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Quarterly Report

Report 49

February 2011

The Marketplace for PRNs and WENs



Market Status Report – November 2010 to January 2011

By Ian Andrews

In the final quarter of the year we managed to reach the 1 million tonne mark for the second year in succession so thanks go to all those members who helped us to achieve this milestone. At the start of the period prices remained soft. Figures released at the end of October showed that all PRNs were in good supply and the market prices reacted accordingly. During the month of December, bad weather coupled with the suspension of an accredited glass reprocessor lead to increased demand for glass PRNs and this resulted in the price increasing dramatically at the end of the year. All other markets continued to suffer reduced values with the exception of aluminium, which managed to sustain its value to the last, albeit at the cost of tonnage being written back to the agency.

Trading for the quarter equated to 352,661 tonnes with 197,346 tonnes traded in the 2010 markets, 48,556 tonnes traded in the January Transitional Market and 106,759 tonnes traded in the 2011 markets.

Market Material Analysis

Paper – Apart from a slight increase in value as a result of some last minute buying, the price failed to recover during the period and traded down to a record low of 30p in the December forward market. Increased volumes were traded through the December market as traders looked to take advantage of the reduced trading fee structure to minimise losses. The 2011 price rallied at the end of January once all transitional tonnage had been allocated and 2011 buyers targeted January tonnage.

Plastic – Along with paper, this market suffered from a reported over supply and very little demand. In order to compete for general buying the price dropped to historically low levels in both the Spot and Forward markets. Sellers sold the majority of their December tonnage forward to achieve better value in the short term.

Glass – With all indicators leading many to believe that the price would remain soft until the close of the year it came as a surprise to see the market price recover so quickly in December. The price increase was fuelled by contracted buyers who had been let down coming to the market to pick up last minute buying. This coupled with a reduced supply due to the adverse weather conditions throughout December served to tighten the market and push prices up. Prices in the 2011 markets remained relatively stable and were unaffected by the price spike in the 2010 Spot market.

Steel – Another poor quarter for steel saw prices tumble to general buying levels. The oversupply situation highlighted in the 3rd quarter figures meant that many sellers were prepared to clear out their positions, which helped to fuel the price crash. Prices recovered slightly in the 2011 markets but are still well below the levels seen in the previous compliance period when the low was £35.00.

Wood – The end-of-year rush from sellers released from contracts was evident again this year and the market benefited

from some excellent volume trading this quarter. Prices remained soft throughout the period matching the low values seen in the other markets competing for general buying. 2011 value got a boost from sellers who needed to buy against contracts and an early price of £1.90 was recorded at the end of January.

Aluminium – The most stable market during the quarter saw little movement in value until the end of January when some last minute buyers paid a premium to facilitate quick settlement. The majority of December tonnage was sold through the 2011 markets where sellers were able to achieve a slight increase in value.

