



**Market Status November to January**  
**2003 - A weak end to a weak year**  
*by Cliff Laundon*

As we reached the end of December, the deadline for trading pre-December 2003 tonnage, prices reached unprecedented lows in most PRN classes. Only Plastic and Aluminium showed any sign of resistance.

Those reprocessors who were inclined to remain in the market took what they could get. Others who lost interest before the end, simply did not participate. Nevertheless, significant quantities remained unsold on the exchange as December 31st came and went.

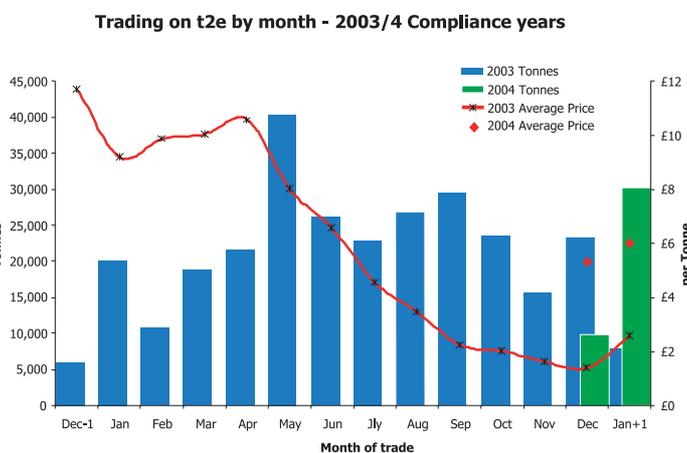
Demand for 2003 evidence during January was very light and came mostly from smaller independently obligated companies who had left their purchasing to the last minute. Little transitional tonnage was sold into 2003 as there was an adequate supply of over-purchased pre-December tonnage. This kept prices below the 2004 market which is lower than might otherwise have been expected.

**Paper** traded regularly and in good volume from a high of £2.25 in early November down to 50p by the end of December, a price at which sellers derived no discernable benefit.

**Plastic** traded actively from a high of £3. Having tested the £1.75 level prices stabilised in the £2-3 range, whilst occasionally touching £4 in light trading as independently obligated companies did some last-minute shopping.

**Steel** was also active starting at £1.50 but finding a floor at the £1 level. A number of good-sized contracts (500-1,000+ tonnes) were traded in the period, probably the result of some timely opportunistic buying.

The slide in the **Glass** price from the £5-6 levels in the previous quarter continued, but in limited volume. We



Average Traded Prices	Aluminium	Wood/Other	Glass	Paper	Plastic	Recovery	Steel
Nov	£17.00	£1.23	£3.28	£1.51	£2.25	£1.25	£1.39
Dec	£13.20	£0.76	£2.20	£0.98	£2.89		£1.21
Jan+1	£6.02	£3.00	£22.75	£4.73	£2.06	£2.28	£5.39

heard that fundamentals in the underlying market had tightened the supply of cullet in December but this had no effect on 2003 where lows of £1.75 were reached in light trading.

Trading in **Wood/Other** and **Recovery** was muted as reprocessor malaise and apathy over price continued. Prices touched the 75p level in modest trading levels. Recovery reprocessors were not heartened by the restrictions in recovery obligations announced for 2004-8 during the quarter.

**Aluminium** sailed serenely on, apparently oblivious to the rest of the market, in the usual light trading. It averaged

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**Managing Director's Quarterly Report**

The last quarter has seen the announcement of the third quarter statistics by the Agencies; publication of the revisions to the Regulations and subsequent Agency guidance; the passing of the disappointing 2003 market and the start of the more buoyant 2004 market. Against this busy backdrop, trading in 2003 PRNs has been disappointing, with volumes traded in November and December down over 55% on the previous year. January has started briskly with volumes in both previous (2003) and current (2004) year PRNs up almost 50% on last year.

**Third Quarter Statistics**

The third quarter statistics can be used as an indication of the direction of UK reprocessing and exporting for the final quarter, but the final outcome is not always as

anticipated. The statistics showed a slow down in reprocessing of 8.11% quarter on quarter, and 5.47% year on year. The most significant casualties have been plastic and wood, both attributable to the DEFRA investigations. Difficulties in the plastic reprocessing industry have been further highlighted by a reduction in the number of plastic reprocessors applying for re-accreditation in 2004. The most significant growth has come in steel. In contrast, the greatest growth in exporting is in glass and plastic, whereas there has been a slowdown in steel. The latter may be partially explained by the impact of activities in Iraq.

