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Quarterly Report 83
August 2019

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The Marketplace for PRNs

Market Status Report

By Tom Rickerby, Head of Trading

Challenging and unpredictable trading conditions in quarter 2 have pushed the PRN system to the limits of its design. High volatility and record prices in Plastic and Aluminium have led some buyers to call for government intervention or a compliance fee mechanism. Meanwhile, a stronger than anticipated quarter in Paper and Wood has reduced pressure in the General Recycling market and been a catalyst for downward price corrections in Glass and Steel.

449,149 tonnes traded during the quarter, up 10% on the previous quarter and 39% on the same period last year. 303,607 tonnes were traded in the Spot market, 130,542 tonnes in the 2019 Forward markets and 15,000 in the 2020 Forward markets.

Paper

Paper found support around £17.00 early in the quarter following the downward price correction at the end of Q1. However, sellers' lingering concerns regarding the impact of diminishing demand from China and the resultant collapse in the recovered paper price have remained a key driver in influencing PRN prices during the period. This seller sentiment destabilised the market in June as an upward swing saw prices increase 35% to £23.00 per tonne, temporarily surpassing the Q1 high price. However, fears of a significant contraction in the Paper market have proved unfounded. Falling demand from China has been offset by growth in alternative export markets such as India and Turkey, where low material prices, a weak pound and a high PRN subsidy have provided UK traders with some competitive advantage in a challenging global market. High PRN values have also attracted a number of new selling accreditations. Strong availability in the second half of the quarter backed up by a record Q2 return, saw prices tumble, closing the period down 40% at £14.00 per tonne. Traded volume was up 7% on the previous quarter and 100% on the same period last year.

Plastic

Quarter 2 opened with Plastic prices heading north again following a restrained reaction to weak Q1 data. By the end of May prices had risen 24% to a record £225.00 per tonne. However, it was June and July that saw one of the most unstable periods of trading in the history of the PRN system. Fierce buying competition coupled with increasingly bullish sellers saw the market enter a period of exponential daily price growth, culminating in a single day price jump of £80.00 to £450.00 per tonne in both the Spot and October Forward market. This, however, would represent a tipping point in a market that, for many, had already gone well beyond its sustainable limits. The alarming speed of price inflation has placed unmanageable strain on both buyer's cash flow but also severe damage to recovered plastic supply chains (see page 4).

The lack of market fundamentals to underpin the hyperinflation was brutally exposed as prices began to fall. It took only 16 days for the market to lose £290.00 (65%) of its value as Spot prices collapsed, hitting £160.00 per tonne in early July. As the market stabilised and with buyers returning 'en masse' the latter stages of the month saw prices quickly recover, closing the period at £335.00 per tonne. Activity in plastic dominated the Q2 trading on t2e with over 44% of total transactions during the period.

Steel

Concerns over the future of British Steel have overshadowed Steel trading in the second quarter. Early trading saw prices dragged down by the falling Paper / General price, however news of British Steel's financial troubles sparked renewed buying competition. Prices rebounded to a year high of £34.00 by early June and held on to the price gains for a month. By August, with the situation seemingly improving, PRN prices had begun drifting down again. The quarter closed down 32% at £23.00 per tonne. Concerns remain over the health of the Steel market with sellers citing Brexit disruption and weaker demand for scrap in the second half of the year. Steel traded volumes on t2e rose 56% on the previous quarter, despite a 6% contraction in generation.

Wood

Wood is now the main substitute to Paper to fill General Recycling demand following another strong supply quarter. Prices fluctuated in line with the Paper price over the course of the three months, initially falling to £16.75 before recovering to a quarter high of £22.50 and closing the period on a downward trajectory at £15.00 per tonne. With Wood PRN prices now 60% lower than the year to date average, questions will be raised as to whether Wood recyclers can maintain current recycling rates as competition for wood waste from the biomass sector ramps up in the second half of the year.

Glass

Average Glass prices fell for the 3rd quarter in a row as price support from General Recycling fell away during the period and supply risk subsided further following another bumper quarter for Glass Aggregate. Remelt prices remained relatively stable during the period, opening and closing the Quarter at £20.00 and mirroring the mid-quarter General Recycling spike to £23.75. The Glass Other price fared less well, losing 20% of its value over the quarter and decoupling from the Remelt price in the process. A weaker Aggregate price has raised doubts over whether current generation rates can be sustained in the second half of the year.

