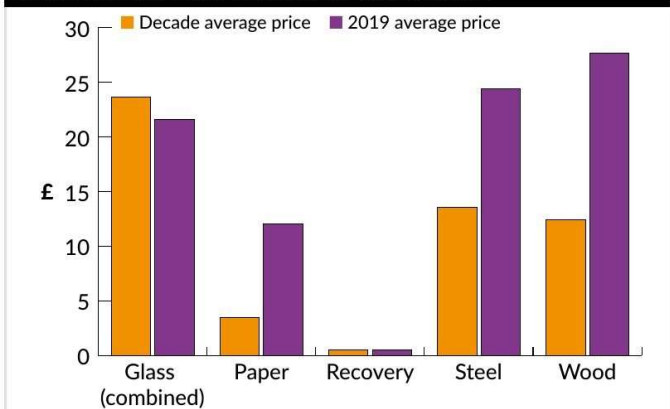
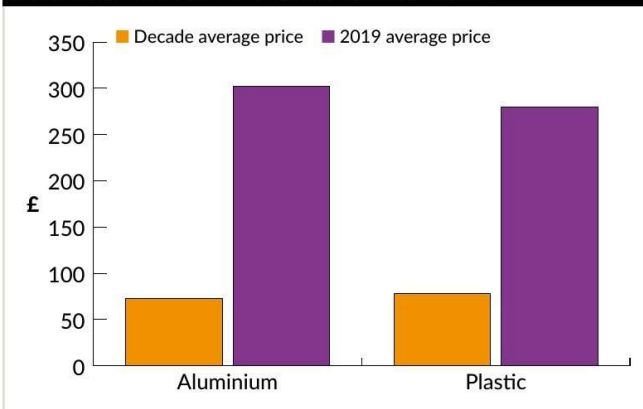


DECADE AVERAGE PRN PRICE AGAINST 2019 AVERAGE



DECADE AVERAGE PRN PRICE AGAINST 2019 AVERAGE



PRN market review: do prices reflect costs?

BY TOM RICKERBY

Head of trading, The Environment Exchange (www.t2e.co.uk)

The final compliance year of the decade has arguably been its most controversial. The packaging recovery note (PRN) system has become 'Marmite' policy in recent years, with stakeholders increasingly polarised by the benefits and flaws of the market mechanism.

But, love it or loathe it, the 2019 PRN market has been impossible to ignore for anyone operating across the packaging and recycling value chains.

Last year's spiralling compliance costs and unprecedented price volatility will be seen by some as another reason to reform the PRN system entirely. But, for others, achieving 2019 targets in adverse market conditions has shown that the system works.

For producers and compliance schemes, 2019 prices have obliterated compliance budgets, placed severe strain on cash flows and will raise questions over the transparency and use of escalating PRN revenues.

But for many recyclers, current higher PRN values are simply a truer reflection of the rising costs and complexities of driving UK recycling growth in increasingly regulated, competitive and unpredictable global markets.

The fallout from 2019 has seen more

engagement than ever with the t2e trading platform as producers seek greater price transparency, a better understanding of the market fundamentals driving PRN values and alternative ways to manage price risk. A record 1.74 million PRNs were traded across all t2e market sectors in 2019. What were the factors that influenced prices on t2e during the year that PRNs went mainstream?

Plastics



The plastic PRN has weathered its fair share of price volatility

in the past decade, as recovered plastic markets adjusted to increasingly challenging recycling targets and a highly changeable regulatory and economic trading landscape. The defining moment of the decade was China's import ban in 2018, which redefined PRN price parameters and tested the PRN system to breaking point.

With 2018 missing its in-year target by 50,000 tonnes, the question on everyone's minds was "could the UK recovered plastic sector recover to meet 2019 targets in the current disruptive trading climate?"

Despite a record Q1 average price of £127 per tonne, plastic missed its target

by around 25,000 tonnes. The news sent spot prices spiralling upwards as panicked buying drove exponential daily price increases. Between 23 April and 17 June, spot prices rose 165% to £450 per tonne.

What followed was equally unpredictable – a dip in the price saw nerves spread to sellers, initiating a 16-day sell-off that would wipe £290 off the price. But buyers' hopes of a return to more manageable pricing levels were short-lived, with prices returning to £450 by early August and spiking at a record £480 per tonne in September.

High PRN values were beginning to open up new markets across Europe, Turkey and south-east Asia, as well as driving new investment in UK reprocessing capacity. The second half of 2019 has seen record PRN generation, stabilising the PRN price. Prices for 2020 have also fallen, down 22% to £248 per tonne.

Paper



The paper PRN market has spent much of the decade trading in pence rather than pounds. The first eight years all averaged less than £2 per tonne and half of these have averaged less than £1.

Large paper surpluses kept prices suppressed, but China's National Sword initiative launched in 2016 marked the beginning of a new turbulent era for recovered paper markets.

