

## The Marketplace for PRNs

### Market Status Report By Tom Rickerby, Head of Trading



PRN prices surged in Quarter 2 as spiraling inflation, slowing global demand, and weakening consumer confidence all took its toll on PRN supply. Prices in the underlying recycling markets fell sharply in the quarter as the post pandemic commodity price bubble gave way to looming recession fears. Whilst an increasingly gloomy outlook and a deepening energy crisis will pose severe challenges for both producers and recyclers in the second half of the

compliance year and raises the real possibility of non-compliance this year.

A total of 405,587 tonnes traded on t2e during Q2, up 16% on the previous quarter and up 41% on the same period last year. 211,596 tonnes (52%) were traded in the 2022 Spot Market. 19,544 tonnes (5%) were traded in the 28 Day Rolling Market and 174,447 tonnes (43%) were traded in the 2022 Forward markets.

#### Paper

A strong recovery in the PRN price in quarter 1 was initially followed by more modest gains in Q2. Prices rose 18% to £13 in June but failed to consolidate the upward price trend. Spot prices slipped back to a quarter low of £10.25 in July as buyers remained cautiously hopeful of a Q2 supply boost on the back of stronger PRN price support. Any optimism was short lived though, with the release of the Q2 data showing a further decline in generation, down 1% on Q1 and 7% in the same period last year, potentially pushing General Recycling into undersupplied territory. Spot and Forward prices rose on the news, closing the quarter at a 25-month high of £15 per tonne. Traded volume was up 17% on the previous quarter.

#### Plastic

Plastic supply fears and strong demand saw a continuation of the upward price trend established at the end of Quarter 1. Prices rose steadily in the first half of the quarter before consolidating around £250 per tonne. A period of price stability ended with the release of Q2 data. An improved supply picture, up 9% on Q1 and the best quarter since Q1 2021, initiated a selloff in the Spot market. Prices closed the quarter at £182.25, down 30% on the year high. Despite the improved picture, plastic supply and demand remains challenging and with European demand slowing there are ominous signs that the prolonged period of buoyancy in the recovered plastic markets may be over.

#### Wood

Wood continued to trade at an average 27% discount to the Paper price. Despite tracking below the paper price for most of the quarter, the release of weak Q2 data saw Wood spot prices close the price gap, finishing the quarter up 150% at £15 per tonne.

#### Steel

Steel followed up a dismal first quarter, with its best 3-month supply performance in over a year. Steel PRN generation was up 61% on the previous quarter, whilst Steel Can recycling rose by 80% in the period. Improved supply saw PRN prices plateau for much of the quarter, consolidating around £30 per tonne across Spot and Forward markets. The average Spot price was up 42% on Q1 but trading volume fell 63% as buyers diverted attention and cash resources to more challenging materials.

#### Glass Remelt

Glass buyers will be nervously looking at last year's price graph to get an indication of where 2022's market may be heading as Spot price rose 37% to £130 in Q2. What will concern buyers more is the apparent disconnection between the higher PRN price and improved recycling performance. Despite a record average Q2 spot price, trading 3 times higher than the same period last year (£39.36 vs £118.50), Q2 data shows generation in the period has fallen by nearly 5,000 tonnes year on year. H2 will need to see significant improvements to supply if Glass is to meet its overall target this year.

#### Glass Other

The precarious nature of Glass' compliance outlook is exacerbated by significant underperformance in the Aggregate market where year on year generation has declined by a staggering 24%. PRN generation fell 16% in Q2 to the lowest level since Q3 2018. Prices strengthened on weak supply, rising 171% to a new all-time high price of £65, more than doubling the previous ATH. The gap to the Remelt price also continued to narrow. Aggregate closed the quarter trading at a 50% discount to Remelt, down from 75% at the end of Q1. This is a trend that is likely to continue in Q3 unless Glass Other can overturn its current supply deficit.

#### Aluminium

Q2 saw the weakest trading volume in 3 years as buyers struggled to corroborate sellers' bullish price sentiment with supply-demand fundamentals that continue to show a marginal oversupply. Despite the confused narrative, prices jumped 166% to a 24-month high of £100 per tonne as poor liquidity in the market fueled the inflationary trend. Aluminium Can prices fell as much as 20% from their peak in April during the period raising some concerns over the impact of rising energy costs and slowing demand within the sector.

