

Use the Power



Quarterly Report

Report 41

February 2009

The Market Place for PRNs and WENs



Market Status – November 2008 to January 2009

By Ian Andrews

Trading for the period equated to 322,226 tonnes, with 166,914 tonnes traded in the Spot 2008 market, 33,552 tonnes in the Spot 2009 market and 121,760 tonnes traded across the 2009

Forward Markets. This figure represents a record quarter for t2e, beating the last record of 256,285 tonnes set in Q3 of 2007 by over 25%.

Market material analysis:

Paper – Once again we saw excellent trading across all markets this quarter. Prices remained firm as last minute demand came to the market and concern remained over availability. The January Forward Market traded in good volume as buyers looked to secure transitional tonnage with the added flexibility of being able to write it into either compliance year.

Plastic – At the start of the quarter the price increased dramatically as buyers rushed to close out Q4 positions and buy against shortfalls in off-market contracts. With prices yo-yoing dramatically in the Spot and question marks over supply for next year, several buyers looked to the security of the 2009 Forward Markets, locking in prices at between £35 and £55.

Glass – Q3 figures released at the start of the quarter showed that tonnage was down on 2007 levels, which helped maintain the price level towards the end of the year. As the year drew to a close, last minute buyers in the 2008 market had to pay a premium for December tonnage with a price of £35.00 being achieved. Trading for 2009 obligations opened at £24.00 in both the Spot and Forward Markets.

Steel – Whilst the export and domestic steel scrap markets have been hit badly by the global economic downturn, the steel PRN market remained fairly well balanced throughout the quarter. The relaxation of the requirements of broad equivalence for exporters saw a substantial tonnage coming late into the 2008 market and sellers reduced their prices to sell into general and recovery obligations. With the economic slow down expected to influence steel exporting and reprocessing well into the first quarter of 2009, prices for 2009 are expected to exceed 2008. The 2009 markets opened at £15 reflecting this and we saw trading at £50.00 achieved in January.

Wood – With the majority of material specific buying completed, the final months of the quarter saw buyers look to this market to satisfy general requirements. The increased value of the Paper PRNs coupled with the decline of available pallets due to the slowdown in the building sector helped to fuel price increases over the period.

Aluminium – After initial fears of a shortage helped the market increase in value, the relaxation of the broadly equivalent standards for exporters saw good volumes coming into the 2008 market at the end of the year and the price dropped back as sellers competed for opportunities.

