

The Marketplace for PRNs

Market Status Report – August 2015 to October 2015 *By Ian Andrews, Market Operator*



The majority of concerns during the quarter centred on Plastic and the poor state of the export market. Aluminium, which had reported a sizable undersupply, saw good support from the regulators with further concessions made to try to increase supply. Problems were still evident in the lower value notes with Recovery and Wood supply staying weak as reflected by a lack of offers in the market. Paper volumes tightened although prices remained stable with few concerns being raised by buyers. Both the Glass and Steel markets saw little movement in prices and appeared to reflect a position of some comfort.

As the quarter progressed stories started to circulate in the general press surrounding the health of the domestic Steel market but these were initially dismissed due to the strength of in year supply and the fact that the quarter was almost finalised. Once the Q3 supply figures were released concerns regarding the state of all markets with the exception of Glass were voiced. The prices for Plastic, Steel, Paper, Wood and Recovery notes all increased with the latter seeing a double digit increase. Aluminium and Glass supply reported excellent growth and pressure eased slightly in these markets.

Those buyers who have previously benefitted from low prices late in the year are beginning to feel the pinch and with no more supply information to be released the only thing that can be said with any certainty is that we will need to wait until the end of the year for any clarity.

Trading for the quarter equated to 214,058 tonnes with 166,537 tonnes trading in the Spot market and 47,521 tonnes trading in the Forward markets.

Paper

Trading volumes in this market were lower than in previous quarters with buyers happy to focus on their more problematic materials. Available supply started to tighten towards the end of the quarter with many sellers reporting a lack of selling volumes due to pre contracted positions and prices started to rise. The Q3 figures confirmed that supply remained at good levels but with a further undersupply reported in Recovery, fears continue to circulate about the ability of this market to supply enough excess to address this extra demand from other obligations.

Plastic

This quarter we saw record volume trading in the spot market with prices increasing throughout the period. The market maintained good supply during the period but with prices increasing it became difficult to get sellers to leave offers at the last traded price levels and this resulted in buyers continuing to pay higher prices as the quarter progressed. Once the Q3 supply figures were released and confirmed the difficulties exporters had reported during the summer month's, prices increased by £12.00 in the space of an hour. Prices continued to increase to the end of the quarter with a high of £76.00 recorded at the end of October. Weaker trading was recorded in the forward markets with sellers unwilling to commit large volumes given the price increases recorded in the Spot.

Glass

Prices in both markets remained relatively static during the period which lead to weaker trading volumes being recorded than in previous years. Supply was weak with many sellers reporting the fulfilment of pre arranged contracts left little tonnage to offer in the markets. Those sellers with tonnage available resisted dropping prices, which created a standoff. The Q3 supply reported strong growth in both markets and prices reacted by falling back into single figures at the end of the quarter.

Steel

Steel has performed well this year with earlier quarter supply returns reporting strong surpluses. This resulted in softening prices during the period. When news broke regarding the closure of the SSI plant and the troubles being faced by Tata Steel, concerns started to rise. Confirmation of a weakening Q3 supply increased fears and buyers returned to the market with vigour. Prices started to rise

