

The Marketplace for PRNs

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



Tight supply continued to unsettle the PRN market this quarter as all materials built on the significant price gains made in Quarter (Q)2. In a quarter dominated again by calls to reform the packaging EPR system to better suit the requirements of the EU's Circular Economy Package, the PRN market is once more showing a dynamic ability to respond to the changing landscape in global secondary commodity trade and provide significant price support to under-performing markets. Buyers

will now hope high PRN prices will boost sufficient supply to avoid further price increases and a potential non-compliance scenario in the final quarter. Either way, 2018 is shaping up to be one of the tightest compliance years on record.

277,106 tonnes (t) traded in the period, down 14% on the previous quarter and 12% on the same period last year. High prices have concentrated minds and trading on 2018 markets. 219,939t traded in the Spot market, 18,817t traded in the 2018 forward markets and 28,350t traded in the 2019 forward markets.

### Paper

Paper maintained its spectacular bull run this quarter as prices rose for the 10th consecutive month rising 60% to a 16 year high of £25.00 by the end of the quarter. Whilst all PRNs have seen significant price increases this year; it is arguably the rise in the paper price that will have the most universal impact on Producers. In a market that has historically struggled to maintain values above £1.00 per tonne, the 2018 average paper price is now nearly 6 times higher than the 10-year weighted t2e average (£1.85). Paper opened in the 2019 markets at £20.00 per tonne, setting a strong benchmark for next year.

### Plastic

These days, it seems the recovered Plastic market is never too far away from its next crisis. The PRN market had little time to react to positive news of a record Q2 before news of a 3 month import ban in Malaysia eliminated any possibility of a downward price correction. Renewed fears over a meltdown in the export markets pushed PRN prices to new heights with spot trades breaking £70.00 per tonne by late August. Whilst prices fluctuated in the low £70's during the middle section of the quarter; a confirmed 15% drop in exports in the Q3 supply data pushed prices to a year high of £75.00 by the quarter close. Average Spot prices increased by 12% whilst volume traded on t2e fell by 17% on the previous quarter.

### Glass

The Remelt and Aggregate markets aligned this quarter as the rising price of Paper and Steel brought Glass into the General Recycling mix. Whilst the rising floor price of General Recycling has been the main price driver to date, an emerging tightness in the glass market is likely to generate additional pressure on the price in the final quarter. Glass Other traded volume was up 42% quarter on quarter as prices hit £22.50 – the highest Aggregate price since August 2014.

Weak liquidity in Remelt saw prices close the quarter at £20.50, up 25% on Q2 but slightly behind the general recycling trend. However, due to the lack of surplus in Glass, future prices look certain to trade at a significant premium to the Paper and Steel price to avoid buyers tying up Glass against General obligations. 2019 Remelt opened at £21.00, up 61% on the 2018 opening price.

### Steel

The Steel price remains pegged to changes in the Paper value as surplus Steel PRNs provide the only credible alternative for General Recycling demand. Whilst Steel generation up to the end of Q3 is broadly in-line with 2017, the rising floor price of General Recycling has meant the average Spot Steel price in Q3 was almost 4.5 times higher than the same period last year. Prices rose 56% to a year high of £25.00 during the quarter.

### Wood

Improvements in the Q2 supply did little to stem the rising Wood price in Q3. Spot prices increased 18% to a record £71.00 per tonne by the quarter close. Wood sales made up the bulk of the 2019 Forward trading during the period, as buyers looked to reduce exposure in next year's market. An opening 2019 price of £65.00 per tonne reflect concerns at meeting another challenging 5% target increase next year.

### Recovery

The Recovery market held onto the marginal price gains made in Q2. The average spot price was up 12% to £0.55 but strong surpluses continue to suppress prices at administrative levels. 2018 evidence trading was up 300% on the previous quarter.

### Aluminium

Despite a record Q3 return, the Aluminium market remains a source of frustration for buyers, as rising spot prices continue to defy the healthy data fundamentals. Spot prices more than doubled to a year high of £85.00 during the period. Traded volumes remain subdued, down 34% on the previous quarter reflecting the general lack of liquidity in the market.

