

The Marketplace for PRNs

Market Status Report – May 2015 to July 2015 By Ian Andrews, Market Operator



During the quarter we received confirmation of the first set of demand figures for the year and towards the end the Q2 supply report. Those materials with increased recovery targets saw some growth with Plastic leading the way with an increase of approximately 100,000 tonnes. Aluminium grew by 4,000 tonnes, in relative terms, this equated to 5.7%. It has been both these markets which

have seen the most enquires during the period and this has been reflected in price increases in both materials.

Q2 supply figures reported some improvement on Q1 with the only negative return being seen in Aluminium. Unsurprisingly, with the exception of Plastic and Aluminium, most market prices either held or fell slightly. While things look reasonably comfortable for most materials the over reliance on Paper to fill additional obligations from other markets has tightened its available supply and this has been reflected in weaker selling volumes being offered into the market at the end of the period.

Trading for the quarter equated to 196,189 tonnes with 95,386 tonnes trading in the Spot market and 100,803 tonnes trading in the Forward markets.

Next month we will be attending the RWM show in Birmingham and we would like to extend an invite to all those that wish to, to pop along and see us at stand 4H56-J57.

Paper

The lack of recovery supply and the standoff between buyers and sellers in wood has resulted in Paper meeting the additional demands of the other obligations, namely General and Recovery. Towards the end of the quarter supply became harder to source with both the Spot and Forward markets seeing a slight increase in offer prices. Some concern has been voiced regarding the over reliance on Paper to fulfil additional demand from the other pots and while it may be a little early to confirm concerns, this is something that needs to be considered going forward.

Plastic

In conjunction with Aluminium this has been the most active market for discussion during the quarter. With many headlines being dominated by the worsening Chinese economic crisis and the falling oil price with its effect on the recovered materials sector; buyers have become more concerned about this year's supply. This has resulted in strong demand being placed across all available markets. Although some good volumes have been offered into the market the sellers have become aware of the developing concerns and this has resulted in offers being placed in the market above last traded price levels. The result has seen prices edging up with many buyers happy to pay increased prices but only if they can satisfy their full requirement. The Q2 supply figures showed an improvement on Q1 with an increase of 20,000 tonnes and at the last time of reporting on track to meet the quarterly demand. Q1 supply figures have also been revised upwards however they still show an undersupply of 20,000 tonnes for the quarter. Domestic reprocessing levels are up at the midpoint in the year having recorded growth of 4,000 tonnes which some have found surprising given the continued concerns being voiced about UK capacity. We await the result of the latest consultation to see whether the government will take any action to reduce the target increase due to be applied next year. It is believed any reduction in the target will ease pressure by reducing the appetite to take tonnage forward this year; and afford

the market the ability to call on the full carry in tonnage from 2014 which equated to 65,000 tonnes.

Glass

After the intervention of the regulators to address the supply imbalance buyers have become very relaxed about securing glass volumes and this has been reflected in what has been a quieter quarter than previous years. Q2 supply was slightly behind for the Glass Other grade but an excess in Glass Remelt has alleviated any concerns and prices have remained stable for the period. Focus has started to shift towards the 2016 markets although some additional work needs to be done to close the gap in buyers and sellers price aspirations.

Steel

Prices for the quarter held up with some concerns being voiced about China's desire to sell cheap material affecting the appetite for European material. The Q2 supply figures showed another strong quarter with excess volume being created and prices started to fall towards the end of the period.