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	High	Low	Traded This Quarter	Quarter Average Traded Price	YTD Average Traded Price	Year to date aggregated traded
Paper						
Spot 15	£1.50	£0.85	63,732	£0.89	£0.84	107,568
Oct Fwd 2015	£0.85	£0.85	10,000	£0.85	£0.70	167,500
Dec Fwd 2015	£0.90	£0.90	15,000	£0.90	£1.08	105,504
Plastic						
Spot 15	£76.00	£28.00	50,522	£51.02	£38.01	101,699
Oct Fwd 2015	£30.00	£30.00	500	£30.00	£24.75	3,384
Dec Fwd 2015	£65.00	£55.00	6,419	£57.63	£36.96	21,801
Jan Fwd (Trans)	£80.00	£55.00	3,248	£66.15	£46.76	13,696
Glass Other						
Spot 15	£13.00	£4.95	21,588	£12.48	£13.02	42,623
Glass Remelt						
Spot 15	£15.00	£4.95	11,998	£13.85	£14.75	43,527
Jan Fwd (Trans)	£15.00	£14.75	2,200	£14.98	£14.98	2,200
Steel						
Spot 15	£45.00	£6.50	15,566	£11.45	£11.12	40,227
Oct Fwd 2015	£7.50	£7.00	1,750	£7.29	£9.53	4,250
Dec Fwd 2015	£7.00	£7.00	750	£7.00	£8.85	8,250
Wood						
Spot 15	£1.75	£1.75	1,773	£1.75	£1.54	8,099
Oct Fwd 2015	£1.65	£1.65	560	£1.65	£1.52	4,560
Dec Fwd 2015	£1.65	£1.65	6,794	£1.65	£2.78	13,696
Aluminium						
Spot 15	£70.00	£45.00	321	£60.12	£46.74	490
Oct Fwd 2015	£60.00	£60.00	150	£60.00	£60.00	150
Oct Fwd 2016	£60.00	£60.00	150	£60.00	£60.00	150
Recovery						
Spot 15	£0.75	£0.75	1,037	£0.75	£0.75	1,728

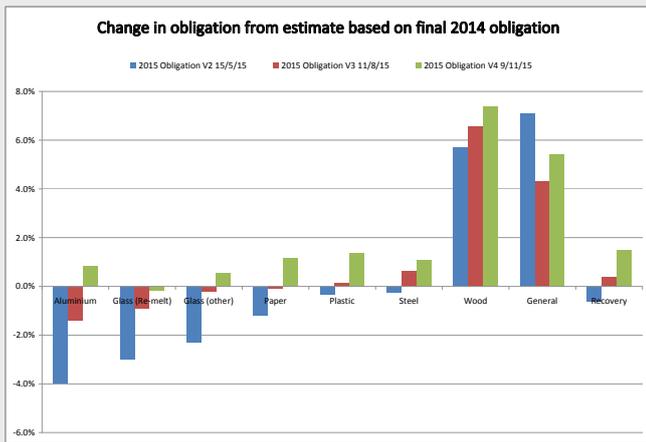
The Marketplace for PRNs

MANAGING DIRECTOR'S REPORT – NOVEMBER 2015



Q3 figures have most certainly not disappointed in their ability to astonish. The inevitable consequence of which is that there is an outcry that the PRN system needs re-modelling as one sector or another finds itself on the wrong side of a price rise or fall. In contrast price rises and falls show that the system has the flexibility

to adjust to ensure that UK industry as well as the UK can meet its obligation. This year has proved no exception: some of the problems have been anticipated and so factored into the price whereas others have occurred quite unexpectedly although it could be said that the economic indicators were there for all to see. Additionally the annual obligation has increased for the third quarter in a row and is now some 125,000 tonnes higher than initially anticipated, with the biggest growth occurring in wood and general recycling. Concurrently there have been rumblings about further delays to the publication to EU's circular economy package.



Growth in Aluminium and Glass PRNs

To consider the quarter's success stories first. The shortage of aluminium has been replaced by a surfeit. The ability to backdate protocol tonnage has seen increases in the first two quarters production as well as a record quarter for Q3. If the same level is sustained through Q4 there will almost be an embarrassment of riches by the end of the year. This may well result in a very volatile period for prices. A note of caution when considering 2016, without sufficient price incentive to become accredited many that have put in considerable effort this year may turn their back on next year creating a shortage once more with the consequent upward pressure on availability and prices. In contrast glass reprocessing and exporting following on from the investment when glass PRN prices were high produced a record quarter and find themselves selling into the general recycling and recovery pot, which is a fortunate cap otherwise prices there could be escalating swiftly as wood expands more into energy production and hits its own challenges with fires!