Recovery – As the value of the paper and wood documents increased, focus switched back to the recovery market as buyers looked to target better value. Selling volumes remained scarce with the majority of tonnage already contracted.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	Year to date aggregated traded
PAPER MARKET						
Spot 2008	£12.00	£5.25	82,841	£9.19	£4.89	249,642
Spot 2009	£10.00	£6.00	25,794	£8.53	£8.53	25,794
Jan Fwd 2009	£12.00	£9.50	50,960	£10.24	£9.19	60,960
Apr Fwd 2009	£10.00	£6.50	30,000	£8.58	£8.07	35,000
Jul Fwd 2009	£10.00	£6.50	10,000	£8.25	£7.17	15,000
Oct Fwd 2009	£10.00	£6.50	10,000	£8.25	£7.17	15,000
PLASTIC MARKET						
Spot 2008	£125.00	£4.00	23,080	£38.00	£25.96	59,585
Spot 2009	£35.00	£20.50	3,407	£24.99	£24.99	3,407
Jan Fwd 2009	£55.00	£35.00	1,350	£40.55	£40.56	1,350
Apr Fwd 2009	£55.00	£35.00	4,200	£49.29	£49.29	4,200
Jul Fwd 2009	£35.00	£35.00	200	£35.00	£35.00	200
Oct Fwd 2009	£35.00	£35.00	200	£35.00	£35.00	200
GLASS MARKET						
Spot 2008	£35.00	£19.50	9,762	£22.96	£20.62	90,194
Spot 2009	£24.00	£24.00	1,500	£24.00	£24.00	1,500
Apr Fwd 2009	£24.00	£24.00	1,000	£24.00	£24.00	6,000
Jul Fwd 2009	£24.75	£24.75	1,000	£24.75	£24.13	6,000
Oct Fwd 2009	£24.75	£24.75	1,000	£24.75	£24.75	1,000
STEEL MARKET						
Spot 2008	£19.75	£5.75	17,112	£7.72	£8.53	31,260
Spot 2009	£50.00	£20.00	2,337	£29.11	£29.11	2,337
Apr Fwd 2009	£25.00	£15.00	2,250	£15.00	£22.44	2,250
Jul Fwd 2009	£30.00	£15.00	1,000	£15.00	£22.50	1,000
Oct Fwd 2009	£24.50	£15.00	1,500	£15.00	£21.33	1,500
WOOD MARKET						
Spot 2008	£15.00	£4.00	29,685	£9.65	£5.73	88,738
Spot 2009	£7.50	£5.50	165	£6.95	£6.95	165
Jan Fwd 2009	£10.00	£10.00	1,000	£10.00	£8.25	1,500
ALUMINIUM MARKET						
Spot 2008	£215.00	£31.50	746	£120.87	£79.28	3,624
Spot 2009	£80.00	£70.00	349	£75.36	£75.36	349
Jan Fwd 2009	£190.00	£190.00	100	£190.00	£190.00	100
RECOVERY MARKET						
Spot 2008	£9.00	£4.50	3,688	£7.25	£4.71	6,897
Apr Fwd 2009	£4.00	£4.00	2,000	£4.00	£4.00	2,000
Apr Fwd 2009	£4.00	£4.00	2,000	£4.00	£4.00	2,000
Oct Fwd 2009	£4.00	£4.00	2,000	£4.00	£4.17	3,000

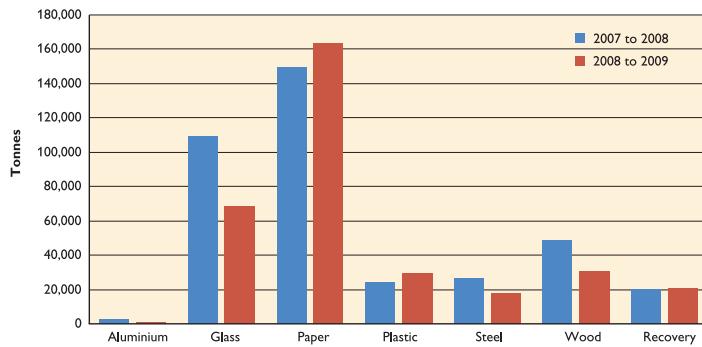


Managing Director's Report

What an astonishing final quarter it has been. No sooner had the dust died down on the records and price rises of October than it was surpassed in November. As November progressed and confidence returned in the secondary raw material markets so PRN prices returned from their earlier peaks, but still well above early October levels. December and January continued the trend of increased price and volume. As a result a tumultuous quarter also turned into a record quarter. While shocked, the market proved robust enough to cope with the unexpected and every indication is that there were sufficient PRNs available for all to comply in 2008 if they wished to.

Availability of PRNs in the last quarter, although tighter than in previous years, was considerably less bad in the final quarter than had been anticipated in November. A major factor in this reversal of fortunes was the return of the Chinese to the market which resulted in sizeable paper exports in December. Plastics benefited as well. Although the problems for the car industry and the stalling of construction have left the metals markets struggling, aluminium found itself slightly unexpectedly in surplus at the end of the year. This is attributed to the relaxation by the Agencies of the requirements for exporters of metals to show that the reprocessors to which they export operate to standards broadly equivalent to those in the European Union. Overall it continues to look as though carry forward into 2009 will be down but maybe by only as little as 50,000 tonnes. Areas of concern will be the reduction in glass and metals carry forward, particularly given the on-going well publicised problems at Corus. Nevertheless this does not justify delaying a much needed revisit of the metals protocols.

