Not only have some 9.6 million employees been paid by the Government to stay at home but also packaging recycling levels have been maintained despite the closure of the hospitality and travel industries and Household Waste Recycling Centres (HWRC). Even more remarkable is that even at the end of the quarter over 20% of Councils were reporting that their collection services were under-manned and waste collections from commercial and industrial premises were to a great extent non-existent. Against this background some of the Q2 figures, Plastic in particular, stretch credibility.



Looking Forward

Now lockdown is beginning to ease and travel bans are lifted and then restored, albeit at different speeds as England, Northern Ireland, Scotland and Wales choose to interpret the same data differently, it is time to look forward to targets for 2021 and beyond, the impact of Brexit and the import ban by China of secondary raw materials from 1 January 2021. As well as consider the contents of further consultations expected in 2021 on the introduction of deposit schemes and adjustments to extend producer responsibility.

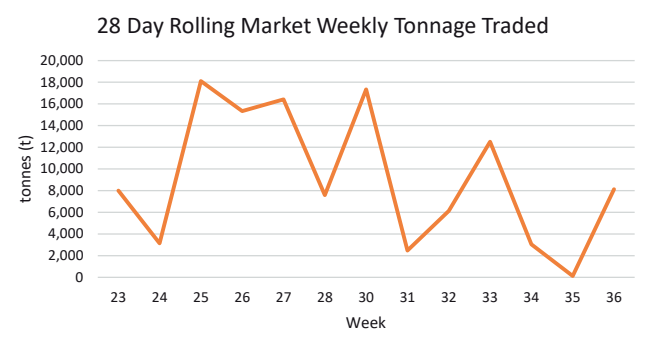
To start with the last first. It would be wrong to consider a deposit scheme as separate from producer responsibility. The system will be paid for by producers, or more accurately the deposit payers, consumers, and the secondary raw materials produced, once reprocessed, will be eligible for Packaging Recovery Notes (PRNs). While debates may continue about its cost effectiveness, its impact on the viability of local authority recycling systems and its regressive nature, the decision has been taken to introduce it. The only questions that remain are how and when?

Extended Producer Responsibility

In contrast far less clarity exists on how producer responsibility might be extended within a market mechanism to include council costs for recycling and litter collection or how the holy grail of eco-modulation based on the recyclability of packaging might be achieved. A wider range of targets within the current system to include composites and/or different polymer types could go towards providing a simple and pragmatic solution to this challenge. Concurrently in comparison to the hefty €800.00 per tonne tax proposed on plastic in Europe, the £200.00 per tonne recycled content tax in the UK begins to look paltry.

Meanwhile the current system has continued to deliver with targets in 2020 now looking as though they can be achieved with ease, although some suspect that the absence of regulatory activity during lockdown has contributed to this success. These figures are now the basis on which DEFRA needs to swiftly make decisions on targets for 2021 and beyond. With all materials showing year on year growth except for Paper and Wood, the latter particularly impacted by the closure of HWRCs, targets should be challenging. However, this is counter-balanced by the unknowns of the impact of Brexit and the effective closure of China to the export of secondary raw materials on which the UK is so reliant for compliance. Some advocate that now is the time to introduce UK specific targets.

28 Day Rolling Market



The 28 Day Rolling Market was introduced in June since then it has proved popular with participants with 118,340t traded and in Q2 15% of all tonnage traded. Thank you to all who have supported it and t2e through this testing time to achieve a record quarter. Thank you too to Jonathon Donohue, Jamie O'Hanlon and Mike Scollick for their insights of how the pandemic has impacted on them. Sadly we will not be able to meet in the Autumn as RWM has been a victim of the pandemic. Whether such shows will return in the new normal remains unknown. Please be assured that t2e will continue to value you and wish to be of service to you. Thank you again.

Angus Macpherson
Managing Director

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output was only achieved once in 2019). Steel prices fell from June, closing the quarter down 57% at £18.00, a return to opening values for the year.

Wood

Waste wood supply chains saw the biggest disruption in Q2 as PRN generation fell by a third. Despite missing its target by over 20,000t in the quarter, Wood PRN prices remained relatively stable during the period as surplus from Q1 and a falling general recycling price provided a calming counter narrative to shortage fears. Spot prices fluctuated in the low to mid £20s, whilst best prices were seen in the Forward markets where values hit a year high of £30.00 per tonne before falling in-line with Spot.

Recovery

Average Spot prices rose 138% in Q2 as quarterly generation slipped below target again. Values hit a high of £3.15 in the Spot, the highest Recovery price since December 2015. Volumes were also up 216% on the previous quarter.