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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	£0.85	£0.85	19,889	£0.82	£0.78	44,794
Jul Fwd 2015	£0.75	£0.75	4,807	£0.75	£0.67	40,307
Oct Fwd 2015	£0.85	£0.70	25,000	£0.76	£0.69	157,500
Dec Fwd 2015	£0.85	£0.70	37,598	£0.74	£0.69	80,598
Plastic						
Spot 15	£30.00	£22.50	23,403	£25.92	£25.99	57,970
Apr Fwd 2015	£27.00	£25.00	3,550	£26.58	£26.58	3,550
Oct Fwd 2015	£30.00	£20.00	2,384	£24.76	£24.75	3,384
Dec Fwd 2015	£25.00	£20.00	11,650	£23.28	£22.80	13,650
Glass Other						
Spot 15	£13.00	£12.00	15,384	£12.72	£13.34	30,317
Glass Remelt						
Spot 15	£15.00	£13.00	21,084	£14.11	£14.92	39,210
Jul Fwd 2015	£13.50	£13.50	2,500	£13.50	£19.89	20,750
Steel						
Spot 15	£12.00	£8.00	13,596	£11.20	£10.84	25,197
Jul Fwd 2015	£11.50	£11.00	2,500	£11.40	£12.00	3,500
Oct Fwd 2015	£9.50	£9.50	1,500	£9.50	£11.10	2,500
Dec Fwd 2015	£9.50	£9.50	1,500	£9.50	£9.03	7,500
Wood						
Spot 15	£1.75	£1.50	1,753	£1.58	£1.48	6,353
Jul Fwd 2015	£1.50	£1.50	1,756	£1.50	£1.50	1,756
Oct Fwd 2015	£1.50	£1.50	4,000	£1.50	£1.50	4,000
Aluminium						
Spot 15	£30.00	£30.00	86	£30.00	£22.01	174
Recovery						
Spot 15	£0.80	£0.80	191	£0.80	£0.75	691
Oct Fwd 2015	£0.75	£0.75	302	£0.75	£0.75	302

The Marketplace for PRNs

MANAGING DIRECTOR'S COMMENTS – AUGUST 2015



The quarter has been dominated by rising concerns about the ability of aluminium to meet its targets. As all have suspected Q2 figures confirm a significant shortfall in Aluminium PRN production. In other materials the Q2 figures forecast potential problems on the horizon while the revised obligation has also been published with increases in all materials.

Aluminium Shortfall

The Aluminium PRN shortfall (36% at the mid-point) has been caused by two issues. Firstly Novelis the largest issuer of Aluminium PRNs has reduced its demand for Aluminium packaging and secondly there has been a slow take-up of the Incinerator Bottom Ash (IBA) protocol. While the former can probably be attributed to a temporary production problem the former is more systemic. As a result the Agencies have taken action to resolve it. A combination of low prices and onerous sorting has provided little incentive for reprocessors or exporters to be accredited. It is the later that the Agencies have addressed by taking a more pragmatic approach to exports which more truly reflects current business practice. Concurrently they have allowed, as a one-off, applicants to back-date PRNs to the date of application rather than the more normal date of accreditation. A further analysis of IBA has suggested that 70% of the mixed non-ferrous metals is packaging rather than 50% as previously. It remains to be seen whether this analysis stands the test of time.

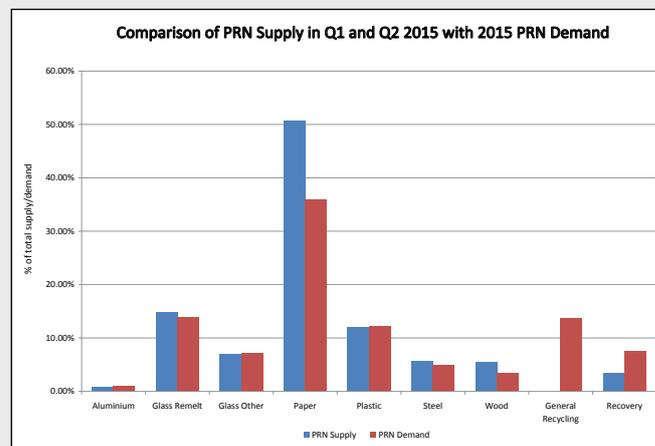


The final issue to resolve is price. That depends on the market. Prices have risen to £30.00 on the spot market at the end of July and subsequently to £45.00. It remains to be seen if that is sufficient to encourage reprocessors and exporters to become accredited. If it is there is still a lot of ground to recover. If it is not then all that can be said with certainty is that the price will continue to rise.