Recovery – This market missed out on volume trading during the quarter with many buyers preferring to fund recycling rather than recovery. It is interesting to note that the average price this quarter is higher than many of the material markets: a further indication of the move towards recycling.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	YTD aggregated traded
PAPER MARKET						
Spot 10	£4.00	£0.35	25,496	£0.45	£1.44	122,806
Dec Fwd 10	£0.50	£0.30	68,295	£0.42	£0.93	164,172
Spot 11	£1.25	£1.05	8,038	£1.11	£1.11	8,038
Jan Fwd	£1.05	£0.70	16,276	£0.92	£1.16	44,776
PLASTIC MARKET						
Spot 10	£0.80	£0.35	18,347	£0.52	£2.53	62,741
Dec Fwd 10	£0.50	£0.30	11,852	£0.41	£0.78	13,852
Spot 11	£3.00	£2.00	4,319	£2.65	£2.65	4,319
Jan Fwd	£2.00	£1.35	3,108	£1.84	£1.92	11,508
GLASS MARKET						
Spot 10	£42.00	£2.50	20,105	£6.32	£15.11	108,573
Dec Fwd 10	£3.50	£2.50	17,048	£2.67	£11.49	51,375
Spot 11	£15.00	£11.00	5,488	£11.83	£11.83	5,488
Jan Fwd	£15.00	£10.00	16,832	£10.39	£10.77	22,832
Apr Fwd	£15.00	£10.70	49,790	£11.66	£11.97	53,290
Jul Fwd	£15.00	£11.00	21,000	£12.92	£13.24	23,500
Oct Fwd	£11.00	£11.00	2,000	£11.00	£15.24	34,000
STEEL MARKET						
Spot 10	£3.00	£0.50	2,317	£0.82	£13.65	26,684
Dec Fwd 10	£0.60	£0.30	4,492	£0.54	£2.09	5,492
Spot 11	£6.50	£4.95	1,335	£5.56	£5.56	1,335
Jan Fwd	£4.95	£3.75	2,340	£4.40	£5.22	2,840
Apr Fwd	£4.95	£4.95	3,000	£4.95	£6.17	4,300
WOOD MARKET						
Spot 10	£0.55	£0.35	13,049	£0.45	£1.32	33,738
Dec Fwd 10	£0.70	£0.35	9,272	£0.44	£0.64	12,272
Spot 11	£1.90	£1.15	6,768	£1.61	£1.61	6,768
Jan Fwd	£1.15	£0.75	10,000	£1.02	£1.01	11,000
ALUMINIUM MARKET						
Spot 10	£35.00	£13.00	2,634	£21.95	£23.69	6,152
Dec Fwd 10	£30.00	£21.00	876	£28.71	£24.49	1,476
Spot 11	£16.25	£15.75	548	£15.96	£15.96	548
RECOVERY MARKET						
Spot 10	£0.45	£0.40	1,440	£0.44	£1.16	17,172
Dec Fwd 10	£0.35	£0.35	2,123	£0.35	£0.43	4,623
Spot 11	£0.75	£0.60	1,173	£0.65	£0.65	1,173
Apr Fwd	£0.60	£0.60	3,300	£0.60	£0.60	3,300

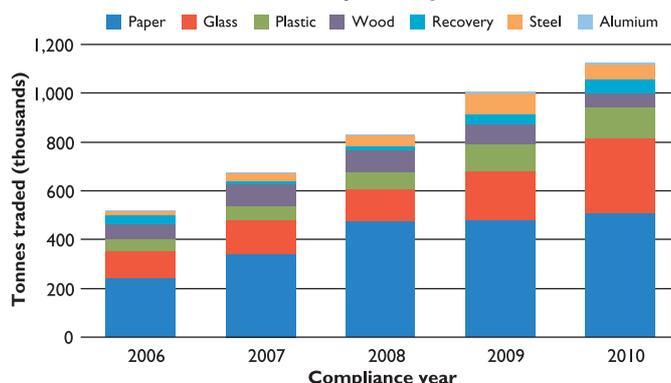


Managing Director's Report

A quarter that threatened to be a damp squib after Quarter 3 figures revealed that the UK was romping towards meeting its targets, turned up the unexpected. Heavy snow in December restricted collections and overall and transitional PRN supply causing a late peak in prices and Glass prices in particular. Once again Benjamin Franklin's idiom "in this world nothing can be said to be certain, except death and taxes" proved correct. Against this background t2e once again achieved over a million tonnes traded and a year on year growth of 11.7%.

Despite the late tightening of supply, the impression remains that there has been a significant carry forward in all materials into 2011. The problems at the back end of the compliance year were further exacerbated by the suspension of a reprocessor and by 2010 tonnage carried forward into 2011 being unavailable to meet 2010 obligations. A simple solution would be either allowing January tonnage to be 'carried back', which would seem logical, or allowing tonnage to be returned to the previous compliance year after a buyer had elected to carry it forward to the next compliance year in the NPWD.

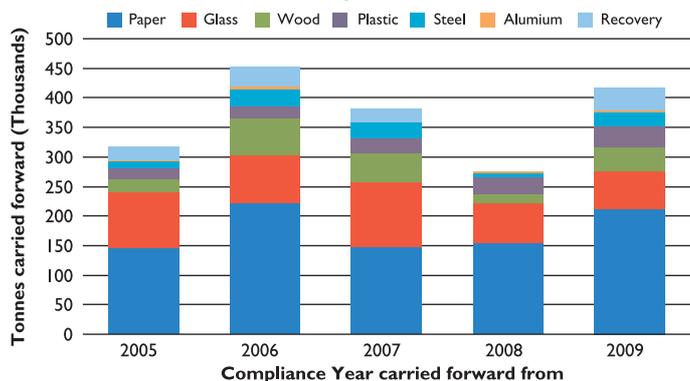
Growth of tonnage traded through t2e by material and compliance year



be on reuse, resources, source segregation and separate collection. There has been some debate on definitions with the paper industry objecting to mixed collections particularly if they include food waste and/or glass.