	High	Low	Traded This Quarter	Quarter Average Traded Price	YTD Average Traded Price	Year to date aggregated traded
<b>Paper</b>						
Spot 2018	£25.00	£15.50	76,761	£16.95	£11.05	198,077
DEC Fwd 2018	£25.00	£17.00	2,500	£20.20	£8.77	8,100
APR Fwd 2019	£20.00	£20.00	2,500	£20.00	£20.00	2,500
JUL Fwd 2019	£20.00	£20.00	2,500	£20.00	£20.00	2,500
<b>Plastic</b>						
Spot 2018	£78.00	£63.00	66,085	£70.56	£63.74	218,365
DEC Fwd 2018	£70.00	£70.00	500	£70.00	£63.33	3,000
JAN Fwd 2019	£75.00	£75.00	250	£75.00	£75.00	250
APR Fwd 2019	£80.00	£80.00	600	£80.00	£80.00	600
<b>Glass Aggregate</b>						
Spot 2018	£22.50	£16.25	3,626	£17.00	£15.52	6,699
DEC Fwd 2018	£17.00	£17.00	351	£17.00	£17.00	351
<b>Glass Remelt</b>						
Spot 2018	£20.50	£15.50	6,542	£16.50	£15.12	23,165
OCT Fwd 2018	£16.75	£16.00	3,000	£16.38	£14.97	26,000
DEC Fwd 2018	£17.50	£16.80	3,213	£16.96	£14.81	19,713
APR Fwd 2019	£21.00	£21.00	3,000	£21.00	£21.00	3,000
JUL Fwd 2019	£21.00	£21.00	2,000	£21.00	£21.00	2,000
<b>Steel</b>						
Spot 2018	£25.00	£16.00	17,169	£17.17	£10.62	54,388
OCT Fwd 2018	£16.50	£16.50	3,000	£16.50	£11.14	14,750
DEC Fwd 2018	£16.25	£16.25	127	£16.25	£9.92	10,877
<b>Wood</b>						
Spot 2018	£71.00	£60.00	35,163	£64.99	£52.05	53,558
OCT Fwd 2018	£65.00	£65.00	1,000	£65.00	£30.62	9,649
APR Fwd 2019	£65.00	£65.00	10,500	£65.00	£65.00	10,500
JUL Fwd 2019	£65.00	£65.00	7,250	£65.00	£65.00	7,250
OCT Fwd 2019	£65.00	£65.00	10,000	£65.00	£65.00	10,000
<b>Aluminium</b>						
Spot 2018	£85.00	£40.00	1,288	£58.18	£31.59	4,938
<b>Recovery</b>						
Spot 2018	£0.75	£0.50	13,305	£0.55	£0.41	40,817
DEC Fwd 2018	£0.50	£0.40	4,876	£0.40	£0.40	4,876

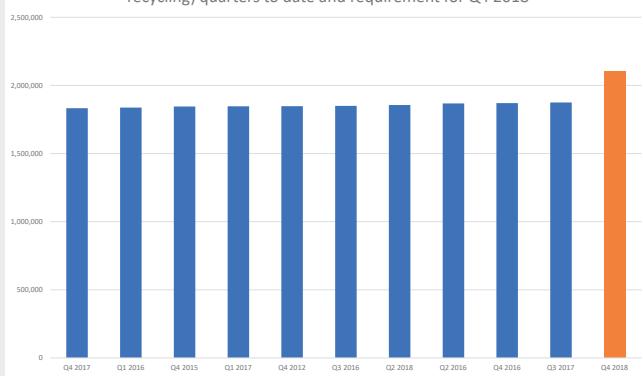
## Managing Director's Comments – November 2018



A busy quarter by anyone's standards. Not only does it appear that Brexit is reaching a negotiated solution but also a flood of environmental or at least anti-plastic measures were introduced in the budget. Meanwhile as prices rise, concerns have been expressed about market manipulation and future targets.

Against this background trading has continued but the concentration has been on achieving compliance in 2018 rather than thinking forward to 2019. With the challenges in achieving compliance in 2018 very real, budgets stretched and the looming Packaging review in the Waste and Resources Strategy, this is understandable. Those buyers who traded forward into 2018 did well and with further turmoil ahead the security of trading forward again looks desirable for both buyers and sellers.