Despite this downturn in PRN/PERN production, low prices indicated that there was significant oversupply. Some suggest that the tonnage carried forward into

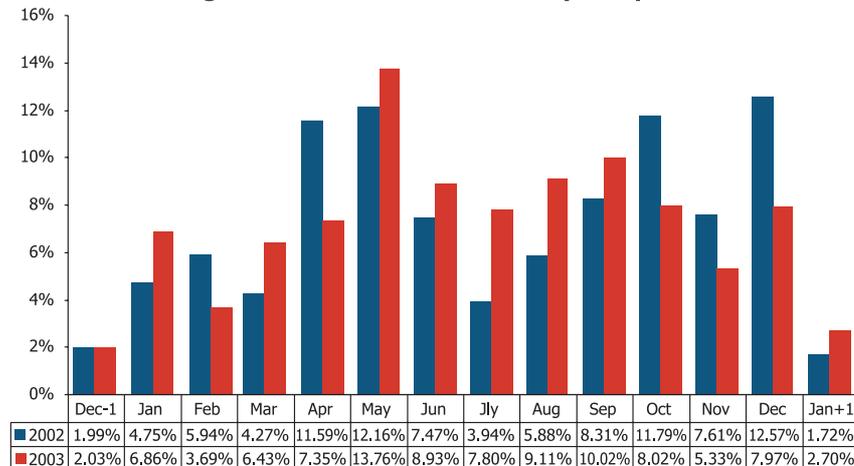
2004 could be as high as 400,000 tonnes, although a significant element of this may prove to be Recovery PRN/PERNs. At this level; about 7.5% would have been traded through t2e during January 2004.

**Uncertainty**

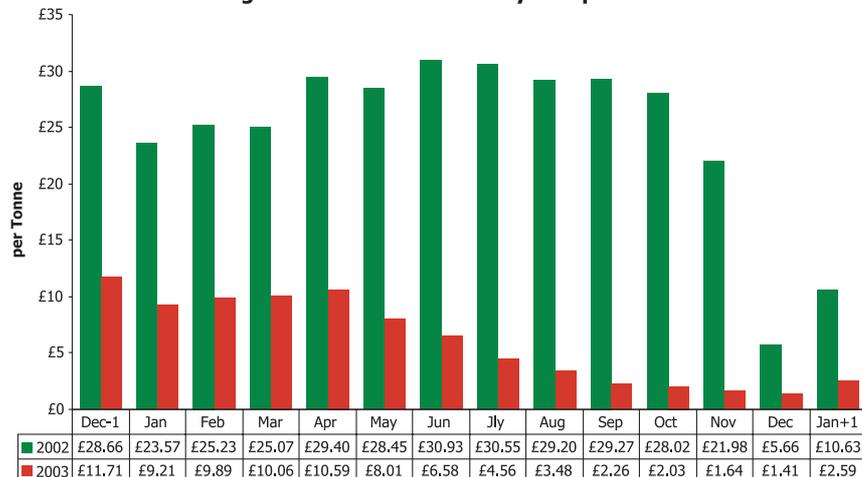
With tightening targets; questions about the exact carry-forward and the slowdown in the third quarter, many are finding it difficult to predict whether the market will move up or down in 2004. Against a background of such uncertainty, our forward contracts, with delivery of known volumes at a known price on a known date in the future, are looking increasingly attractive and fully meet with the revised requirements for the operational plans required by the Agencies.

Some participants are beginning to appreciate the

**Percentage of Traded Volumes on t2e by Compliance Year**



**Average Traded Prices on t2e by Compliance Year**



merits of these fixed price delayed delivery contracts over bi-lateral contracts, based against a variable and volatile market price. As a result, we now anticipate trading in these contracts to become increasingly popular. An important point to remember is that forward markets should only be priced against today's market price; not on any expectation of falls or rises in the market over time. Otherwise the opportunity of arbitrage between the markets is created. We have already seen opportunistic selling in these markets when the price becomes out of line with the spot market. Concurrently we continue to develop our switch market.

### Operational Plans

Operational plans require a statement from producers and compliance schemes on how they anticipate their PRN expenditure is going to be spent: on collection, capacity or building end markets for recycle. We are in the process of creating a statement for participants to use to comply with this new requirement. In subsequent years we will introduce independent audits so that reprocessors and exporters can comply with their accreditation obligations.