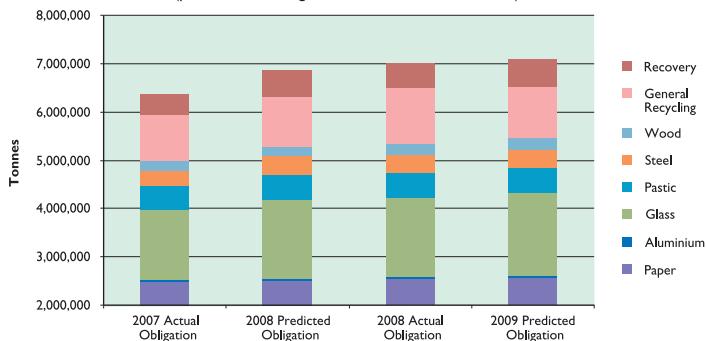
Comparison of carry forward from 2007 to 2008 to predicted carry forward 2008 to 2009



With just shy of 7,000 companies registered in 2008, identifiable growth in demand continues. Although at this stage 94 have not yet complied for one reason or another, this number neither represents a huge percentage nor a significant increase on previous years. This may suggest that despite the high profile closures the vast majority are still struggling along. Regardless the 2008 obligation still turned out higher both than 2007 by some 600,000 tonnes and predicted. A further growth of 100,000 tonnes is predicted in 2009. Looking at 2009 obligations, consumer spending barely slowed through Christmas, although retailers did find there was a shift from consumer durables, so there is little reason to believe that the growth in PRN demand will not continue.

Changes in Obligation showing Predicted and Actual for 2008 and Predicted for 2009 in comparison to 2007 Actual Obligation

(please note tonnage axis starts at 2 million tonnes)



On the economy a very confusing picture is emerging. The banks are being criticised for not lending money and yet at the same time being instructed to increase their capital ratios at a time when asset values are dropping, which means less money is available to lend. Redundancies in the financial sector and elsewhere are gathering apace but, as the Euro strengthens and jobs get scarcer, European workers are returning home so the available workforce is reducing as the available jobs are reducing. Interest rates are being pushed to zero to boost inflation yet with the exception of RPI, which includes mortgage interest rates and VAT in shop prices, January indicators in both the US and Britain suggest inflation continues and above the target rate of 2%. A positive outcome of the rate drops is that the pound has reduced in value and therefore British exports are less expensive on the global market, which has undoubtedly assisted the global competitiveness of our secondary raw materials. A less desirable outcome is that it squeezed income for savers, many of whom are pensioners, and makes it more difficult for the British Government to borrow. As a consequence, Britain and apparently the US are considering printing extra currency to buy back their debt – ‘quantitative easing’ – which makes them even less desirable to lend to! Meanwhile the economies of China and India appear to be recovering on the back of Government spending on infrastructure projects, but many view this recovery as fragile.

So where does that leave 2009 from a PRN perspective? There is no reason to believe demand will drop and it may increase. Carry forward into 2009 will be down on 2008 but not by as much as originally thought. PRN production in paper and plastic is restored but dependent on Chinese demand which looks fragile. Glass which was always anticipated to be demanding remains so. Aluminium looks tricky and steel may yet struggle to meet its material specific target. With the downturn in the use of pallets and chipboard by the construction industry, wood may struggle to achieve previous volume levels and as a result general recycling and recovery continue to look tight. The market has already factored in these potential problems. PRN prices have opened at the highest level since 2005 and forward markets are being actively traded.

Thank you to David Williams for his insight into the steel market and congratulations to Tom on the successful completion of his charitable endeavours in Death Valley. Thank you all for your support during these uncertain times. We look forward to being of service to you during 2009.