Q2 May - Aug 22	High	Low	Traded this quarter	Quarterly Average Price	YTD Average Price	Total Volume
<b>Paper</b>						
Spot 2022	15	10.25	59,058	11.66	7.09	144,796
28 Day Rolling 2022	15	10.45	8,743	11.73	9.62	12,643
JUL Forward 2022	11	11	3,000	11	6.16	87,000
OCT Forward 2022	15	12.5	74,000	13.22	11.67	91,500
DEC Forward 2022	13.5	13	60,000	13.17	11.47	73,000
<b>Plastic</b>						
Spot 2022	260	163	59,002	226.52	164.65	130,983
28 Day Rolling 2022	255	165	5,040	224.21	163.83	15,724
JUL Forward 2022	250	230	800	245	107.96	12,875
OCT Forward 2022	248	180	2,400	208.33	139.84	9,835
DEC Forward 2022	260	180	4,500	204	198.19	5,250
Transitional JAN Forward 2023	260	250	1,000	255	255	1,000
<b>Glass Other</b>						
Spot 2022	65	24	10,759	46.51	26.22	32,962
JUL Forward 2022	60	30	1,950	40.41	21.99	8,190
OCT Forward 2022	52	50	2,400	50.33	25.57	8,910
DEC Forward 2022	52	50	2,400	50.33	27.08	6,400
Transitional JAN Forward 2023	50	50	2,000	50	50	2,000
<b>Glass Remelt</b>						
Spot 2022	130	95	8,939	118.5	81.01	34,567
JUL Forward 2022	125	110	3,000	118.33	122.5	6,000
OCT Forward 2022	100	100	1,000	100	120.56	9,000
Transitional JAN Forward 2023	120	110	2,000	115	110	3,000
<b>Steel</b>						
Spot 2022	40	28.5	4,930	30.74	20.94	21,785
28 Day Rolling 2022	35	30	2,000	31.25	27	3,500
JUL Forward 2022	31	31	550	31	18.13	8,550
OCT Forward 2022	28	28	3,500	28	22.45	9,500
DEC Forward 2022	30	28	2,500	29.04	18.85	7,500
<b>Wood</b>						
Spot 2022	15	6	38,793	9.17	6.14	73,483
28 Day Rolling 2022	12.5	12.5	3,000	12.5	9.07	7,000
JUL Forward 2022	8	8	2,000	8	4.16	20,000
OCT Forward 2022	9	8	5,000	8.6	5.55	15,500
DEC Forward 2022	9	8	8,000	8.75	7.95	11,000
Transitional JAN Forward 2023	9.5	9	3,000	9.17	9.17	3,000
<b>Aluminium</b>						
Spot 2022	100	37.5	1,775	63.96	35.68	4,091

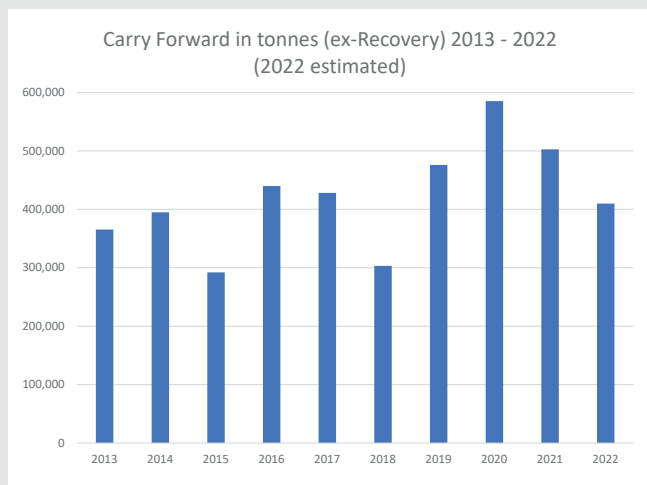
# The Marketplace for PRNs

## Managing Director's Comments August 2022

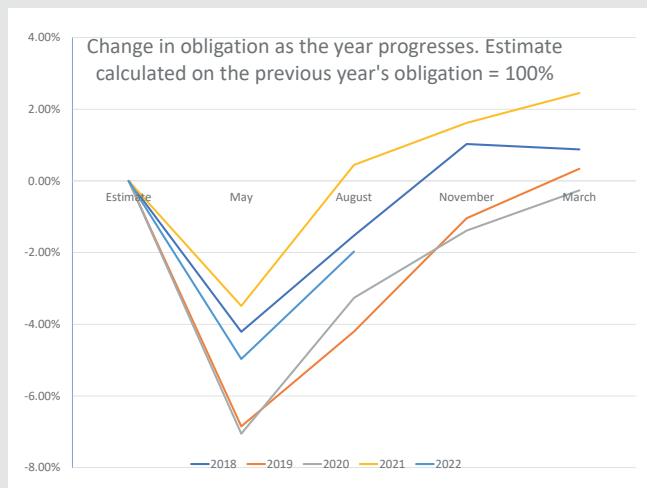


The United Kingdom seems to be in the eye of a perfect storm. Inflation is rising fast on the back of rising energy prices. While the latter has been blamed on the war in Ukraine, it could also be attributed to a lack of energy policy. The former has been a reality but hidden from sight by low interest rates for several years and is exacerbated by the pound weakening against the US\$ and the Euro. Now it is catch-up not only for prices but also wages with consequent strikes throughout