Q2 2015 Figures

Elsewhere the Q2 figures do not make happy reading. There is a shortfall in in-year production in Glass, Plastic and Overall Recovery. It is the first time that I can recall the later being predicted. It is somewhat masked by the high levels of Paper

exports and Wood reprocessing; however the absence of Recovery PRNs is most telling. Here once again the low price is a key factor with low prices providing insufficient incentive for reprocessors to become accredited after a protocol change.



It is difficult at this stage to predict the final outcomes of the slowdown in the Chinese economy. As the steel exporters have been complaining commodity prices have been significantly eroded over the last year but against this backdrop the recovered paper price, and as a consequence exports, has been remarkably resilient. How long that can remain with the Chinese RMB falling against the US\$ remains to be seen but a fall in prices must be anticipated and at some stage exports will not look so attractive. With no reprocessing alternative in the UK or Europe and the growth in India limited recycling options look restricted. The same must apply to Plastic where most exports end up in China even if they go through further sorting processes, courtesy of the Green Fence, in Malaysia or Vietnam.

The loss of these volumes (Paper produce approximately 50% of all PRNs) and the on-going decline of Wood PRNs will not only put the material specific targets under pressure but also the general recycling and overall recovery targets under further pressure.

2015 Business Obligation

This pressure is exacerbated by the growth in obligation back to original estimates, while this reflects that 2014 was a good year from the perspective of the consumer, it also puts increased pressure on the recycling industry in the subsequent year. Not the year in which the packaging reported has been placed in the waste stream!

Once again thank you for your support this quarter. Thank you to Raj for his comments. The next few months look as though they will be challenging during which we look forward to being of assistance to you. Buyers and sellers are encouraged to consider using the forward markets to bring some price certainty into otherwise uncertain times in both 2015 and 2016.

Angus Macpherson
Managing Director

The Marketplace for PRNs

Q2 - Quarterly review and figures *By Andrew Letham, Sales and Marketing Manager*



On Tuesday 22nd July the initial Q2 Reprocessing and Exporting figures were published revealing a few worrying signs for those materials where shortfalls had been reported in Q1. Plastic made a slight recovery from Q1, buoyed mainly by strong domestic reprocessing figures which are up year on year; however weak export figures fuelled in part by a struggling Chinese economy have left us with a deficit of 5.65% heading into Q3. Aluminium has continued to stutter with IBA (Incinerator Bottom Ash) not able to replace the tonnage lost with the removal of the scrap protocol, finishing Q2 with a 33.4% deficit and an acknowledgement from DEFRA of concerns within the market by allowing reprocessors to claim PRNs generated from the date of application as opposed to accreditation. Paper continues to show a large oversupply disguising potential tension later in the year due to a large proportion of supply filling the General and Recovery obligation and the limited number of sites accredited for recovery. Total Recovery production including general recycling for Q1 & Q2 is 3,494,610 tonnes, 4.6% down on the midyear obligation of 3,662,694 tonnes, half of the Total Recovery annual obligation.

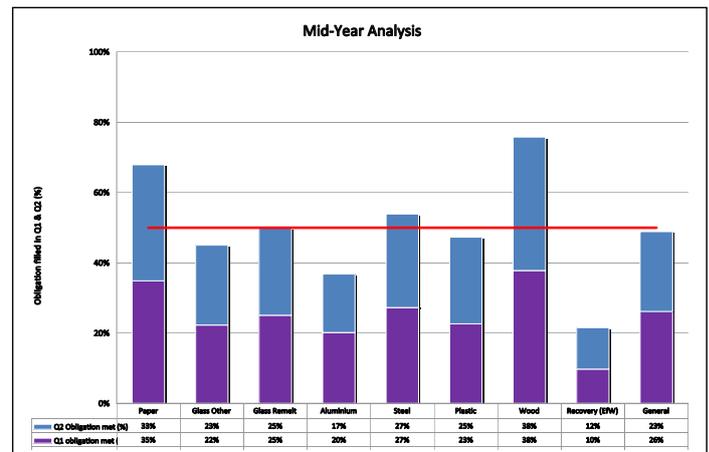


Figure 1. Mid-Year Analysis. (Excluding Carry-In). Illustrates the proportion of obligation which has been met so far this year from Q1 and Q2. The red line marks the mid-year obligation (50% of the total) for each material, giving an indication of under or over supply at this stage in the compliance year. Paper and Wood are showing a significant over supply however a portion of each will be used to fill both General Recycling and also Recovery when supply is short.