Angus Macpherson
Managing Director

My Trade History

The **My Trade History** function on the t2e website is a unique facility that allows t2e participants to monitor all aspects of their PRN trading through their own personal login. Features of **My Trade History** allow the participant to:

- view a break down of all their current trades as well as historic trades from previous compliance years.
- compare, at a glance, their own trading on t2e against how the PRN market is performing overall.
- reprint trade confirmation notices.
- track each stage of the settlement process from start to finish in real time, including confirmation of clearance of funds, delivery of PRNs and End User names.

For more information on the features of the t2e website and how they can help manage your PRN purchasing and sales, please contact us on 0844 800 9943.

Select the required Market

Click on [My Trade History]

The Overall Market History is displayed here

Click on the summary to view details of specific trades

Click [C] to view a contract confirmation document

Your trading activity is summarised here

Click [S] to view the settlement status of the contract in the new window

VAT Change

The VAT point on forward contracts is the Expiration Date rather than the Transaction Date. If the Chancellor increases VAT to 17.5% again on 31 December 2009, please be forewarned that all forward contracts that are transacted before that date but due to settle after that date (i.e. in 2010 Forward Markets) will have an additional VAT charge of 2.5%.

Settlements Process Issues

Participants are reminded that t2e does not have direct access to the National Packaging Waste Database. It is vital that buyers tell us both who the end receiver should be and what should be placed in the representative box for all PRNs purchased. The default entry in the representative box is the t2e contract number. Sellers must follow all instructions regarding end receiver names and representative boxes and ensure they fax or email unauthorised copies of PRNs to t2e for checking.



Steel Recycling

David Williams - Manager - Corus Steel Packaging Recycling

For those requiring steel PRN's, there is no doubt that 2009 will be a difficult year. Worldwide, steel producers are facing extremely difficult conditions, along with most of the manufacturing industry. Some steel mills in Asia and the former Soviet Union have closed, whilst others in Western Europe have cut back production significantly in the face of falling demand for steel. Steel is a real barometer for the economy. Most of the products of a modern consumer society need steel. In a downturn, a recession or a full blown depression, the less people are able to consume, the less steel we ultimately need. In the UK, Corus has seen a drop in orders of around 50% across the business in recent months.

Few would argue that this is bad news. For the PRN system however, the implications are significant. Corus is unlikely to generate any PRNs in the first half of the year, and far fewer in the second half than in the same period in 2008. Put simply, we are not buying any scrap. Together with a drop in export evidence, we estimate that this will lead to a shortfall of around 100,000 tonnes of steel compliance. In any other circumstance, one could reasonably argue that rising PRN/PERN prices would generate a certain degree of enthusiasm for PERN issuing amongst the export community as it did a few years ago. In todays economic climate though, I fear that exports are not enough to make up the shortfall that we predict. Even though scrap is being sold across the world, demand has dropped and protocol grades alone will not make up the volume.

The steel industry, and the metal merchants that supply it, have served the PRN system very successfully over the past 10 years. We have experienced steady growth and achieved impressive results. This growth has come to a very sudden and unexpected halt. For those policy makers with a concern for our system and for our industry, the time is now to start thinking of ways to ensure that this halt does not become a very painful and costly retreat.

My Death Valley Challenge

Tom Rickerby – t2e Market Operator

In November 2008, I took part in 'the Death Valley Challenge' - a 5 day, 275 mile cycle event through Death Valley in California.

The event was organised to raise awareness and support for the charity Mines Advisory Group (MAG) International. MAG is one of the world's leading land mine clearance organizations, helping to rebuild communities affected by conflict.

Having endured temperatures of over 35 degrees, 17,000 feet of climbing, tarantulas, sunburn, the inevitable saddle sore and remarkably snow(!), we eventually crossed the finishing line outside the MGM Grand in Las Vegas.

I would like to thank Angus, the team and all t2e members that sponsored me in this challenge. With their support I managed to raise over £13,500 for MAG.

Tom Rickerby



Struggling to the top of yet another climb!