Comparison, in tonnes, of top 10 reprocessing and exporting (General recycling) quarters to date and requirement for Q4 2018

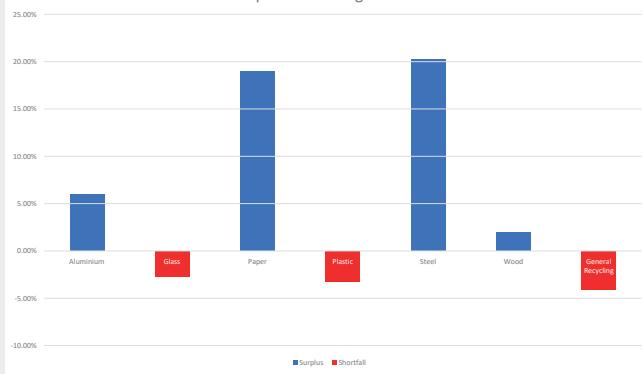


### 2018 Budget

The autumn budget was as anticipated anti-plastic. Taxes on plastic packaging that does not contain 30% recycled content to complement the earlier proposed ban on plastic straws, stirrers and cotton buds certainly sends a clear message. Producers were also asked to be more responsible for the clean-up and recycling cost of packaging; encouraged to design and use (plastic) packaging that is easier to recycle; and discouraged from using plastics which are difficult to recycle.

While the detail is missing, the revised regulations are clearly going to put a greater emphasis on design for recyclability. Ultimately the best measure of the effectiveness of that design is how much of that packaging type is recycled. It is difficult to see how that can be delivered except at a cost. The question remains how much of the cost will fall on those that use recyclable packaging.

Predicted in-year surpluses/ shortfalls in 2018 as a percentage of predicted obligation

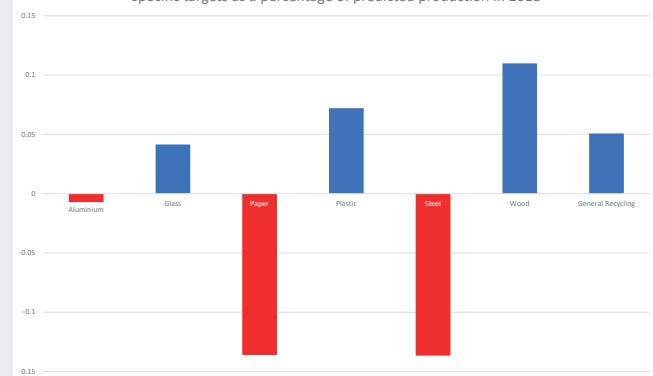


### 2018 Compliance

Overall, to achieve targets in year, Quarter (Q)4 will have to meet record levels of recycling to achieve the General Recycling target. As the year has progressed and the impacts of the Chinese and wider quality controls register, so the challenges to achieve compliance in 2018 have increased. PRN supplies have become tighter and PRN prices have increased. To many companies accustomed to a low cost of compliance this has come as a surprise. For some sectors this burden has been perceived as too great with the wood sector facing economic difficulties as a result of significantly increased targets beyond the requirements of the circular economy and the aluminium sector raising concerns that their market price is being manipulated to unfair levels while supply is apparently plentiful. Both arguments have merit but greater research is needed to understand the full circumstances. What are the underlying causes as well as the symptoms?

Overall to achieve the targets in year Q4 will have to reach record levels of recycling to achieve the general recycling target and exceed the average quarterly recycling achievement to date in 2018 by some 300,000t. Even with the potential of the late approval of paper export destinations at this stage that looks improbable in which case the carry forward to next year will be reduced from the 428,137t carried into 2018.

Predicted growth required between 2018 and 2019 to meet the material specific targets as a percentage of predicted production in 2018



### Looking forward to 2019

2019 offers no certainties. Not least the immediate impacts of Brexit on both exchange rates and secondary raw material exports, both their desirability to buyers and the speed they move through ports both on departure and arrival at their destinations. The knowns are that the obligation will increase once again as will material specific targets. Despite the encouraging indications in the budget there is no immediate expectation that either reprocessing or exporting is going to increase significantly year on year so 2019 will be as tight if not tighter than 2018 and prices will be as high. Glass looks tight, concerns remain for wood, plastic and overall recycling.