the public sector including by those collection packaging for recycling. The long dry summer although enjoyed by many has put significant strains on water which has not only impeded travel on the Rhine but also forced European reprocessors to take down time.



Meanwhile China is still following a lockdown policy to combat Covid which in ports has created chaos to global supply chains. Just as things seemed to be settling down strikes in Hamburg and Felixstowe have created further chaos. The result being large quantities of stock are at sea and a global stagnation in manufacturing. This is not a problem that can be resolved by higher prices alone, although it is an undoubted consequence as local demand exceeds supply. It provides little satisfaction that the situation in mainland Europe may be worse, but it may not be true. Even though secondary raw materials are less energy intensive to use than primary ones, export markets are coming under strain with most materials other than plastic showing year on year declines.



### Year to date

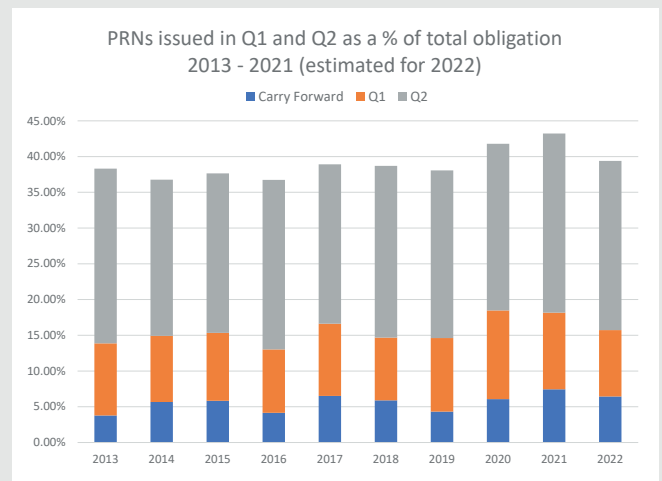
Data suggests that 2022 is going to be tight.

Demand has increased significantly between the publication of Quarter 1 (Q1) and Quarter 2 (Q2) data. Even so it is still some 150,000 tonnes below the anticipated level. It is rumoured that several large retailers are still to submit their final data. Why are these late submitters not named and shamed on the NPWD in the same way as reprocessors and exporters?

Supply is struggling with UK reprocessing in all materials except Plastic declining both Year on Year (YoY) and Quarter on Quarter (QoQ). Glass and Steel are particularly hard hit. The picture is not much better for exports. While there have been significant improvements in Steel exports and slight improvements in Glass Remelt and Plastic, the overall picture is one of decline with tougher times anticipated.

### Looking forward in 2022

All materials other than Glass should achieve compliance but with little room to spare. The General Recycling target is under pressure, with Wood making a far greater contribution than previously. Carry Forward will also reduce, possibly by as much as 20%. Glass is struggling and may need Carry Back from 2023 to achieve compliance, which will have a knock-on impact on in-year availability in 2023. High prices have resulted in a smaller percentage of PRNs being bought to date than in previous years.



### Looking forward to 2023 and beyond

Recession in 2022 may bring downward pressure on the demand side in 2023 but not necessarily, bankruptcies may have a greater impact. Potentially the start of the Scottish Deposit Return Scheme (DRS), an alternate collection system, could have a greater impact, although it would be simpler for all if beverage containers should both retain their obligation and have PRNs issued on them.

All indications are that Carry Forward into 2023 will be reduced. In year supply will remain constrained and potentially decrease until the impact of Extended Producer Responsibility payments due to Local Authorities on the increased contamination in household recycling collections and the DRS on packaging available for recycling.

However, the greatest issue at trying to predict 2023 is the absence of any targets!

Thanks to Joe Dougherty, for his wise words. Tough times ahead. We look forward to continuing to be of service to you and seeing you at RWM.

Angus Macpherson  
Managing Director

# The Marketplace for PRNs

## Q2 Supply Analysis By Andrew Letham, Operations Manager



Despite recycling rates rising 75,930t tonnes (t) from Q1, Q2 supply flattered to deceive with many materials still running a deficit against a rising demand figure.