Aluminium

Extreme price volatility in Plastic has paved the way for a similar rise in the Aluminium PRN price. Spot prices rose steadily during the period, fuelled by growing concerns around the supply deficit and the potential non-compliance risk. Aluminium closed up 140% at £300.00 per tonne, surpassing the previous record price of £275.00, set in 2005. Q2 saw a 226% increase in volume traded on the previous quarter.

Recovery

Q2 saw good volume trade in Recovery, up 171% on the previous quarter. Spot prices remain stable at £0.60, whilst smaller volumes continue to command a marginally higher price. Recovery is the first material to open trading in the 2020 markets, with good volume trading across April and July forward markets at £0.55 per tonne, 10p above the 2019 opening price.

	High	Low	Traded this Quarter	Quarterly Average Price	YTD Average Price	Total Volume
Paper						
Spot 2019	£23.00	£14.00	131,095	£17.90	£18.06	234,138
JUL Forward 2019	£20.05	£16.75	11,200	£17.05	£19.11	53,700
OCT Forward 2019	£20.00	£15.50	18,300	£17.84	£18.41	23,300
DEC Forward 2019	£16.75	£15.50	11,000	£16.41	£18.13	19,000
Plastic						
Spot 2019	£450.00	£160.00	85,466	£259.95	£201.51	170,975
JUL Forward 2019	£435.00	£185.00	5,000	£262.00	£225.46	9,000
OCT Forward 2019	£450.00	£200.00	16,153	£349.18	£349.18	16,153
DEC Forward 2019	£315.00	£250.00	1,497	£260.72	£260.72	1,497
Glass Other						
Spot 2019	£22.00	£15.50	24,607	£19.72	£20.58	29,366
OCT Forward 2019	£22.00	£19.50	5,300	£20.19	£22.74	11,300
DEC Forward 2019	£23.75	£22.00	1,150	£22.23	£20.96	2,150
Glass Remelt						
Spot 2019	£23.75	£20.00	9,285	£20.91	£24.25	32,309
JUL Forward 2019	£22.00	£20.00	10,150	£20.77	£22.90	36,600
OCT Forward 2019	£23.75	£19.75	17,500	£20.26	£22.68	32,000
DEC Forward 2019	£23.75	£22.00	2,000	£22.88	£23.80	7,500
Steel						
Spot 2019	£34.00	£19.50	23,133	£27.08	£25.33	30,673
JUL Forward 2019	£20.00	£20.00	1,000	£20.00	£22.62	10,500
OCT Forward 2019	£30.00	£20.00	4,000	£26.50	£25.42	6,000
Wood						
Spot 2019	£22.50	£15.00	17,756	£17.96	£27.75	36,970
JUL Forward 2019	£20.00	£16.75	2,404	£18.76	£45.55	15,980
OCT Forward 2019	£21.00	£16.75	8,950	£18.86	£41.34	24,365
DEC Forward 2019	£21.00	£16.75	5,000	£19.30	£19.30	5,000
Aluminium						
Spot 2019	£300.00	£125.00	3,413	£208.68	£166.59	5,192
JUL Forward 2019	£125.00	£125.00	450	£125.00	£111.84	950
OCT Forward 2019	£130.00	£130.00	500	£130.00	£130.00	500
Recovery						
Spot 2019	£0.95	£0.60	8,852	£0.63	£0.66	22,493
OCT Forward 2019	£0.55	£0.50	8,988	£0.53	£0.53	8,988
APR Forward 2020	£0.55	£0.55	7,500	£0.55	£0.55	7,500
JUL Forward 2020	£0.55	£0.55	7,500	£0.55	£0.55	7,500

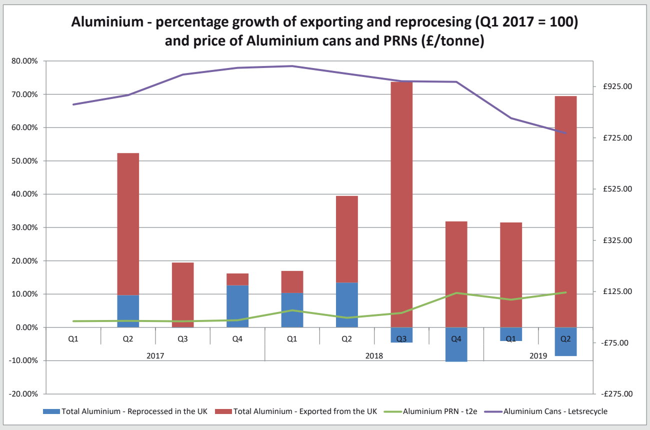
Managing Director’s Comments – August 2019

A quarter of much activity; much trading; an escalation in Aluminium and Plastic PRN prices; second quarter figures; the closure and subsequent publication of the results of the Government’s four waste consultations. This was all carried out against a background of political drama with a change of Prime Minister now focused on achieving Brexit by Halloween. Meanwhile on a global scale China and the United States are increasing the rhetoric about their trade war with a consequent decline of international shipping, assisted by some diplomatic piracy in the Straits of Gibraltar and Hormuz!