Thank you to Tim Gent for his insightful contribution. Thank you for your support in 2018. There is still much to be done before it is complete. We look forward to being of service to you in both 2018 and 2019 and wish you a very enjoyable festive season.

Angus Macpherson  
Managing Director

## The Marketplace for PRNs

### Q3 Supply Analysis *By Andrew Letham, Sales and Marketing Manager*



The release of the Quarter (Q)3 data came off the back of significant growth in the material specific obligation up 173,037 tonnes(t) from Q2. Most of the growth came in Paper (68,405t), Glass (57,371t) and Plastic (28,913t) and can be largely attributed to the late data submission on 10 October 2018 of a supermarket, however a further 99 producers have also been added. Further growth is expected with the 7,265 currently registered producers still 165 shy of the final total for 2017 (7,430). 1,827,299t of material specific recycling PRNs were generated in Q3 a drop of 41,758t (2%) from Q2 with much of the reduction in volume coming in Plastic and Glass.

A total of 406,444t of Glass were reported as recycled in Q3 representing a 4.5% downturn from Q2 (425,329t). This coupled with a 3.5% (57,371t) uplift in obligation has dramatically changed the market to a point that we are now tracking behind target in year with only 72.94% of the obligation met when carry-in is excluded and only slightly above at 76.17% when the full 54,279t carry-in is utilised. A further 454,548t are needed to meet the overall obligation of 1,679,581 a feat not achieved since the last time a big Q4 was needed to prevent non-compliance (Q4, 2012), a year when prices hit £85.00.

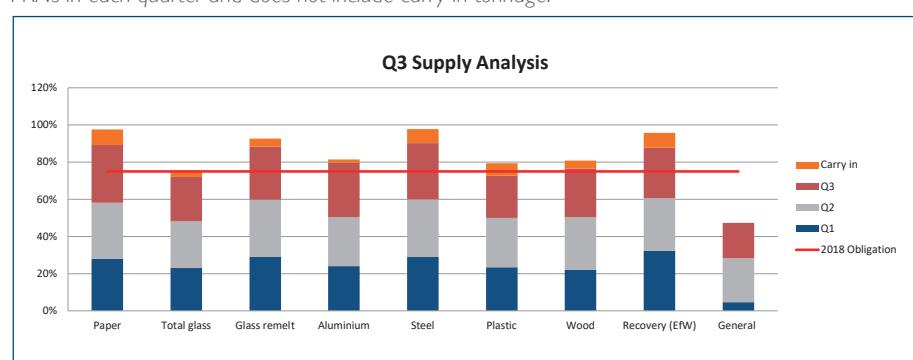
A further 7,961t were added to the verified Q1 and Q2 Wood supply data and when added to the Q3 supply of 112,559t the outlook is much brighter than at the start of the year. An achievable 101,352t are needed to meet target in Q4 and it looks likely we will have a similar if not higher level of carry-in (19,062t) into 2019. The announcement from Defra that they will revisit the proposed targets for 2019 and onwards may give a glimmer of hope to buyers that felt the pinch of higher prices, but change is by no means certain and if current targets remain in place, we look ahead to another testing year.

With continued talk about potential destinations for plastic waste either closing their doors or implementing stricter policing policies, Q3 was expected to be lower than the record Q2 of this year which was also the largest ever recorded for export. 241,809t were reported as recycled in Q3, 26,540t short of the 268,259t quarterly target and the worst export return since Q3, 2015. The 73,350t carry-in has somewhat masked two poor quarters this year as we continue to track behind target in year. 294,009t are needed in Q4 which could make for a very interesting finish to the year; with transitional tonnage in high demand for both the 2018 and 2019 compliance years.

