

The Marketplace for PRNs

Market Status Report – 1st Feb – 30th April 2016 *By Tom Rickerby, Head of Business Development*



Overall trading for the quarter has increased by 54% on the corresponding period last year with 389,442 tonnes being recorded across all markets. High volatility in Q4 of 2015 has helped to drive demand in the early months of 2016 as buyer's looked to de-risk on potential problem materials, such as Steel and Plastic. Improving conditions in the underlying recycling markets has seen PRN prices fall across the board during the quarter. Of the 389,442 tonnes traded, 90,107 tonnes were transacted in the Spot market, up 58% on 2015, and 299,335 tonnes in the Forward markets, up 53% on 2015.

Paper

Paper trading got off to a slow start in Q1, with few volume buyers willing to entertain sellers higher price expectations following the volatility at the end of 2015. Despite early spot trading from £1.75 down to £1.25, volumes remained light. News of a record Q4 return combined with a resurgent recovery supply broke Seller's resistance in early March as volume trading in the forward markets saw paper sell below £1 for the first time since October 2015. This price drop was the catalyst for a period of high volume trading that saw prices fall to a year low of 85p in the October and December forwards. The total volume traded of 241,325 is the highest paper volume traded in a quarter on t2e. This is up 30% on the previous quarter and 47% on the same period last year.

Plastic

The quarter opened in cautious mood following the volatility at the end of 2015. Early activity in the Spot and April Forward saw trading in the high to mid £40's. However news of a record PRN generation in the previous quarter and the downgrading of the target increase from 5% to 2% provided buyers with an early confidence boost. Strong trading conditions in the recovered plastics markets was helping to underpin buyer's optimism and by mid February PRN prices had started to fall. Prices fell nearly 25% to £35 per tonne by early March. An influx of new buying helped to stabilise the market with prices briefly rebounding to £39 before settling at a price range of between £35 and £36.50. Average spot prices for the quarter were £39.98, 63% higher than same period last year but 11% lower than the 2015 average price. Volume was down 8% on the previous quarter but is the second highest quarter on record.

Glass Other

The Glass aggregates market was hampered by a lack of selling liquidity. Prices traded at £10 per tonne during the quarter but rallied to £11 by the close on the back of weak availability. The monthly average of £10.29 was over 30% lower than the 2015 average.

Glass Remelt

Quarter 1 opened in a standoff. Buyer's opening bids were in-line with 2015 closing prices whereas sellers felt a fair price should build in additional value to reflect the start of a new compliance year. The standoff was eventually broken when smaller sellers dropped their offer prices to meet bids in the market at £11 to £11.50. Prices showed a brief spike towards the back end of the quarter in reaction to a surprise shortage in the Q1 recycling figures; however, this has been subsequently revised. The average spot price was £11.71, up 23% on the previous quarter.

Wood

After a period of unprecedented volatility at the end of 2015, Wood prices returned to more palatable levels in Q1. Traded volume was up more than 5 times on the same period last year as buyers looked to avoid a potential repeat of 2015. Of the 18,199 tonnes traded in Q1, only 3% was traded in the Spot market. Trading activity was focused on the forward markets where volume buyers were able to achieve better value with traded prices ranging from £1.75 to £2.50.

Steel

Concerns remain over the long term health of the steel recycling markets and the impact this may have on PRN availability and prices. Early demand was strong with PRN prices trading at £30 per tonne.