Looking globally uncertainty remains as to whether we are in or out of the recession or whether inflation might make the Asian Tiger and China in particular a spent force. Although the perilous financial positions of Greece, Ireland, Portugal and Spain have disappeared from the front pages, they have not been solved. In contrast there are glimmers that Eastern Europe, and Poland in particular, is settling into a growth phase. Concerns remain domestically about the consequences of Government cutbacks, although the National Union of Students did a U-Turn on their objection to tuition fees and apologised for the disturbances caused. Meanwhile a groundswell of domestic unrest (students?) has stimulated the unexpected dethroning of North African 'dictators'. While this as yet has had little impact on global commodity markets other than oil, it is difficult to predict if or where trouble may next appear with some commentators suggesting one or more of Algeria, Iran, Palestine and Syria or what the consequences of such trouble might be.

Comparison of carry forward by material and compliance year



This prospect of a significant carry forward combined with flat targets has meant that PRN prices in the majority of the last quarter remained well away from the peaks of earlier years. In fact so much so that in it is quite possible that when the NPWD reveals for the first time PRN spend a significant element in 2010 will have been spent on compliance costs with little retained for future investment and the major losers being collectors. There has been some speculation in the media that there has been a drop in the number of applications for accreditation and as a consequence a potential shortfall of supply in 2011 but this has been quashed by the Agencies. The introduction of a 4th quarter return on 21 January would at minimal extra effort for reprocessors and exporters reduce speculation as well as improve everyone's ability to both plan and price for the following year and still leave plenty of time for final reconciliations before the end of March.

There has been little speculation about the outcomes of the waste review but a glance towards the 'Zero Waste Scotland' regulations that are developing against the same background of European legislation would suggest that the emphasis will

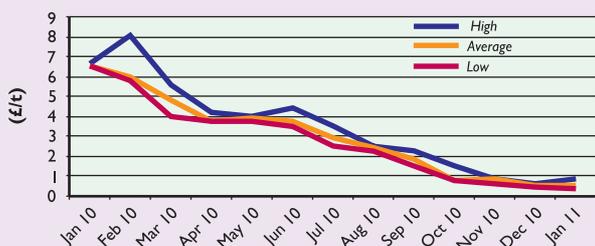
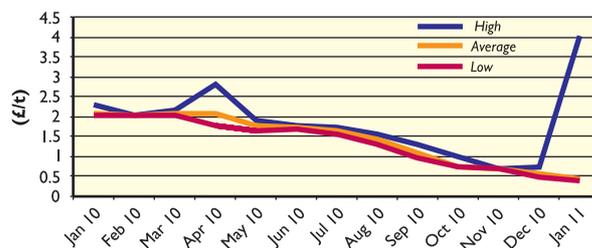
Apparently this groundswell has been stimulated through the power of modern media, which made me think of our catchphrase "Use the power of the market". Those accustomed to traditional methods of going out to tender may not appreciate what a powerful tool the PRN marketplace is. Within 20 seconds of a bid or an offer being placed on the marketplace it is displayed through the website to all the other market participants effectively at the press of a button putting it out to tender to not just 3 or 5 potential counter-parties but all 400 t2e participants so that both buyer and seller get the optimum price available in whichever market they chose to operate. But to use another idiom "No man ever caught a fish without putting his fly in the water" so if participants do not place an order they will never have the opportunity to use this power.

Thank you to Myles Willingdale and Tim Gent for their contrasting views on the Glass market. Thank you again for your support during the last compliance year, which has not been at all easy for many. We look forward to being of service in the next.