Material	Q2 supply 2015 (Tonnes)	Q2 obligation (25% of total)	Difference	% Difference
Paper	871,001	658,629.00	212,372.00	32.2%
Glass Other	120,186	132,179.25	-11,993.25	-9.1%
Glass Remelt	254,945	256,583.25	-1,638.25	-0.6%
Aluminium	12,334	18,528.25	-6,194.25	-33.4%
Steel	96,013	90,100.50	5,912.50	6.6%
Plastic	221,098	224,009.75	-2,911.75	-1.3%
Wood	95,235	62,692.50	32,542.50	51.9%
Overall total recycling	1,670,812	1,693,381.50	-22,569.50	-1.33%
Overall recovery	1,735,902	1,831,346.70	-95,444.70	-5.21%

Table 1. Confirmed Quarter 2 Supply Figures against the Quarterly Obligation. Shows published supply figures for Q2 and how these compare to the quarterly obligation.

Material	50% Obligation (Tonnes)	Q1 & Q2 Supply (Tonnes)	Difference	% Difference
Paper	1,317,258.0	1,789,549	472,291.0	26.39%
Glass Other	264,358.5	238,100	-26,258.5	-11.03%
Glass Remelt	513,166.5	512,359	-807.5	-0.16%
Aluminium	37,056.5	27,290	-9,766.5	-35.79%
Steel	180,201.0	194,239	14,038.0	7.23%
Plastic	448,019.5	424,063	-23,956.5	-5.65%
Wood	125,385.0	190,060	64,675.0	34.03%
Overall Total recycling	3,386,763.0	3,375,660	-11,103.0	-0.33%
Overall Recovery	3,662,694.0	3,494,610	-168,084.0	-4.59%

Table 2. 2014 Obligation against Q1 and Q2 to show Current Under/Oversupply

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Wood

The lack of trading in this market can be attributed to the standoff between buyers and sellers price aspirations. Buyers still believe that wood values should be in line with paper and are refusing to leave volume buying above this level. Sellers on the other hand believe there should be better value and are prepared to write off tonnage in order to get their desired price. A quick review of the supply figures shows that this year volumes could be potential 50% below those of 2010, a trend I am sure the market would like to correct.

Aluminium

All trading activity in this market came from smaller buyers looking to secure tonnage for single digit obligations. As has been seen previously this year, the lack of supply has resulted in weak trading volumes. Strong demand remained in the market for the period with some reasonable selling volumes providing some balance. The lack of

trading can be attributed to the fact the buyers were unwilling to secure what little volume there was available as they felt the higher prices offered would lead to further upward pressure on prices. DEFRA have been investigating ways in which it can ease current price pressure with a change in registration guidelines the first move.

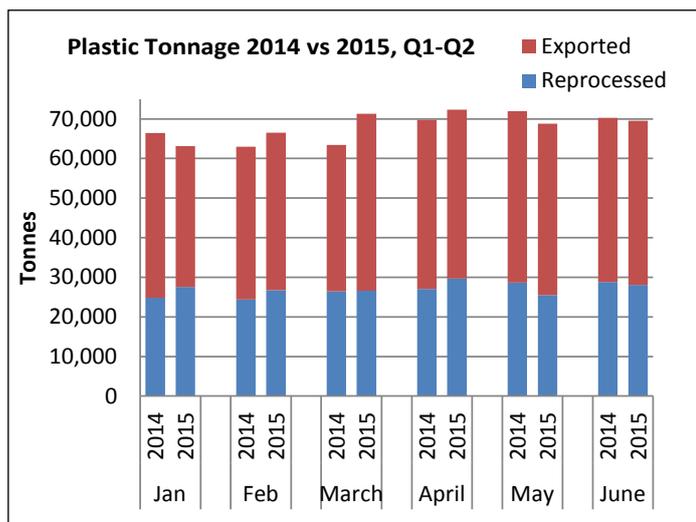
Recovery

Once again supply in this market was hard to source. Q2 supply figures at the end of the period showed that there was small growth on Q1 but not enough to meet all demand. Some have commented that the structure of EFW contracts between waste management companies and local authorities was partly to blame as they couldn't agree who would cover the cost of the new R1 accreditation requirement. Most demand in this market was met by Paper during the quarter.