Tight markets have further highlighted the need for more timely and accurate delivery of data with significant changes to both supply and demand after their scheduled publish dates. Whilst a major supermarket remains absent, Demand grew by 131,831 tonnes (t) from Q1 across all materials with Q1 supply also growing by 76,049t.

The in-year supply position remains tenuous with the 1,905,713t reported as recycled in Q2 adding little to the General Recycling pot which currently sits at just 13% of the required total. Higher PRN prices saw an uplift in both Plastic and Steel to levels that would ensure compliance if repeated for the rest of the year, however challenges remain, particularly in Glass which grew just 3% from Q1 despite record prices and Paper which saw a 10,576t drop in supply from an unexceptional Q1 return.

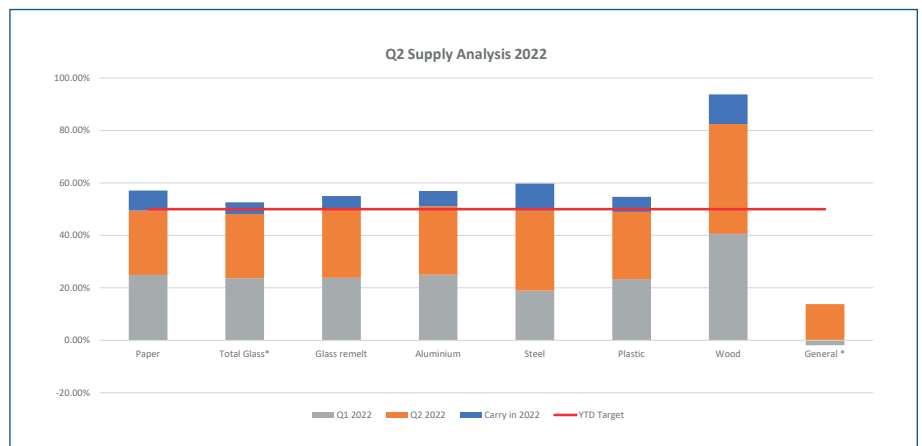
There are currently 6,884 registered producers, up 284 from the start of the year and 95 short of close of play 2021.

**Glass Remelt** grew 31,892t QoQ to 341,135t in Q2, 4,047t above last year's average of 337,088t which although positive is slightly dampened by the dramatic fall off seen in **Glass Aggregate** which at 99,649t fell to its lowest level since Q3, 2018. With the obligation anticipated to grow by a further c.100,000t when all producers are accounted for non-compliance would appear to be a very real threat. Over a million tonnes will be needed across the final two quarters of the year to meet compliance in year. A task made more challenging when record prices in Aggregate failed to stimulate the market in Q2.

Q2 did little to improve the supply situation in **Paper** as the 871,062t reported as recycled dropped 10,576 Quarter on Quarter (QoQ) and 69,420t Year on Year (YoY). To date paper has filled just 49.5% of its material specific obligation (3,541,123t) and is currently a net drain on the General Recycling target (482,684t). At the same point last year 57.5% of the final Paper obligation had been filled with an approximate 250,000t available for General Recycling. Based off current obligations 895,000t will be needed in each of the remaining quarters to meet target in year and allow for some of the 269,643t carry-in to be issued against General Recycling.

Material	Carry In	Q1	Q2	2022 Obligation	YTD Supply + Carry In	Balance
<b>Paper</b>	269,643	881,638	871,062	3,541,123	2,022,343	-1,518,780
<b>Total Glass*</b>	81,174	427,615	440,784	1,803,876	949,573	-854,303
<b>Glass remelt</b>	64,555	309,243	341,135	1,298,791	714,933	-583,858
<b>Aluminium</b>	8,212	35,382	36,937	141,420	80,531	-60,889
<b>Steel</b>	37,025	68,261	110,212	360,498	215,498	-145,000
<b>Plastic</b>	64,671	265,878	291,065	1,137,174	621,614	-515,560
<b>Wood</b>	41,977	151,009	155,653	371,698	348,639	-23,059
<b>General *</b>	0	-9,164	66,766	482,684		
<b>Total</b>	502,702	1,829,783	1,905,713	7,355,789	4,238,198	-3,701,449

*\*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.*



An improved **Plastic** return of 291,065t up 25,187t(9.47%) QoQ offers a glimmer of hope for compliance if recycling can be maintained at these levels. The summer months are notoriously slow for Plastic as factories shut down across Europe meaning even greater emphasis will be put on domestic Recycling which now accounts for 55% of all PRNs generated.