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	High	Low	Traded This Quarter	Quarter Average Traded Price	YTD Average Traded Price	Year to date aggregated traded
Paper						
Spot 16	£2.50	£0.90	12,297	£1.04	£1.06	12,647
Apr Fwd 2016	£1.15	£0.95	15,557	£1.08	£1.30	20,557
July Fwd 2016	£1.05	£0.90	34,471	£0.94	£1.08	39,471
Oct Fwd 2016	£0.95	£0.85	87,000	£0.92	£1.15	100,500
Dec Fwd 2016	£0.95	£0.85	92,000	£0.91	£1.00	102,000
Plastic						
Spot 16	£47.00	£35.00	34,821	£39.12	£39.98	39,964
Apr Fwd 2016	£50.00	£36.00	9,650	£41.65	£44.20	16,750
July Fwd 2016	£40.00	£35.00	11,950	£37.25	£37.25	11,950
Oct Fwd 2015	£40.00	£36.00	9,000	£37.56	£37.56	9,000
Dec Fwd 2015	£38.00	£38.00	2,000	£38.00	£38.00	2,000
Glass Other						
Spot 16	£11.00	£10.00	2,821	£10.29	£10.21	3,301
Glass Remelt						
Spot 16	£15.00	£11.00	12,027	£11.71	£11.71	12,027
Apr Fwd 2016	£11.00	£11.00	3,200	£11.00	£11.00	3,200
Oct Fwd 2016	£12.25	£12.25	3,000	£12.25	£12.25	3,000
Steel						
Spot 16	£30.50	£20.00	18,328	£24.51	£24.44	20,799
Apr Fwd 2016	£25.00	£20.00	5,299	£22.44	£22.50	5,949
July Fwd 2016	£25.00	£20.00	1,300	£21.15	£21.15	1,300
Oct Fwd 2016	£20.00	£20.00	1,000	£20.00	£20.00	1,000
Dec Fwd 2016	£20.00	£20.00	1,000	£20.00	£20.00	1,000
Wood						
Spot 16	£5.00	£3.00	591	£3.08	£3.08	591
Apr Fwd 2016	£1.95	£1.75	3,500	£1.81	£1.81	3,500
July Fwd 2016	£2.50	£1.75	7,633	£2.20	£2.20	7,633
Oct Fwd 2016	£2.00	£1.75	5,475	£1.88	£1.88	5,475
Dec Fwd 2016	£1.75	£1.75	1,000	£1.75	£1.75	1,000
Aluminium						
Spot 16	£25.00	£23.50	887	£24.56	£24.57	889
July Fwd 2016	£25.00	£22.50	4,300	£23.37	£23.37	4,300
Oct Fwd 2016	£25.00	£25.00	1,000	£25.00	£25.00	1,000
Recovery						
Spot 15	£0.95	£0.80	8,335	£0.80	£0.80	8,335

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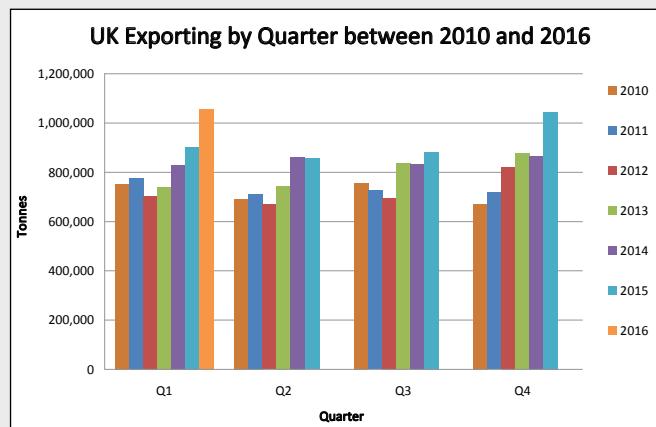
MANAGING DIRECTORS REMARKS



From the perspective of trading PRNs 2016 has got away to a cracking start with a record quarter as participants unnerved by the late price rises in 2015 are looking to manage their price risks more consistently. It is also the quarter that sets the tone for the remainder of the year as initial statistics come out for 2016 to reveal a glimpse of how the remainder of the year might develop as well as the final statistics for 2015.

Review of 2015

2015 came in like a lamb and left like a lion with prices in almost all materials reaching levels not seen for at least 5 years if not longer. The statistics confirmed on 31 March explained the causes. The Obligation rose significantly through the year. PRN Supply particularly in plastic but also in overall recycling and recovery struggled to meet in year demand. The former was resolved by an astonishing performance in exports to China, slightly belying the rumour that China was grinding to a halt! While the latter stimulated by a shortfall in recovery PRNs as a result of slow registration of recovery plants following the change of criteria which meant recycling PRNs were needed to meet the obligation is unlikely to occur to such a degree again. But as Heraclitus the Greek philosopher noted back in c500BC "change alone is unchanging".