Q2 Supply Analysis

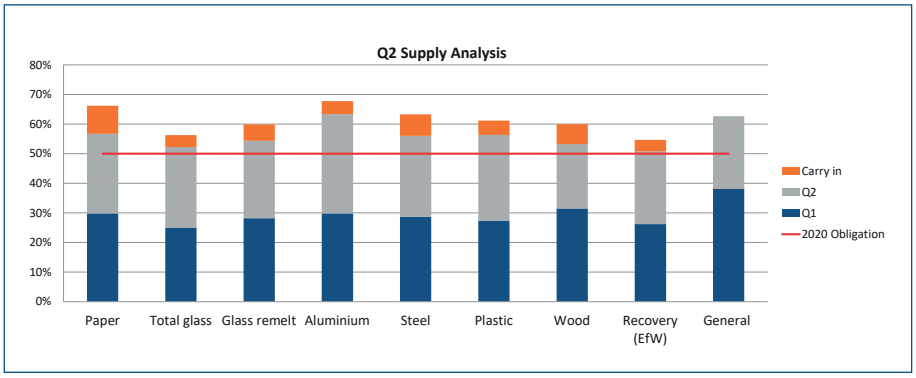
By Andrew Letham, Operations Manager

The release of the Q2 data has shown the downturn in recycling as a result of Covid-19 to be much less severe than initially expected. Overall recycling fell 88,522 tonnes(t) from Q1 as Paper and Wood, the two most affected materials saw downturns of 10% (88,551t) and 31% (48,003t) respectively. Not all materials were adversely affected as Total Glass recycling grew 9.75% Quarter on Quarter (QoQ) and record returns were seen in Aluminum (up 12.5%) and perhaps more surprisingly Plastic which grew 5.4% from a very strong Q1 return.

Material	Carry In	Q1	Q2	YTD 2020 Obligation	YTD Supply + Carry In	Balance
Paper	284,433	894,736	806,185	2,998,980	1,985,354	-1,013,626
Total Glass*	70,895	438,094	480,858	1,758,562	989,847	-768,715
Glass remelt	65,535	332,169	307,810	1,178,236	705,514	-472,722
Aluminium	5,360	36,151	40,671	121,333	82,182	-39,151
Steel	26,991	106,577	101,185	371,066	234,753	-136,313
Plastic	52,614	298,724	314,893	1,089,347	666,231	-423,116
Wood	33,330	154,585	106,582	490,746	294,497	-196,249
EfW	23,730	157,707	147,678	602,136	329,115	-273,021
General **	0	221,359	142,866	581,141		
Total	*497,353*	*2,086,574*	*1,998,052*	*8,013,311*	*4,581,979*	-3,322,913

**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.*



Total demand has grown by 338,550t across all materials to 8,013,311t with a further 366 producers registering since the initial release of the Packflow report on 15th May, taking total registered producers to 6,983. This still falls short (395) of the number registered at close of play 2019 (7,378) however, the economic uncertainty brought about by Covid-19 may result in a Year on Year (YoY) decline in registered businesses come the end of the year.

Rather staggeringly and despite imposed lockdown measures Plastic recycling grew to record levels in Q2 with 314,893t reported as Recycled. This represents a 10% increase on last year's average (285,328t) with almost all of the growth coming from exports which were up 19% (32,000t) YoY and 8.5% (15,883t) QoQ. Based on the current Plastic obligation of 1,089,347t, 56% of target has been met before carry-in is considered with PRN prices falling significantly to reflect the position of overrsupply. The reduction in price will no doubt restrict export and make certain grades of material difficult to move but with c.245,000t needed in each of the remaining quarters to meet target in year, compliance now looks comfortable.

Wood suffered the biggest percentage decrease in supply during Q2 with the 106,582t recycled down 31% (48,003t) QoQ and 30% (46,305t) from last year's average of 152,888t. Much of the downturn has been attributed to the difficulty in collection during lockdown as HWRC's closed across the country. Construction work also ground to a halt which dampened demand for finished product from the panel board industry who are said to be carrying significant stock. Current Supply remains relatively healthy against target with 53% already achieved before carry-in, however improvement is needed if we are going meet target in year with approximately 250,000t of obligation still to be met.

Paper's poor start to the year continued in Q2 as recycling dropped 9.9% (88,551t) QoQ making it the worst return since the same period in 2012. When added to Q1 the 806,185t reported as recycled show a further 1.3 million tonnes are required to meet the material specific obligation in year which currently sits 60,000t below the final 2019 figure at 2,998,980t. A further 550-600kt of General recycling obligation will also need to be met with the combined oversupply of all materials which although tight at current supply levels looks a lot more manageable when the 284,433t Paper carry-in is considered. China's return to the market to fill quotas before the impending ban on solid waste in 2021 could see a short-term improvement in supply in the lead up to the last sailing day which is anywhere between the end of September and beginning of November depending on who you ask. Longer-term the outlook is a lot less certain.