With prices remaining high in most materials, trading has been focused in the Spot market. Nevertheless, some 25% of trades have been forward as both buyers and sellers look for price certainty in the more volatile materials of Plastic and Paper as well as the more consistent ones: Glass, Steel and Wood. There remains an absence of forward trading in Aluminium.

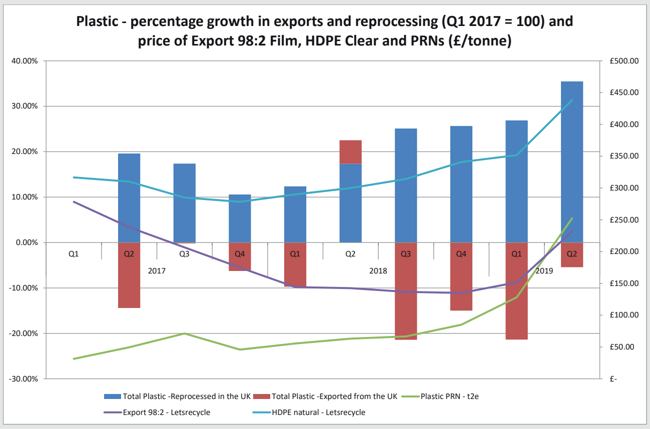
As the quarter opened considerable alarm was caused by the rapidly rising prices in Plastic and Aluminium, but the market is now accepting this new paradigm as the perceived shortfalls have been confirmed by the second quarter figures. The different responses by the two industries to this anticipated shortfall is noticeable.

For Plastic secondary raw material prices have risen as Reprocessors and Exporters compete for post-consumer material, whereas for Aluminium the price has declined as PRN prices have risen. In contrast, last year’s hot summer seems to have been beneficial to Aluminium (and Glass) sales with obligations in these materials being above expectations, while the plastic obligation is below. Plastic UK processing is on the rise, while exports decline, in contrast for Aluminium processing has declined for the last four quarters while exports have increased.



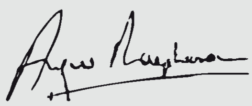
The second quarter figures show significant year on year growth in Glass, Plastic and Wood reprocessing and Aluminium, Steel and Paper exporting, suggesting that the obligation will be reached with ease in all materials except Glass and Aluminium. It could be deceptive as some 260 companies have still to register and the obligation may yet rise by some 200,000 tonnes.

Concerns remain over the export destinations of both Paper and Plastic in particular with Turkey stepping significantly into the hole left by China’s National Sword policy and Malaysia’s restrictions. This has provided value for some of the higher coloured content grades (80:20), overcoming gate fees, which raises concerns about the capability of destination countries using all the plastic supplied post-sorting.



The four consultations on extended producer responsibility, consistent collections by Local Authorities, deposit schemes and plastic tax are now closed. The Government has produced an almost equally lengthy summary of the responses. What is quite clear is that these consultations created considerable interest. As a consequence, and almost predictably there has been a wide range of understanding and interpretations. In many instances, answers of yes and no to the same question supported by the same reasons for their answers! Also there was a divergence of views between the general public and local authorities, who claim to represent them! The outcomes are that the Government has committed to the introduction of a deposit scheme by 2023, possibly earlier, and a plastic tax by 2022. They look to encourage more consistent collections and have decided to focus on two contrasting approaches to extended producer responsibility, one building on the current system, which would seem sensible, and the other a simplified Government controlled system. As some believe that it is the current system that is complex rather than the underlying problem, it will be enlightening to see how this simplification will be achieved.

Once again thank you for your support. We look forward to continue to be of service to you and to seeing you in Birmingham on the 11th and 12th of September.