A welcome uplift in **Steel** Recycling saw the strongest return since Q4, 2020. The 110,212t reported as recycled is 41,951t (61.5%) up QoQ and goes some way to plug the supply gap left by an awful Q1. At present a further 178,113t are required to meet compliance in year, however diminished demand for finished product and the ongoing energy crisis will undoubtedly make for choppy waters ahead.

**Aluminium** supply remained steady in Q2 up 1,555t QoQ but down 2,735t (6.9%) YoY. At current levels there should be enough come the end of the year to meet compliance however prices have continued to escalate as supply remains difficult to come by with very few sellers willing to commit forward and less than 50% of all PRNs generated sold.

**Wood** continues to be the only material in a positive supply position despite the obligation growing 5.45% YoY. The 155,653t recycled in Q2 mean that 82% of the current obligation has been met and it will be likely be the largest contributor to the General Recycling pot in year.

## The Marketplace for PRNs

### Joseph Doherty – Managing Director, Re-Gen Waste



Re-Gen is a significant participant in the PRN market through its extensive local authority sorting contracts and its export activities. It is therefore heavily affected by PRN prices, and we do our best as we move through the year to try and predict how prices might vary. One thing is very clear, there is no direct link between material values and PRN prices.

There are many variables that influence the market, some predictable, some where there is plenty of warning and some where there is no warning at all. And the market doesn't always react logically. In the space of a month in July, the price of plastic PRNs fell 29% in a week then rose 68% in the following three weeks with little justification other than perception and speculation. So, let's look at some of the current factors that are creating so much uncertainty.

The recent strikes by council workers in Scotland and Northern Ireland saw much of the recyclable waste in those areas ending up in HWRC black bag waste. Whilst some may have been held back, that is tonnage lost forever and although in relative terms, the amounts are small, in a tight market they are significant.

The current energy price escalation along with water shortages are leading to widespread closures of paper mill capacity, especially in the EU. Along with finished product over-supply in Asia, waste paper packaging demand has collapsed, and paper is not alone. As major energy users, the recycling industry could see reduced production.

But it is not just the impact on manufacturers. The supply of recyclable household packaging waste is likely to be affected by the economic downturn and cost of living crisis. The potential outcome of increased energy prices for the hospitality industry could see a significant reduction in waste glass availability.

The other side of the PRN market is the demand created by producer data. As this is based on data for last year's sales, then whatever happens to consumption in the current year will have no impact on demand but will then be part of the calculations for next year.

Unusually, given that it is nearly six months since producers were required to register, there are still some major packaging users not yet registered. It is estimated that nearly 10% could still be added to

the glass obligation. With glass PRNs already looking to be in short supply, the late submission of data could have a dramatic impact, especially so late in the year.

In all previous years, wood and paper recycling target surpluses have been more than enough to plug the overall recycling target gap. This is not the case now and with paper struggling to meet its own target, the pressure is on wood and there is not enough to compensate for paper.

Glass would normally be expected to comfortably meet targets but an unexplained decline in non-melt recycling has raised concerns about an overall shortfall in glass PRNs for this year.

This presents a challenging position for 2022 compliance, and it creates uncertainty for 2023. At the moment, one of the biggest concerns is carry-forward PRNs. The 2021 carry forward reduced 2022 demand by over 6%. So, even if 2023 targets are the same as 2022, a lack of carry forward PRNs could require a significant increase in PRN production next year. Against that, there is the uncertainty over the amount of packaging that will be reported by producers next year. A fall in 2022 consumer consumption will see that reduce, it could also be affected by business failures that would see fewer businesses reporting. If the economy recovers in the early part of next year, it could see more waste, more recycling and ultimately, an oversupply of PRNs and reduced prices.

Re-Gen has seen significant growth in recent years and continues to invest in capacity and technology. On top of all the issues created by a volatile and uncertain PRN market, we must also consider how government policy and regulator enforcement will develop. Major new legislation such as EPR, DRS and Consistency will require significant investment by waste operators. Further delays in implementation and PRN price uncertainty will question the timing of this investment with the inevitable consequence of continued dependence on waste exports fuelled by high PRN prices.

An urgent review is required to consider options for smoothing the PRN system to reduce volatility, both for producers and the recycling chain. I believe this must be the vehicle to deliver this through discussion with Defra and the Agencies, but however it is to be done, action is required now to avoid similar issues in 2023.



**14-15  
SEPT  
NEC**

Visit us at stand  
R-N176 for your  
FREE  
PRN Consultation