2016 Obligation

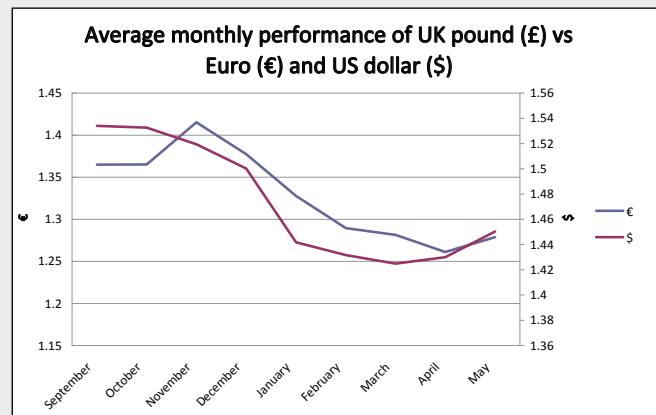
An initial assessment of the obligation declared on 15 May suggests that companies faced with the higher costs of 2015 have revisited their packaging use with a fine toothcomb and as a result it is slightly lower at this stage than might have been anticipated. As the year develops so too does the obligation change normally upwards however it is not always easy to predict the direction of travel and many occasions the overall tonnage required at the end of the year is not that different from that at the start even though its composition may be different.

Risk in 2016

Not dissimilar to 2015 an initial glance at the first quarter figures for 2016 would suggest that all materials will meet their targets with relative ease. This is mainly on the back of exports where the fall in the value of the £ against both the US\$ and the Euro which has successfully driven up the cost of our holidays abroad has also made our secondary raw material exports more

desirable. Additionally the upward change in the mixed paper protocol has also stimulated some growth. This change reflects the decline in newspapers in mixed papers and will go some way to filling the shortfall in general recycling caused by the on-going decline in Wood PRNs as more and more waste packaging is lost to biomass.

However there have been suggestions that the decline in the £ will stop should the UK opt to remain within the EU. If that is to occur then it might be anticipated that unlike in 2015 exports might struggle at the end of 2016 stimulating the same shortfalls as occurred in 2015. With this as a background it is good to see both buyers and sellers wishing to offset risks by following a more consistent trading policy throughout the year and choosing to use the forward markets to fix prices at this early stage of the year at realistic levels.



Policy announcements

Against this background of uncertainty the Environmental Services Association (ESA) has concluded that they have to continue with the business of striving to meet targets for transforming the UK into a secondary raw material rich country which they say can be achieved by: the development of more resilient recovery markets for waste-derived products; the introduction of a new framework for producer responsibility which transfers resource ownership from local authorities to product supply chains; more efficient use of waste collection systems and infrastructure and waste crime driven out of the sector.

Concurrently DEFRA are looking to consolidate the packaging waste regulations and the raft of amendments since 2007 into a single document.

All are admirable objectives and I look forward to working with both organisations to deliver them.

Thank you for your ongoing support and to James Piper for his learned contribution on page 4. We continue to look forward to being of service to you in the future and look forward to seeing you at RWM in September.

Angus Macpherson
Managing Director

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Summary of Q1 supply figures *By Andrew Letham, Sales and Marketing Manager*



Buoyant trading conditions seen prior to the release of the Q1 supply figures meant no real surprises when the interim results were finally published on the 22nd April. Plastic had teetered down from £46.50 at the start of February to £35.00 by the middle of April as all noise emanating from the market pointed to a much healthier market. 246,246 tonnes were supplied in to the market before carry in with a demand of 233,579 tonnes.