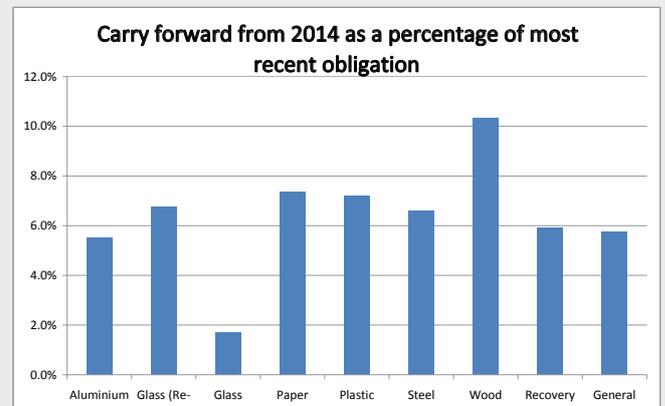
The Recovery Challenge

The lack of interest in the recovery sector in getting accredited is beginning to have an impact as the traditional surpluses in paper and wood are not only having to fill the general recycling obligation but also the recovery pot. It looks unlikely that further

recovery sellers will accredit for this year, as a result tension is increasing significantly as the year end approaches with prices rising noticeably in wood and paper as supply becomes short with less available to carry forward, which in turn will have an impact on 2016 pricing and raises the possibility of shortages occurring if potential carry forward is not released back into the 2015 market.

Plastic Targets and lost capacity

The paper industry is facing challenges with the growth in exports slowing down while over 1 million tonnes of capacity in the UK is due to be removed in the next 12 months. Problems have been predicted in plastics throughout the year with, as widely publicised, reducing UK production and challenges in expanding the export market at the necessary rate to compensate for this fall. But all is not doom and gloom; both domestic reprocessing and export are growing but maybe not as fast as targets. Many are beginning to ask whether the current rate of growth in the latter is necessary. Problems in steel had not been expected but maybe could have been anticipated given the falling Chinese remimbi and the slowdown in infrastructure growth within China, although even then the scale of closure is almost unprecedented. This will be an hard fall from which to recover and, while recycled steel remains globally desirable, it is inevitable that time will be needed to find where it is desired.



It now looks increasingly unlikely that the revised circular economy package will be published on 4 December as last minute negotiations over complex issues such as eco-design look like being unresolved until January, as are targets for municipal reuse and recycling and a decision on whether to introduce landfill bans.

Thank you once again for your support throughout this quarter. I hope that we all enjoy a festive period without disruptions and 2016 does not arrive with too many challenges. Thank you to Bernard Chase for his insight into the challenges for the plastic market.

Angus Macpherson
Managing Director

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Summary of Q3 Supply Figures By Andrew Letham, Sales and Marketing Manager