Angus Macpherson
Managing Director

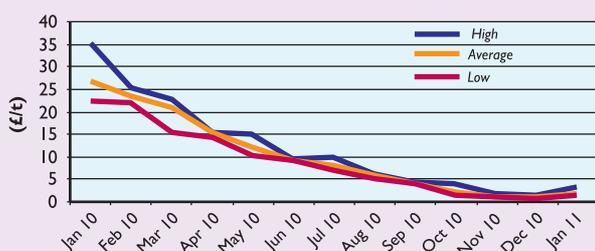
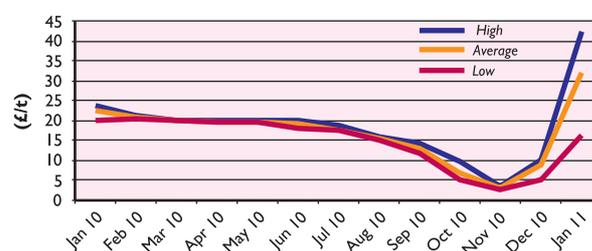
A summary of 2010 Spot Trading

Paper: Whilst the early 2010 forward trading in paper was fixed at £3 to £3.50, the opening spot price failed to recover from the crash at the end of 2009 and opened at a more frugal £2 per tonne. This price held up for the first 3 months but the release of strong Q1 figures started a terminal price slide to a record low of 30p recorded in the December Forward market. Over 100,000 unsold PRNs highlights the massive oversupply situation in paper which has been compounded by a fall in the paper and general obligation and another buoyant year for paper recycling and export.



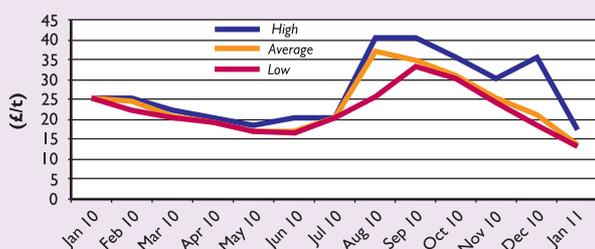
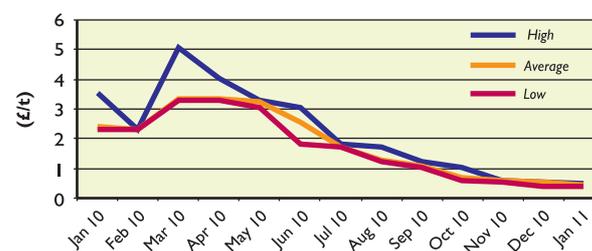
Plastic: Plastic was one of the few materials that saw a growth in demand for PRNs in 2010 (up 7%) but this did not make it immune to the downward trend that befell the other oversupplied materials, paper, steel and wood. Year-on-year growth in plastic exports and reprocessing combined with a large carry in from 2009 quickly extinguished any concerns that plastic would struggle to meet the challenge of a 2% increase to its recovery target. Prices fell from a year high of £6.50 in January to a low of 30p in December. The yearly average price of £3.48 is the lowest on record but also stimulated the highest volume traded through t2e in a year (124,577 tonnes).

Glass: At the start of the year prices remained relatively stable albeit slightly reduced on the same period in 2009. The carry over figure and the 1st quarter supply figure, although below expectations, created no great concern. Upon release of the 2nd quarter figures, which showed a 19.2% increase on quarter one, market values started to decrease. This downward price trend was not helped by the confirmation of the 3rd quarter performance which showed glass was in excellent supply. As we drew closer to the end of the year, supply issues became evident when an accredited reprocessor was suspended and additional demand came to the market. With disillusioned sellers reducing reprocessing levels due to low PRN values and adverse weather conditions it proved harder to satisfy the additional demand and this resulted in a dramatic price increase for the remaining transitional tonnage.



Steel: Following the turbulent year of high prices seen in 2009, the 2010 steel market began the year in buoyant fashion with PRNs initially changing hands for between £25 and £35 per tonne. This was short lived though with the release of supply & demand data showing a 6% fall in steel obligations and confirmation of the recovery in the global and UK scrap markets. With PRN prices looking overvalued, this prompted a buyer's market that saw steel PRN prices plummet over the course of the year. Steel's collapse below £1 per tonne saw it join the ranks of those competing for general recycling as early as November.