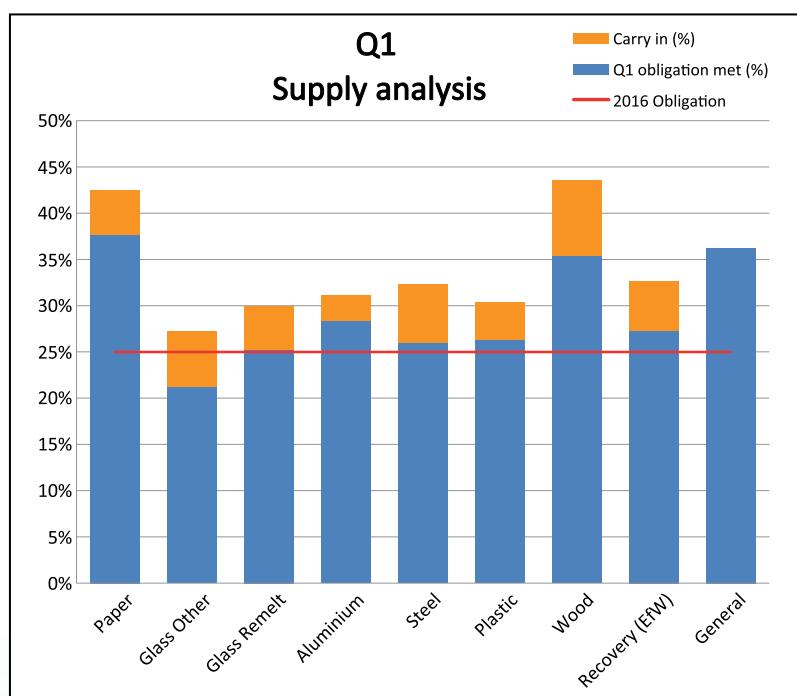
With concerns still looming over the state of the steel market prices sat at £30.00 in February. Prices briefly softened to £20.00 as supply peaked before bouncing back up to £23.00 and then £25.00. Supply figures did little to affect price as a return of 94,784 tonnes, 3,442 tonnes less than Q1 2015 was enough to meet a demand of 91,128 tonnes. Aluminium continued to perform well with another quarter similar in volume to that of Q3 and Q4 of last year making it one of the more consistent markets.

Glass caused the biggest stir in the market with an initial supply figure for remelt released at 228,510 tonnes, 35,762 tonnes short of demand. Prices quickly jumped by £1.75 to £14.00 before a 37,905 tonne correction was made to the remelt figure taking it to a position of surplus at 266,415 tonnes before carry in. Overall glass still fell 17,392 tonnes short of demand as aggregate reported a return of 110,629 tonnes.

The tumultuous end to 2015 doesn't look likely to repeat itself in the traditionally lower value PRNs as paper provided the biggest return to date at 1,007,002 tonnes aided in part by the revised mixed paper protocols. Recovery also returned to a position of health posting a surplus of 12,679 tonnes off a demand of 140,356. Wood although seemingly tightening up year on year still easily reached its quarterly target, supplying in excess of 25,000 tonnes above demand.

Material	Carry In	Q1	Quarterly Obligation	YTD Supply + Carry In	Annual Obligation	Balance
Paper	128,418	1,007,002	668,645	1,135,420	2,674,578	-1,539,158
Glass Other	31,229	110,629	130,164	141,858	520,656	-378,798
Glass Remelt	49,586	266,415	264,272	316,001	1,057,089	-741,088
Aluminium	2,224	22,601	19,917	24,825	79,666	-54,841
Steel	23,021	94,784	91,128	117,805	364,510	-246,705
Plastic	37,596	246,246	233,518	283,842	934,070	-650,228
Wood	19,945	85,802	60,710	105,747	242,840	-137,093
EfW	29,944	153,035	140,317	182,979	561,267	-378,288
General *	0	365,127	251,968	365,127	1,007,873	-642,746
Total	321,963	1,986,514	1,860,637	2,673,604	7,442,549	-4,768,945

* 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.



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However by mid-February, PRN supply was boosted by a sharp upturn in scrap prices. By Mid March spot prices had fallen by a third to £20 and with volume trading across the forward markets at similar prices, there were signs that the market was stabilising. However the news of the Tata sale at Port Talbot brought renewed fear of a market slow down. PRN prices rebounded to £25 before closing the quarter at £23. A total of 26,927 tonnes traded in the period – the second best quarter on record.

Aluminium

It was a record trading quarter for Aluminium with 6,187 tonnes traded across all market – almost twice the volume traded on t2e in the entire 2015 compliance year. Much of this was down to volume

trading in the forward markets as sellers looked to lock in prices for later in the year. Prices remained relatively stable throughout the quarter trading between £25 and £23.50 and showed little reaction to the news of a 10% oversupply in the first quarter.

Recovery

Trading in Recovery PRNs tracked the paper price down below £1 per tonne early in the quarter. With new EfW sites now gaining the RI status needed to issue PRNs, the consensus is that Recovery supply should be far more comfortable this year. The Q1 spot average was 80p, up 9% on last year. Whilst the volume traded was up 1567%.

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Meet the Market: James Piper, Commercial Director, Ecosurety



In this new feature t2e will be bringing you interviews from some of the key stakeholders within the PRN market.

Q: How did you get into the world of compliance?