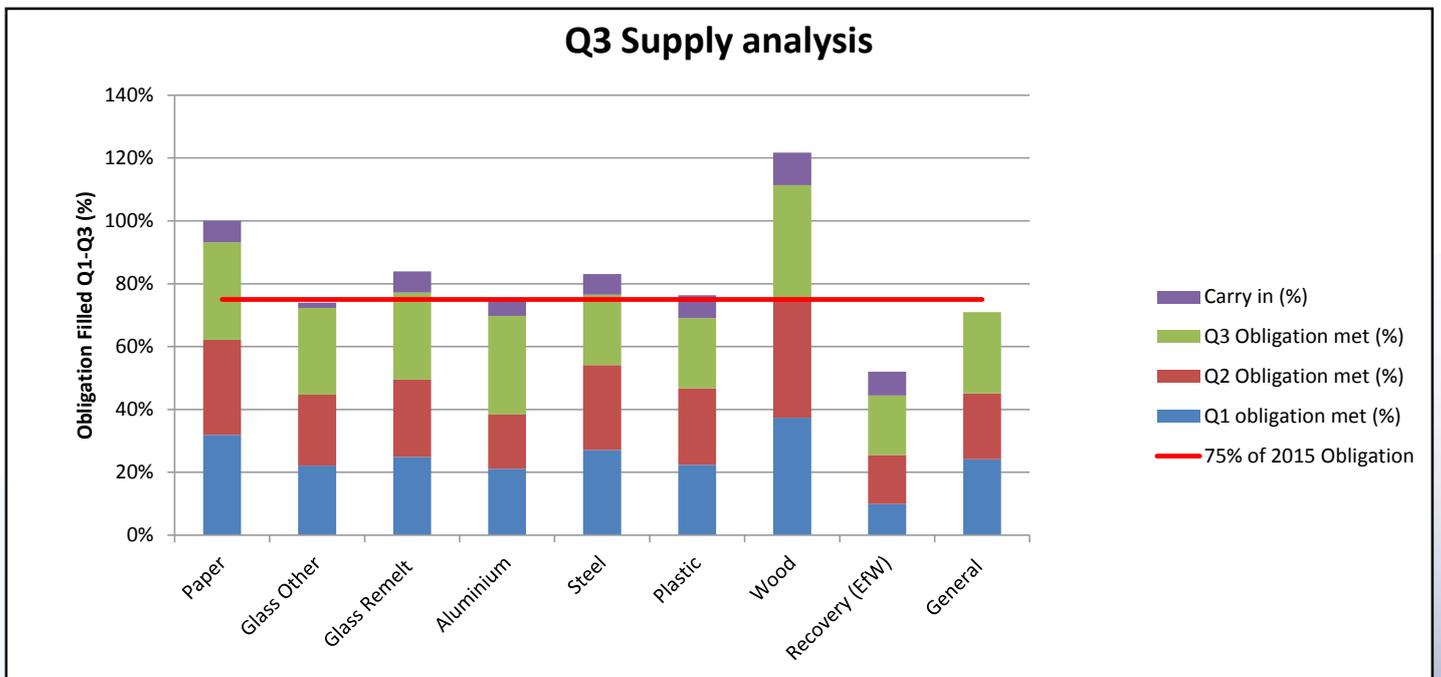


On the 23rd of October we saw the latest update on this year's supply figures for the 3rd quarter. For those companies yet to secure evidence notes the news was concerning. Plastic regressed recording a supply figure in line with Q1 and set a difficult challenge for the final quarter even when utilising all this year's carry in tonnage. Steel recorded a downturn on the previous quarters and this coupled with the news regarding a reduction in domestic capacity lead to buyers rushing to the market. Both Glass and Aluminium saw an improvement on the previous quarters which resulted in a slight softening in market prices. Recovery supply returned to a more respectable level but did nothing to stop pressure building in the lower value material markets with challenges still ahead for Paper, Wood and General recycling buyers. With time running out, the increased concerns resulted in prices rising in the undersupplied materials leading some to voice doubts about meeting full compliance this year:

Material	Carry In	Q1	Q2	Q3	Quarterly Obligation	YTD Supply + Carry In	Annual Obligation	Balance
Paper	196,215	918,548	871,018	891,032	669,970	2,876,813	2,679,878	196,935
Glass Other	9,109	117,914	120,137	147,422	133,274	394,582	533,095	-138,513
Glass Remelt	69,646	257,414	255,124	286,078	258,708	868,262	1,034,832	-166,570
Aluminium	4,186	16,011	13,152	23,835	18,981	57,184	75,924	-18,740
Steel	23,948	98,226	98,112	80,997	90,636	301,283	362,543	-61,260
Plastic	65,444	202,623	220,193	202,539	226,297	690,799	905,188	-214,389
Wood	26,072	94,626	95,835	91,195	63,230	307,728	252,921	54,807
EfW	42,324	55,599	87,068	105,934	139,732	290,925	558,926	-268,001
General	0	244,267	212,476	262,003	253,138	718,746	1,012,550	-293,804
Total	436,944	1,760,961	1,760,639	1,829,032	1,853,964	5,787,576	7,415,857	-1,628,281

Balance is the difference between the Year to date (YTD) Supply plus carry-in and the total annual obligation showing the minimum PRN production required by Material in Q4 to comply.