Angus Macpherson
Managing Director

Q1 Supply Analysis

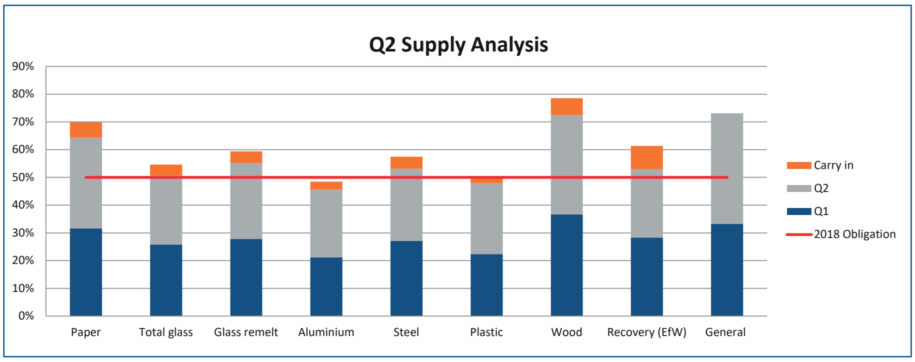
By Andrew Letham, Operations Manager

The confirmed Q2 data, released on the 9th August 2019 shows that a further 152 producers have registered since the Q1 data was released, adding a total of 371,942 tonnes (t) to the Recycling Obligation. With producer numbers still 261 short of the final number registered at the end of 2018 (7,033) the obligation is expected to continue to increase. The final Recycling Obligation in 2018 was 7,488,727t off a total packaging handled figure of 10,073,995t. The high cost of compliance last year will have encouraged producers to take steps to reduce exposure but whether that results in a slowdown in growth of packaging handled or even a potential decline remains to be seen. If packaging handled (which has consistently increased year on year since 2013) were to remain at similar levels in 2019, we could conceivably see the Recycling Obligation hit 7,550,000t tonnes by the end of the year, representing an upturn of approximately 150,000t from the figure of 7,406,893t reported in Q2.

Material	Carry In	Q1	Q2	2018 Obligation	YTD Supply + Carry In	Balance
Paper	163,912	932,706	967,026	2,953,897	2,063,644	-890,253
Total Glass*	69,383	444,164	426,908	1,721,805	940,455	-781,350
Glass remelt	48,993	320,772	315,568	1,153,609	685,333	-468,276
Aluminium	3,280	23,586	27,202	111,518	54,068	-57,450
Steel	16,561	103,055	98,455	379,414	218,071	-161,343
Plastic	23,009	244,366	279,596	1,092,243	546,971	-545,272
Wood	27,025	161,665	158,046	441,441	346,736	-94,705
EfW	50,919	172,242	149,981	608,404	373,142	-235,262
General *	0	234,463	282,154	706,392		
Total	*354,089*	*2,081,784*	*2,107,214*	*8,015,114*	*4,543,087*	*-3,233,911*

**Total Glass consists of the combined total supply of Glass Remelt and Glass aggregate.*

**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.*



Plastic recycling rates were much improved from Q1 with 279,596t reported as recycled. A record 108,511t of this was domestically reprocessed representing a 7% increase on the previous highest Quarter (Q1, 2019). A shortfall from Q1 does remain and the ability to plug that gap falls heavily at the feet of strained export markets which returned 171,083t in Q2, 10% (19,146t) down on the same period last year. Based off the current obligation (1,092,243t) 284,380t are required in each of the remaining quarters to meet the target in year. A difficult but by no mean impossible task which will certainly be helped by the sustained high prices, although much will depend on how much further growth we see in the obligation.

The British Steel situation (which caused a 50% PRN price increase in late May) looks like it is nearing resolution with no major lasting damage to the market. Producers will now hope that Steel recycling rates improve from the 98,455t reported in Q2 (which is 10% down on Q2 last year) to avoid any tightness creeping in later in the year. A 3% target increase this year has resulted in a less than proportionate increase in obligation with the additional 3,811t added to date confirming a movement away from Steel by producers.

Aluminium which saw a marked improvement from Q1 still remains in deficit. Only 49% of the current obligation of 111,518t (which is 14% up on last year) has been met in year and with record prices already reflecting the shortfall, they have continued to rise following the release of the confirmed Q2 data. It is hoped that the record high prices will attract newcomers to the market and we will see an improvement to recycling rates at the back end of the year.

Glass Aggregate figures are much improved from 2018, up 71% (97,811t) in the first two quarters. Some of this increase will be cannibalisation of tonnage previously bound for Remelt with a 45,328t (6.5%) downturn in recycling meaning total Glass is 52,483t (6.5%) up year on year. With the current obligation (1,721,805t) already 48,462t higher than last year, much of this increase has already been eaten up and although the material specific obligation looks achievable little contribution to General Recycling can be expected if prices continue to soften.

At the halfway point of the year we have met 72% of the current Wood obligation (441,441t) as the huge returns seen in Q1 continued in Q2 with 158,046t reported as recycled. At this rate the material specific obligation could be met by the end of Q3 and Wood will be a significant contributor to General recycling. Prices have already started to fall away as buyers retract from the market predicting a comfortable finish to the year which will likely have an impact on generation in Q3 and Q4.