Compliance is definitely a niche job. It's one of those roles you don't know exists until you're in it. It is nearly impossible to explain to friends

what I do for a living. I had just studied Biology at Exeter University and had a passion for all things environmental, particularly, ecosystems, marine life and climate change. I wanted to make a real difference and found ecosurety on a graduate recruitment website. ecosurety was looking to bring transparency to the compliance market and at the time ramp up batteries recycling. I was very passionate about diverting landfill so applied for a marketing role, the rest as they say is history.

Q: What's the most rewarding thing about your Job?

Innovation. Having worked through most areas of the business I have seen how compliance affects producers, both positively and negatively. I genuinely believe in our industry's ability to make a difference, and have been lucky to work with the largest companies in the country to develop compliance beyond a mere tick box exercise. Sitting on the board means I can really help our clients build more sustainable, innovative ways of working into their waste systems.

Q: You are gaining a reputation for being a very innovative forward thinking scheme, what's behind the success?

I believe that care and passion are behind our success. We now have a team of 45 people (it was just 7 when I started). This allows us to support our customers beyond traditional compliance and helps us achieve our core idea of continuously eradicating waste at all levels. By listening and understanding customers' needs, the team is able to exceed expectations because it is constantly evolving the boundaries of what is possible, and developing new ways of thinking. For example, we now offer international compliance across all countries in Europe in response to blue chip customers who needed help to navigate their obligations in other EU countries. Our drive goes beyond compliance however. We pride ourselves on walking the walk through our CSR initiatives, which include an award-winning journey sharing solution called joinmyjourney (<http://www.joinmyjourney.org/>), and a series of recycling workshops to help school children learn the importance of recycling.

Q: How has compliance changed since you've been involved?

To be honest not enough for my liking! The PRN market has had challenging years, there have been calls for transparency, targets have changed but I believe there is so much more to be done. I'm personally a little bit obsessed with making compliance easier, better and, ultimately, deliver the purpose it set out to achieve. Being part of one of the fastest growing schemes means we have a seat at the table when it comes to advising stakeholders and Government on the shape of the compliance industry going forward and I very much look forward to ecosurety leading the agenda for greater transparency in the coming year.

Q: What do you think will be the next big challenge in compliance?

Right now, Brexit, or the threat of leaving the EU, is an interesting challenge for the compliance market. Compliance is the way accountability has been built into recycling. As a company, we believe we are better in the EU. Beyond that, we need to be increasing recycling targets, but if the industry is not able to continuously innovate, there is a big risk the compliance industry could stagnate.

As long as PRN revenue continues to be spent on increasing recycling rates, I believe compliance can and will provide a suitable outlet for recycling investment.

Q: What is your biggest frustration with the industry?

Really it's lack of change. I am somebody who simply does not accept things just because that is how they have always been done. In my experience, the vast majority of customers see compliance simply as a tax that they struggle to see making a real benefit to their business. Compliance has led to real changes in the way waste and recycling is dealt with in the UK. I believe companies and businesses should be able to see real, visible benefits of their compliance, to ensure increased recycling remains at the heart of compliance.

Q: How does the t2e trading platform help your workload?

t2e is a great way to ensure the market is benchmarked. Having visibility of the portal ensures schemes are competitive, helping producers get the most value out of their scheme.

Q: What piece of technology could you not live without?

I spend a lot of my day meeting with really interesting companies, reprocessors and trade associations. My Apple Watch is linked to my calendar and as such essential for making sure I am in the right place at the right time.

Q: We hear ecosurety have just bought a BMW i3 as a company car, do you see electric motors as the future?

As a national company we cover the length and breadth of the country. We aim to use public transport to get to meetings but sometimes client sites are not accessible enough to always do this. We built a charge point at our offices and ordered an i3 as a way of ensuring all journeys we make could be sustainable. My confidence in electric technology is so great that on its first journey I took it from Bristol to Leeds and back! There is an interesting debate around hydrogen vs. electric but the investment in charge points and car technology leads me to believe electric travel will be very important in our near future. Certainly the journey to Leeds was a lot of fun and only cost £10.

Q: Greatest achievement?

I think becoming a director at 28, a level where decisions you make have a direct impact on the way a company moves forward, was, and is, extremely exciting and challenging.

Q: and finally..... Game of Thrones or Breaking Bad?

Game of Thrones but only because I am yet to get into Breaking Bad.