The scaling back of demand from China and stringent new quality standards caused a displacement of recovered fibre on a global scale. Waste paper prices have collapsed, leading to an erosion of confidence in the markets and destabilisation of the PRN price.

Last year opened at record levels, fuelled by bullish seller sentiment and fears of a contraction in supply. Prices rose to a £22.50 per tonne in late March, driving up the floor price of general recycling and underpinning values in steel, wood and glass.

A stronger than expected Q1 supply figure dampened sellers' ambitions but the market recovered strongly in Q2, reaching a year-high of £23 per tonne in June. However, it would fail to hold on to those gains as Q2 supply data failed to show any significant evidence of a slowdown in PRNs.

Spot prices collapsed in the second half of the year, hitting a 36-month low of 50p per tonne in December. Despite the ongoing crisis, paper PRN generation is now at its highest rate since 2016. While this seems a contradictory narrative, data suggests that a weak pound and strong PRN subsidy has allowed paper traders to lock-in growth in alternative export markets.

This would offset the decline in demand from China, while the high PRN value has attracted a number of new seller accreditations to the market. Opening 2020 prices have seen a rebound to £8 per tonne.

Glass



Glass markets maintained consistently strong values during the decade.

In more recent years, the PRN value has been strongly influenced by the conflicting agendas of the remelt, aggregate and export sectors, with prices controlled to support the collection infrastructure while suppressing activity in aggregate and export markets.

But market destabilisation at the end of the 2018 compliance year and the subsequent high opening prices for

2019 upset this dynamic, driving a resurgence in aggregate PRN generation. More than double the number were generated in Q1 2019 than in the same period in 2018, removing much of the early supply uncertainty.

Strong aggregate supply would remain a key feature of the 2019 market, despite a significant downturn in the PRN price. The resultant over-supply saw spot prices fall in line with the paper market, and remained pegged to the general price for H1.

Re-melt prices continued to fall in the second half, hitting a year-low of £9.50 per tonne by the end of November. Prices had rebounded to £15.50 at year close, reflecting opening 2020 prices.

Aluminium



The aluminium market has attracted controversy in recent years –

2017 and 2018 both saw unpredictable price spikes at the end of the compliance year, contrary to healthy supply fundamentals, a market anomaly that has led to accusations of price manipulation.

Opening 2019 prices (the highest since 2016) reflected these concerns and, by the end of Q1, prices had risen 40% to £105 per tonne. The release of weak Q1 supply data ramped up the bullish rhetoric as concerns mounted over a market struggling to meet a 15% increase in demand.

Spot prices quickly escalated, compounded by poor liquidity in the market, surpassing by late July the previous record price of aluminium PRNs of £275 in 2005. Q2 also missed its target, pushing prices deep into record territory as aluminium became the year's second compliance risk.

A decline in the UK market has been central to underperformance in the 2019 aluminium market. This was highlighted by Q3 data as UK reprocessing fell to its lowest level since 2012. However, this was offset by booming export figures.

Despite the significant improvement to the supply picture, spot prices continued to rise, peaking at a huge £520 per tonne in December, the highest PRN price ever traded on t2e. This would also represent the end of competitive buying in the 2019 market and the bursting of

the bubble. Trading in the final month has seen spot prices collapse as low as £130 per tonne.

Steel



The supply and demand balance in steel has remained consistent during the past decade with few incidents to upset the equilibrium. Last year opened with a similar outlook, but sellers quickly benefited from the rising paper/general price. Early steel trading tracked fluctuations in the paper price.

However, news of British Steel's financial troubles unsettled the market, sending prices northward again. The spot price rebounded to £34 per tonne before softening again at the end of Q2. H2 was marked by a further rebound, this time to a year-high of £44 per tonne, as concerns of a more widespread slowdown in scrap markets began to affect PRN confidence.

Despite evidence of a contraction in H2 supply data, Q3 missed its target by 0.5%. Overall supply looks comfortable again for 2019, with spot prices falling 75% to close the calendar year at £11 per tonne. Early trades in the 2020 markets at £18-£20.50 reflect ongoing concerns about the health of the UK steel market.

Wood



Wood recycling has remained consistently strong in 2019, despite concerns

regarding the potential impact of the ailing PRN price.

Early trading saw spot prices jump 34% to a year-high of £47 per tonne in March, fuelled by another significant increase in the recycling target. But by April all gains had been lost. Prices fell on the release of Q1 data showing wood generation at its highest level since 2012, a statistic repeated in Q2 and Q3.

The consistency of wood supply meant the 2019 compliance target was met as early as September. More than 100,000 tonnes of surplus will be generated in 2019, placing wood firmly in general recycling pricing territory again. Prices fell in line with the paper market, closing the year at 95p per tonne, the lowest since December 2016. 