Special Market Review – Plastic 2015 *By Ian Andrews, Market Operator*

During the last few months concerns have been raised about the current supply situation for Plastic PRNs with reports emanating from the export side of the market of weak demand and falling material prices. With this in mind we have decided to look at the current state of supply with the facts we have to hand and try to provide some analysis on what the rest of the year has in store.

Up to the midpoint in the year the availability of Plastic PRNs was strong with confirmed supply showing some tightness in year but, with a large carry over of 65,000 tonnes, little concern was raised. During this period most market commentators voiced concerns about the state of the domestic reprocessing market with high profile stories filling the industry web pages. Linked to these stories were the falling oil price and its ability to provide better value virgin material when competing with the UK recovered material sector. Even with these issues to contend with the PRN generation grew during the period. Both the domestic and export supply was up on the previous year, both recording an increase of 4,000 tonnes on the same period in 2014 (see Chart).



So what has changed to increase values without any published evidence of problems? Since the start of July stories regarding the economic situation in China have been widespread across all media outlets. Share prices have been dropping and the Chinese regulators stepped in to stop the slide. The liquidity in Chinese businesses has been at an all time low and this has started to dampen the appetite for UK material. Sellers who previously dealt with these types of issues may have felt that this was a ploy to drive down material prices but these thoughts were quickly dismissed when buyers pulled out of contracts completely.

Rai Iqbal from Choice Waste Management commented:

"I predicted these problems in the last quarter long before the Q2 supply figures were released and those people whom I regularly

contract my PERN's with took my view on board in the last quarter and bought contracted tonnage for Q3 at £32.00 when the market was only trading at around £25.00. At that time the main driver of weakening demand was due to the authorities prohibiting imports of mixed plastic bottles into China. This was long before the Chinese stock market crash and recent economic down turn. The devaluation of the currency has caused further uncertainty within the manufacturing sector and as a result Chinese manufacturers have lost a big share of export orders. The lack of orders for finished products has weakened the appetite for UK recovered material. I do not expect the situation to improve this quarter and I believe this quarter there will be a big short fall not only in plastic but also WEEE and metal."

So there is evidence from some that trading conditions are the poorest they have seen for a number of years. What appears surprising is the reliance that we continue to have on China to resolve our issues. If we cast minds back to 2013 the 'Green Fence' protocol from China was meant to have diminished our reliance on this market so that when situations like these occurred we had additional destinations to call on. If all the concerns being voiced are true then it would appear we made little headway.

At the end of June the Spot market average price was recorded at £26.33 and within the two month period to the end of August it had increased to £32.57. This price increase was achieved equally by actions from both sides of the market. Sellers had issues as outlined above and buyers, once alerted to the problems exporters were facing helped to fuel the concern and lift prices in the Spot market.

As to whether the increased values will continue, we are not in a position to say at this stage. What can be said is that to the midpoint in the year, even with concerns being voiced about our domestic capacity we still managed to increase recovery rates in the UK. We are currently awaiting feedback on the recent consultation which asked the question, do we still need to apply the 5% plastic target increase in 2016 & 2017 since we are currently exceeding European targets (source WRAP/VALPAK: Plastic Packaging Market Study 2014)? If the target increase is suspended or adjusted, it may dampen the appetite to take December tonnage forward and with a record carry in this year it may be the news that releases some pressure.

What would help the situation is the introduction of monthly reporting of supply figures so that we can have confirmation of the actual supply position. We must give credit to the regulators for the good work they have done in providing the timely release of the quarterly supply figures and the monthly breakdowns once released, but given the technology currently in place, the production of a monthly report would seem the next logical step and one which would provide the information to confirm or allay market concerns.