Wood: Wood managed to maintain its price premium above paper for the first quarter of the year; however this resulted in greatly reduced volumes being traded. The price bounced in March when smaller buyers came to the market looking to clear individual obligations and then fell back. The release of the UK obligations figures in May showed a 7.4% decrease in the wood specific obligations. This was enough to convince the sellers to reduce prices to compete for general buying.



Aluminium: The year started with a stand off between the buyers and the sellers unable to agree on price. Once the quarter one supply figures and 2010 obligations were confirmed and showed that they were in line with 2009 positions, the sellers reduced their price expectations and volume started to trade. A slight increase in value was brought about in the middle of the year when supply contracted and eager independent buyers rushed to close 2010 positions. Prices fell back in the final months of the year, when quarter three figures confirmed no supply issues and un-contracted tonnage came to the market.



Once the dust settles on 2010, what factors will help offset the fall in the PRN price and strengthen the value of the material?

Myles Willingale - Day Group Ltd

2010 saw unprecedented movements in both PRN and glass prices. The high volumes of glass materials collected and recycled during Q2 and Q3 demonstrated the ability of the glass industry through its diverse UK based recycling options to continue to grow and meet the UK recycling targets. However until the 2010 Q4 and carry over figures are released, we will not have a complete picture for 2010, and with a rise in the value of glass PRNs in late December, caution must be used in drawing conclusions for 2010.

The late rise in the PRN value could be due to extreme weather conditions in December, hampering the collection efforts or a possibility that additional glass aggregate tonnage was sold during Q2 and Q3 because of the impending split of the glass PRN for 2011 into container and aggregate.

Looking forward into 2011 the main factors to affect the PRN price will be the total amount of carry over from 2010 to 2011 and the results of recent fraud investigations by the environment agency. The latter being a welcomed action by the EA as without proper and comprehensive policing of our industry the PRN system might as well not exist.

The drop in PRN value has highlighted an all too familiar situation surrounding glass from MRFs. We in particular are used to assessing and working with the glass materials from a number of MRFs within the M25 and while some are keen to improve on their output quality, a number still view their glass stream as a means of general waste disposal.

Their attention must now be focused to improve their quality as the PRN will no longer subsidise the artificial value attained by these materials into the glass market.

I also believe that with the fall in PRN value, other factors will start to control the value of glass prices. Haulage costs will have a greater impact on where the glass will be processed, raw ingredients used in the manufacture of new glass will become more influential and as other European countries' collection systems become more mature, how will the UK export market adapt to this with PRNs no longer heavily subsidising it?



Tim Gent speaks to t2e about the close of 2010 and what lies ahead for Glass reprocessors in 2011

Tim Gent - Recresco Ltd

Although the extreme weather conditions hindered collection services during the month of December, Mr Gent proposes that there were already problems before then: *"Due to the collapse of the PRN price, some reprocessors may have been stockpiling material, further reducing the availability for those buying later in December."* He continued that *"as a result the carry over figure in Glass will be very low this year. There is no doubt that Q4 was bad; this will continue to affect the market until the official figures are released in March."*

Asked who would suffer the most if the Glass PRN price remained low, My Gent explained that *"whoever is taking the risk on the material value will come out the worst, this is most likely to be the collector, but sometimes it can be the local authority and sometimes the contractor."*

In light of recent events, Mr Gent suggested that the system could be better regulated: *"if everyone knew the capacity that each reprocessor in the sector had to produce PRNs, a sudden increase in PRN production would not go unnoticed and the system could then move towards a more self-regulated one."*

Going forward, Mr Gent warned that to avoid being caught out again by a sudden PRN price drop, it will be important for Recresco not to follow the value of the PRN too closely when negotiating on price. He explained that *"the main factor when valuing the material in 2011 will still be the PRN, but we will have to factor in a PRN collapse, which we have never had to deal with before. Until the PRN stabilises again, we will have to err on the side of caution."*

**t2e will launch a marketplace for Recovered Paper
at Frogmore Mill on Tuesday 15 March 2011**

For further information contact Andy Hanke (ah@t2e.co.uk) or Yaya Cao (yc@t2e.co.uk) on 0131 473 2337

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