Glass recycling was turned on its head in Q2 as a combination of increased arisings and high PRN prices meant Aggregate surpassed its quarterly target for the first time since Q3, 2015 with Remelt just scraping over the line. Total Glass was up 9.75% (42,764t) QoQ with aggregate up 39% at 173,048t and Remelt down 7.3% (24,359t) at 307,810t. It is hoped that the skewed supply position in Q2 was circumstantial owing to Covid-19, and we begin to see a much larger percentage of material finding its way to Remelt as markets normalise. At current obligation levels (1,758,690t) compliance should be met in year without dipping into the 70,895t carry-in.

Back to back record quarterly returns in **Aluminium** have meant 63% of target has been met at the halfway point in the year. The 40,671t reported in Q2 shows an increase of 12.5% (4,520) QoQ and represents just over 33% of the total obligation required in year. The dramatic fall in price as a result of the abundant supply will likely see a decrease in export activity which accounted for 72% of all PRNs generated in Q2 up 10% on the same period last year.

Steel supply remained stable in Q2, down just 4% (4,392t) QoQ however the split between Domestic and Exported tonnage changed with only 24% going to export in Q2 versus 36% in Q1. The current obligation remains 10,381t behind the final figure in 2019 and we may see further movement away from the use of the material in packaging as we did 2019 when the obligation grew less than proportionately to the target increase. Continued generation at Q2 levels (101,185t) which is tracking at 1.75% above last year's average will see us comfortably meet target in year.

Overall a very positive quarter which has made compliance look achievable in a challenging year. Question marks will remain over the legitimacy of the Plastic figure which would seem exceptional outside of a pandemic but we shouldn't lose sight of the fantastic work carried out by a very robust UK collection system that has kept material streams flowing despite all of the difficulty.

Market Insight: The Impact of Covid-19

Jonathan Donohue
Dry Recycling Manager at Suez

At SUEZ we often say that change is the only constant and never has this been truer than during 2020. Working in an operational business our trading team are accustomed to adjusting to changes in circumstances at relatively short notice but as lockdown hit, we saw changes almost overnight with our office based teams working from home, business customers closing their doors, household waste recycling centres temporarily closing and some local authorities suspending collection services or co-mingling previously source segregated materials due to staffing shortages.

Added to this as a nation our lifestyles adjusted to life in lockdown and we saw changes in material flows through our sorting facilities that reflected the initial wave of panic buying and then our adaptation to home working, schooling, cooking and, as restrictions eased, to home entertaining and outdoor living.

Throughout this period we kept materials flowing, balancing supply and demand, thanks largely to closer and more collaborative working across the value chain. Our colleagues managing collection contracts and our network of household waste recycling centres kept us informed of changes to services and our end customers updated us on the changing status of their order books. This allowed us to quickly identify and mitigate any potential issues or concerns.

Looking ahead, the last quarter of 2020 may well see further local or even national lockdowns around the world. In today's global market lockdowns in other continents have far reaching impacts and we will need to maintain close collaboration across the value chain to avoid disrupting the flow of materials.

Jamie O'Hanlon
Operations Manager at Skips R Us

Covid-19 impacted us in different ways. We never got any quieter, in fact you could say we got busier within our domestic skip business as many customers were at home with time to kill so they used lockdown as an advantage to clear out their homes. We had to take on more employees such as drivers and yard operatives to deal with the volume of waste we were taking in.

From the start of April until the end of June we saw a dramatic decrease in the amount of commercial waste we usually receive as most building sites were closed. However, there was an increase in the amount of timber we were taking in and shredding. We used to deliver around 20-30 tonnes of timber to Tyrone Energy where it gets burned for electricity. Over lockdown we were delivering 40-70 tonnes a week as they said they had burned through all their stockpiles very quickly.

We have also received a lot of scrap metal within our Domestic skips. The stockpile in the yard was overloaded as many countries like Spain were not in a position to process this material as they were badly hit by lockdown. As a result, we had to source other haulers and brokers to deal with the stockpile we had.

Mike Scollick
Director at Wastecraft

We are in a slightly different position to mainstream transfer stations, as we are predominantly a single stream treatment facility for mattresses. The lockdown caused all our sources of mattresses to close almost immediately. This included retail and local authority inputs. Other than opening to take in (but not process) fly tipped loads and some clearing up done in various distribution centres, the facility remained closed for approximately three months.

Since lockdown caused our supply of mattresses to stop, revenue stopped in June. All staff were furloughed throughout the period of closure and have been brought back in stages as business has increased. Post lockdown, it seems that people have generally gone mad with buying mattresses and beds and we are now experiencing record volumes of mattresses coming to us (higher than during Christmas and January sales). In any comparable scenario, there are no solutions. Our business is subject to the flow of material into us. If this stops, we stop.