### RAGS Conference

The RAGS Conference at the Grosvenor Hilton, Edinburgh on 31 March and 1 April 2004 provides an excellent opportunity for those wishing to update themselves on the revisions made to the packaging waste regulations, the development of further producer responsibility legislation such as End of Life Vehicles (ELV) and Waste Electronic and Electrical Equipment (WEEE). Other subjects that will be covered are finance for recycling, analysis of secondary raw material markets and planning issues. I look forward to meeting some of you there. Further details can be found at [www.ragsconference.co.uk](http://www.ragsconference.co.uk).

Once again thank you for your support during a difficult year. Let us all look forward to a more profitable 2004.

  
**Angus Macpherson**  
Managing Director

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## Market Status November to January 2004 Compliance Year

Average Traded Prices	Aluminium	Wood/Other	Glass	Paper	Plastic	Recovery	Steel
Dec	£17.00	£3.50	£25.00	£5.09	£4.25		
Jan	£10.63	£4.76	£15.20	£5.36	£5.59	£1.71	£7.66

From the beginning of December the 2004 market was the only one remotely of interest for transitional tonnage. With 2004 obligations announced on November 20th the reprocessors were able to view the upcoming year with a degree of cautious optimism.

- **Paper** traded in good volume in the £4 to £6.75 range.
- **Plastic** started trading slowly at £4.25 but ended at £5 in fair volume, having reached £6.
- **Steel** strengthened from £7 to close at £10 in modest volume.
- **Wood/Other** initially traded modestly but closed in good volume at £4.75.
- Transitional **Recovery** tonnage started positively with early trading at the £3 level but was hammered down to 75p by the end of January.
- With higher obligations and therefore expectations, **Glass** traded at £25 before consolidating in the £14-16 range. Volumes were fair but we anticipate a tight market this year.

As we reached the end-January deadline for the trading of transitional tonnage, the anticipated last-minute sell-off failed to materialise. Although good volumes of buying orders at low prices were placed in the market and trading was active (*some 17,000 tonnes in the last day*), prices remained firm with the exception of **Recovery**.

As 2003 tonnage worked its way out of the system hopes for a period of price stability in the market grew. On the exchange, we noted interest in the forward market with some small but encouraging trading in April Paper and Plastic.

Over time we anticipate that a mix of spot and forward trading will assist in dampening the wide price swings which have bedevilled the market in recent years as both sellers and buyers become able to manage their exposure to time-critical trading issues.

## What Price a Forward Contract?

by Cliff Laundon

### 2004 Paper - Traded prices w/c 19 January

Spot	£4.75	£5.00	£5.00
April Forward	£6.00	£5.25	£5.00

As awareness of the forward market has increased the question of how forward contracts are priced has been raised by a number of people. When are forward prices "in line" with the rest of the market?

The obvious answer is that the market sets the prices, but how it sets them is not as obvious.

The conventional wisdom is that by agreeing a trade now but deferring the due date, the buyer should pay a higher price than in the spot market because the trade does not have to be settled (*paid for*) until the deferred settlement date.

Buying PRNs in February but not having to pay for them until October means the buyer can make use of the money he would otherwise have tied up had he bought in the spot market so long as the funds are available on the forward settlement date. Similarly the seller will want a higher price for not getting paid until this deferred date. Under these circumstances the key issue for the seller, now the price is secure, is will I be able to deliver the PRNs that I have contracted to deliver? Fortunately if there is a problem there is always the spot market to fall back on.

The difference between the spot price and the price paid in the forward market is referred to as the cost of carry or contango; i.e. carrying the trade from the trade date to the settlement date. In the PRN market the extent of this differential depends on expectations and perceptions of price and liquidity (*tradability*) during the compliance year.

Those who trade in February for delivery of PRNs in October are NOT attempting to guess what the price will be on the spot market on the October settlement date. If you want to do this, wait until October, trade in the spot market, see if your hunch was correct and either laugh or cry accordingly.

### Forward contracts offer certainty

Whatever else happens in the spot market between February and October, a contract will be settled at the originally agreed price on the October settlement date. There will be no re-negotiation over price or tonnage to be delivered. This essential characteristic is why they are a useful additional tool to the PRN market.

### New Recovery Process Codes

For reasons of consistency the recovery process codes which came into effect on 1 January 2004 apply for all PRNs/PERNs issued in 2004 and thereafter for contracts traded through The Environment Exchange. Documents delivered for the settlement of our contracts will be expected to show the following codes:

<b>R1</b>	Energy from Waste ( <i>Recovery</i> )
<b>R3</b>	Paper, Plastic, Wood ( <i>including Composting</i> )
<b>R4</b>	Steel, Aluminium
<b>R5</b>	Glass



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