Material	Carry In	Q1	Q2	Q3	2018 Obligation	YTD Supply + Carry In	Balance
Paper	249,995	837,279	902,246	932,530	2,993,524	2,922,050	-71,474
Total Glass*	54,279	393,260	425,329	406,444	1,701,069	1,279,312	-421,757
Glass remelt	48,856	332,339	349,329	326,108	1,139,716	1,056,632	-83,084
Aluminium	1,802	23,105	25,388	28,104	96,298	78,399	-17,899
Steel	27,111	101,306	109,130	105,853	350,847	343,400	-7,447
Plastic	73,350	252,127	285,089	241,809	1,073,034	852,375	-220,659
Wood	19,062	95,183	121,875	112,559	430,969	348,679	-82,290
EfW	48,713	199,796	176,289	168,331	620,009	593,129	-26,880
General *	0	40,825	207,622	165,864	875,090		
<b>Total</b>	<b>474,312</b>	<b>1,902,056</b>	<b>2,045,346</b>	<b>1,995,630</b>	<b>8,140,840</b>	<b>6,417,344</b>	<b>-1,723,496</b>

\*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.



An improvement to paper recycling in Q3 (932,530t) will go some way to offset the increase in obligation which grew 68,405t from Q2. 89% of the material specific obligation has now been met in year with an additional 321,469t needed to meet the material specific target. A further 444,464t are currently needed to meet the General recycling obligation which will also largely be met using Paper. HMRC data suggests that paper shipped earlier in the year has not yet hit the market which could be due to new destinations that are yet to receive accreditation or exporters forgoing the PRN to move to destinations that they are unable to claim on.

Aluminium reported its largest ever return in Q3 with 28,104t recycled. Supply has remained very stable to date and with 80% of target having now been achieved in year there should be enough available to easily meet target barring any major events.

Steel continues in plentiful supply with a further 105,853 reported in Q3 and 90% of in year target (350,847t) achieved before carry-in is considered. If large volumes are being held against General and/or the 2019 price betters that of 2018 late buyers may have to pay a premium in 2018 but the market remains very healthy.

Overall It looks as though further tension could be seen in both Glass and Plastic as the Wood market softens in the final quarter. With December supply looking likely to be needed in year and carry-out into 2019 severely diminished competition for transitional tonnage will be significant.

The Marketplace for PRNs

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## Glass PRNs *Tim Gent, Managing Director at Recessco UK*



The price for Glass PRNs in 2018 has been surprisingly stable for most of the year and much lower than the data would indicate, especially when compared to other materials, that were meeting their targets far more easily. It would appear that the reason for this is the way that Glass PRNs were traded this year.

The vast majority of this years Glass PRNs were sold in late 2017 or early 2018 on fixed tonnage contracts, these contracts were a mix of fixed price or "fair market price" at time of completion. Unfortunately, due to the high volume of tonnage sold under these arrangements there was insufficient Spot market trading to establish a "fair market price". Under these trading conditions the price remained artificially restricted until the low prices started to jeopardise compliance! "Fair market price" could not actually be achieved until the fixed contracts either ended or

failed to deliver. At this point the market moved and the higher prices started to pull through extra tonnage, hopefully in time!

2019 looks like it may play out a bit differently, the sellers are in a far stronger position due to another 1% increase in the target and a much larger increase in obligation likely, due to the hot summer and the good run for England in the World Cup. Also the relatively high prices achieved at the end of 2018 and expected reduction in carry forward into 2019 all combine to create more of a sellers market. As a result, there has so far been far less appetite for fixed tonnage contracts and an increased willingness to use the spot market. A more competitive Spot market will hopefully create a more accurate free market price. This will in turn will allow higher PRN revenue to encourage and finance increased growth in the volume of glass removed from the waste stream. This is how the system was designed to work and is still the only way that we will be able to meet a very challenging target in 2019.



## Meet the Team

Lydia Phillips has recently joined the t2e team as our Junior Account Manager. Since graduating from the University of Nottingham with a Geography degree in 2017 Lydia has gained work experience in the waste management industry. Having completed an internship at WRAP Cymru and

through working for her local authority to improve recycling rates she has gained a keen interest in the operations of the UK recycling industry. Lydia has moved to us from all the way from Cardiff and is enjoying living in the Scottish capital. She plays Lacrosse in a local team, enjoys eating out and walking at the weekend.

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