

The Recovered Paper Market

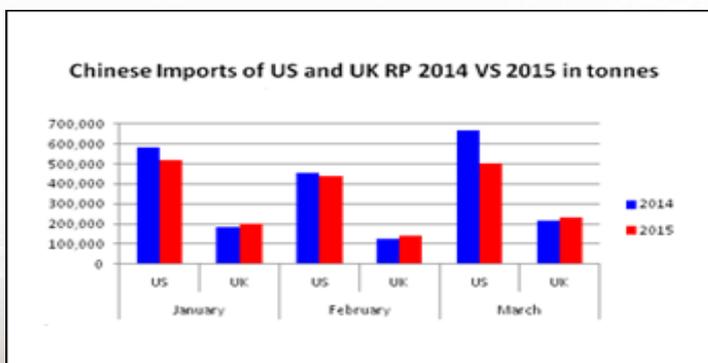
General Market Analysis

At the beginning of Q1 2015, lack of demand from China meant that OCC prices were under pressure. China's total RP imports in 2014 were down 13.3% year-on-year, a figure which can be attributed to two factors; the first is China's economic slowdown – latest figures reports that China's Q1 2015 GDP growth stood at 7%, down 0.3% on the previous quarter. The second factor attributing to China's decrease in RP imports is the increased amount of domestically sourced RP being used by Chinese mills; in its latest financial statement Nine Dragons reported that 48% of the RP used in China in the second half of 2014 was sourced domestically.

Generally, this reduction in imports is thought to affect UK and European exporters more than their US counterparts because, due to its lower moisture levels and higher virgin content, US RP is of a premium quality. However, a combination of factors - including the ongoing Longshoremen dispute on the US West Coast, and the recent freezing temperatures on the US East Coast - meant that China was forced to rely on UK imports in the beginning of 2015. Chinese customs figures for January – March 2015 show that US RP imports are down almost 15% year-on-year while imports of UK material for the same period have increased 9.7%.



Also in February, the closure of Aylesford Newsprint removed one third of the UK's ONP market which resulted in a sudden price drop of £25-£30. However, this downward pressure was short lived as surplus tonnage was absorbed by mills in Europe and prices are now back at levels seen at the beginning of the year, with export prices of £58-£65 being reported.



The lowest prices on t2e's RP trading platform during this period occurred in February, with bids and offers as low as £74 and £76 respectively.

Towards the end of the quarter, OCC prices began to strengthen. Domestically, t2e buy prices reached £80 by mid-March, and had increased to £88 by the end of April. Off market, export prices for this period were £79-£82 ex-works, up from £74-78 in February.

Managing Director's Comments



From a pricing perspective this quarter has been confusing. Despite declining volumes purchased and prices paid in dollars by China, prices and volumes of exports are increasing in the UK. While this is partially explained by pound weakened against the dollar and the social and weather problems in the US, it fails to explain why tonnage priced in euro's, which has weakened in comparison to the pound and the dollar, is not seeing the same export growth as the UK.

But that is to overlook the markets for the final product. For those within the eurozone and the UK, material produced in China is beginning to look expensive in comparison to material produced on mainland Europe. Cardboard producers in Europe are beginning to see the opportunity of increased sales and margins and are now looking to source their material locally hence pushing prices in euros up to levels at which exporters find it difficult to compete even with the benefit

of falling shipping rates to the Far East. For how long this anomaly will remain remains to be seen.

For a buyer or seller of RP there is a range of ways to manage the risk of operating in a global market. One is diversifying their counterparties globally, another is taking a hedge on exchange rates but the last three months show how poorly this is co-related to RP prices, a third is to have the capacity to hold large inventories but surely the most reliable would be to hedge by trading forward using a credible global RP price provided by a transaction based marketplace. This nettle is now being grasped by the chemicals industry. Are they not a good example for the RP industry to follow?

Thank you for your commitment to the exchange this quarter. We look forward to being of service to you in the future.

Angus Macpherson
Managing Director
The Environment Exchange

Q&A with Reuben Bolton

Reuben Bolton, Commercial Director, Bolton Brothers Limited / Euro-Shred



1. What are the biggest challenges for merchants operating in today's recovered paper markets?

A: The ever increasing demand from our end users for the raw material we supply and yet on the other end our business customers are increasingly looking to co-mingle their recyclables the same way as domestic collections have gone adding to the problems on quality.

B: Having to compete on an uneven playing field. Our biggest competitors when it comes to collections of commercial waste and recyclables are from local authorities. Local authorities have untapped access to grants and taxpayers money unlike independent commercial operations. They have no onboard weighing facilities on their vehicles and yet they collect commercial recyclables along with domestic recyclables therefore receiving Recycling Credits from central government on commercial recyclables where we as an independent company like ourselves which collects only commercial recyclables cannot. They also use tax payers funded trucks to collect commercial waste & recyclables and yet never have to show a profit for the services they are providing.

2. How has the recent Aylesford mill closure affected the market?

Apart from a bad debt not too much! When the announcement was made it sent shockwaves through the industry with rumours of the N&P and Mixed Papers markets crashing but this hasn't happened as yet. With the newsprint industry in decline there was a need for capacity to be taken out of the industry, however, Aylesford should have been shut down in a controlled manner with an announcement of the closure and not with the company going into administration and thus creating bad debts.

3. Have the reports of a slowdown in China affected trading confidence at all?

There have been steady volumes of paper and plastics being exported to the Far East for the last 12 months. There are no longer any sharp spikes in the market like there used to be. We trade in global market therefore if China doesn't have a hunger for our material then we look to sell other continents and this will continue which can only be healthy when we are not too reliant one particular economy.

4. So you are the new Prime Minister...what changes would you make to improve waste management and recycling in the UK?

Listen and take note from the real recyclers who have been here for generations, who have seen the changes for good and bad in our industry and still survived. It is the innovative thinking of the independent SME's in the sector which knows how investment in our industry should be spent. The SME's are the backbone of recycling in the UK therefore more support for those would be most welcome and beneficial for all involved in the recycling chain.