Paper like Wood has benefited from an increase in accreditations in 2019 with supply up 10% year on year. As always Paper's material specific obligation (which is likely to exceed 3 million tonnes) will be easily met and the price will be determined by any tightness in the overall Recycling obligation. This currently looks very healthy, with the high PRN prices in the first half of the year allowing material to keep moving despite widely reported difficult trading conditions. The impact of softening Paper prices is yet to be seen but could be significant come the end of the year if we see a substantial uplift in the Recycling Obligation.

Insights from the Plastic Industry

After one of the most challenging trading periods in the history of the PRN system, we look at how record prices and high volatility are effecting both sides of the Plastic PRN market.

Duncan Oakes

Commercial Director, Clearpoint Recycling

With narrowing global markets due to tightening compliance controls and trade restrictions, the ability to find new markets and maintain ongoing supply has never been more difficult. Without the current values of Plastic PRNs we simply couldn't create viable recycling solutions for a lot of the plastic grades we currently handle.

There's been no end of debate about the value that a Plastic PRN should carry. Many buyers are outraged by the current prices but on what basis? Simply because its much higher than its been in the past? Perhaps the pricing we are seeing currently is a better reflection of the true cost of 'credible' recycling? There is an argument to say producers have benefited from many years of cheap compliance.

Many perceive that the PRN revenue is 'the icing on the cake' to businesses like ours. This couldn't be further from the truth. It is a key piece of the revenue stream on every tonne of packaging we handle. A highly volatile PRN creates nervousness across our commercial staff who fear committing to take material to only find the PRN pricing drops days later, resulting in a significant loss for the business. As a trading business we are constantly juggling moving variables, such as; currency, freight costs, polymer pricing, local and global demand, plant shutdowns etc. Recently the PRN has become the highest risk variable in any recovered plastic trade. t2e is vital to help us manage this risk.

As a key link with-in the recovered plastic supply chain, maintaining relationships with our suppliers and customers is a key priority to ClearPoint. High volatility in the PRN price is placing new pressures on these relationships. The unpredictable price changes behaviours of suppliers, some choosing to stock hold as the PRN price rises, followed by attempted stock sell offs as it plateaus or reduces. Buyers have also reneged on pricing on the day of collection because the PRN hasn't risen to the levels they expected. This erratic behavior has eroded trust within the supply chain and is adding further complexities to an already highly challenging trading environment.

Gareth Roberts

Managing Director, Comply Direct

As one of the largest UK packaging compliance schemes in terms of both member numbers and PRN obligation the current challenges of the PRN market can at times seem all consuming. Our absolute priority is to meet the needs of our members and to always put their best interests first. However, meeting their needs on accurate price forecasts in 2019 has been very challenging. There is no doubt that the sheer volatility of PRN prices in recent times and the prolonged overall higher relative prices are of great concern to producers. The 2019 Plastic PRN price movements have been noticably dramatic. The situation with Plastic has been building for many years but no compliance scheme has been able to accurately forecast the PRN prices we have witnessed this year. We also have ongoing issues with other materials such as Aluminium.

There is no doubt that all producers, have a passionate dislike for additional costs that they have not internally forecast. PRN costs come straight off their bottom line profits and PRNs costs are now significant enough that they are high up on board meeting agendas. The higher costs are equally hurting both smaller producers as well as larger producers. I would go as far to say that if Plastic PRN prices rise much further than their current levels then for some producers, they will simply not be able to afford the higher costs and will potentially drop out of the system and take their chances in being dealt with by the regulator.

Comply Direct will continue to put all our efforts towards delivering competitive compliance costs for our members but to also ensuring that we continue to educate all members regarding the key factors causing the volatility. Our multiple communication channels have been taken up more than ever before. We regularly courtesy call our members, we are doing more visits to our members, holding more PRN market webinars and producing more market analysis documents than ever before all to the ensure our primary contacts are fully briefed on the ins and outs of the PRN market.

It is easier for producers to accept the higher costs if there is evidence that the monies are being reinvested to improve the UK infrastructure and to drive ever higher recycling levels for packaging waste. We are seeing signs of this with UK Plastic recycling but it is slow progress. We have the current packaging regulations until at least 2022 and the next few years are likely to remain challenging as we move towards an anticipated new system from 2023. There are tweaks than can be made in the interim and Comply Direct will continue to lobby for any improvements than can be implemented in time to reduce the current volatility!

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