The General PRN supply figure has been calculated by using the surplus Material Specific PRNs in each quarter. It does not include any carry-in tonnage. Surplus General PRNs may (and will) be required to meet any shortfall in Recovery PRNs.



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Wrap Market Report *By Bernard Chase, Sector Specialist - Plastics, WRAP*



2015 is proving to be a challenging year for the UK plastics recycling sector. The fall in oil prices, though not directly responsible, has been a backdrop to several high profile business failures, whilst a marked slowdown in the growth of the Chinese economy has resulted in more challenging export markets for waste plastics in general. Against this rather

bleak outlook, a 5% increase in target requires the UK to find an additional 100,000 tonnes approximately of plastics recycling evidence by the end of the year.

The 2015 compliance year has benefited from a healthy 'carry in' of evidence from 2014 and whilst each of the first three quarter's reported tonnage has fallen just short of the average required, the combined total including carry in places the UK on track to meet its 2015 targets provided the fourth quarter delivers approximately 210,000 tonnes of plastics recycling evidence. Recent history suggests that, although it includes the Christmas and New Year break, Q4 can still deliver healthy tonnage equivalent to previous quarter performances.

So we are OK, we'll get over the line, is perhaps the conclusion to draw; yet meeting a 5% year on year increase in the UK plastics

packaging recycling targets is evidently presenting the UK plastics recycling sector with an increasingly challenging gradient to climb and the market for Plastics PRN's, currently standing at around £75 per tonne and showing no immediate signs of weakness, would appear to confirm this observation.

Assuming the 2015 target is achieved, though with little if any evidence left to carry forward into 2016, compliance costs appear set to remain high throughout 2016. A further 5% target increase coupled with the lack of significant 'carry in' may leave the UK requiring an additional 130,000-140,000 tonnes of evidence in 2016.

One potential counter against such a significant challenge is for obligated Companies to consider active support for the Plastics Industry Recycling Action Plan (PIRAP). Launched earlier this year by Plastics 2020 and supported by WRAP, PIRAP promotes cooperation across the entire plastics packaging recycling supply chain, sharing ideas and best practice that can deliver desirable recycling outcomes. The specific purpose of PIRAP is to help the UK to achieve year on year increases in the volume of plastics being recycled. Engagement with PIRAP can thus help obligated Companies achieve their plastic recycling targets thereby keeping compliance costs under control.

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towards the end of the period as supply became harder to source.

Wood

This quarter the market lacked the depth of selling volumes. Prices remained stable during the period with little concern being voiced from buyers about the tightness in supply. The market price continued to trade at a premium above paper and subsequently missed trading opportunities from general buyers. The Q3 supply figures, although in line with previous quarters, show a worrying declining trend and confirm that this material will offer little comfort to those looking for tonnage to satisfy general obligations.

Aluminium

Selling volumes remained weak this quarter and this again resulted in minimal trading opportunities. Towards the end of the quarter, sellers returned to the market and concerns eased. The Q3 figures showed a good improvement on the previous quarter's supply with evidence of IBA supply contributing to a record quarters return. It would appear the recovery of this market is well under way however support will need to be retained if we are to meet the targets with comfort this year.

Recovery

With limited supply available to the market, trading this quarter mirrored previous quarterly activity with limited selling volumes forcing buyers to pick up lower value material PRNs to meet obligations. The Q3 figures showed a slight improvement in supply, although still reporting a large shortfall.



"Nuvoc Volleyball Women's Premier League team would like to thank t2e for their generous sponsorship. t2e support will open many new opportunities for our team and has helped us to purchase our new uniforms for the 2015/2016 season. We work hard as a team to realise our ambition to establish ourselves as one of the premier clubs in Scotland and compete at the highest level possible. Here's to the start of a great season and a great partnership!"

We would like to take the opportunity to thank all participants for their ongoing support in 2015 and wish you all a very Happy Christmas and New Year. We look forward to being of assistance in 2016.