

The Marketplace for PRNs

Market Status Report *By Tom Rickerby, Head of Business Development*



It has been another highly volatile quarter for PRN prices despite improvements in the Q2 supply data. A surge in Paper prices has destabilised both the Steel and Glass Markets as buyers look to alternative materials for General Recycling. Whilst a resurgent Aluminium market, unprecedentedly high Wood prices and ongoing uncertainty in Plastic are likely to see compliance costs soar to

record levels this quarter.

322,344 tonnes traded during the period, up 16% on the previous quarter but down 28% on the same period last year. 184,124 tonnes were traded in the Spot market, 123,220 tonnes in the 2018 Forward markets and 15,000 in the 2019 Forward markets.

Paper

Paper PRN prices rose 180% during the quarter as fears over a shortage in General Recycling pushed Spot prices to a 13 year high of £15.50 per tonne. Growth in the Q2 supply data shows signs of improvements in the recovered paper market helping to stabilise the PRN price towards the end of the quarter. However further growth will be needed in Q3 if the current tightness in General Recycling is to ease and to compensate for in-year growth in the obligation figures.

Plastic

Plastic prices remained relatively stable during the quarter; fluctuating between £59.50 and a year high of £65.00 per tonne. The average Spot price was £62.67, up 2% on the previous quarter and 10% on the same period last year. An extended period of stable pricing and improving confidence in the export markets saw renewed interest in forward trading during the quarter. Forward volume was up 25% on Q1. When combined with record trading in the Spot market, Q2 saw the 2nd highest volume of plastic ever traded on t2e. Strong trading numbers on t2e were backed up by a record quarterly return in Plastic. Export Crisis... What Crisis?

Glass Remelt

Q2 saw the highest volume of Remelt traded on t2e since Q4 2014, marking an end to 2 years of price inertia. The sharp increase in activity on t2e coincided with further price volatility as the Glass market was destabilised by the rising Paper / General price. Average Spot prices were up 8% on the previous quarter and 22% on the same period last year.

Glass Other

Glass Other volumes have fallen significantly on t2e mirroring the decline in generation. Traded volume has fallen to the lowest levels since the split in the Glass PRN. However, prices have risen in line with the remelt this quarter resulting in the highest quarterly average price (£15.50) since Q4 2014.

Steel

Steel prices have been another beneficiary of the rising floor price of General Recycling. Having been swept up by the rising Paper price at the end of Q1, Steel prices continued to track ahead of the Paper price during the quarter, reaching a year high of £20.00 per tonne in July. Steel prices have now quadrupled since the beginning of the year. Strong price movement, escalating risk and growing interest in Steel as a potential hedge for General Recycling have led to record trading volume on t2e for the period, beating the previous record by 32% (11,726 tonnes). Transitional Steel opened at £13.50, offering the first glimpse of a potential 2019 price.

Wood

Wood prices broke new ground this quarter as distressed buying and weak supply continue to fuel unprecedented volatility in the PRN price.

Trading in early June saw the spot market hit record levels, surpassing the previous highest value for wood (£30.50) recorded in 2005. By the end of the quarter, prices had doubled again to £60.00. Significant improvement in the Q2 data will provide some relief for anxious buyers and suggests higher PRN values are beginning to stimulate the Wood recycling supply chain. However, until this is reflected in better liquidity in the Spot market, prices look set to remain high.

Recovery

The average spot price was £0.49 per tonne up 58% on the previous quarter. Traded volume was up 182% on the same period last year. Three quarters of the volume traded was transacted in the 2019 forward markets, opening next year's price at £0.45 per tonne.

Aluminium

Aluminium continued the general inflationary trend this quarter. Average Spot prices were up 61% on the previous quarter, reaching a year high of £36.00 per tonne. Frustratingly for buyers and contrary to healthy supply data, the Aluminium market continues to show the hallmark signs of a market in much weaker supply. Buyers will hope higher prices will now bring more selling to the table and help to stabilise the market.

	High	Low	Traded This Quarter	Quarter Average Traded Price	YTD Average Traded Price	Year to date aggregated traded
Paper						
Spot 2018	£15.50	£5.50	67,340	£11.23	£7.33	121,316
Oct Fwd 2018	£15.50	£6.50	15,600	£14.93	£4.05	87,600
Dec Fwd 2018	£6.50	£5.50	2,600	£5.73	£3.76	5,600
Plastic						
Spot 2018	£65.00	£59.50	70,087	£62.67	£60.84	154,491
Jul Fwd 2018	£65.00	£64.00	6,500	£64.50	£64.51	12,464
Oct Fwd 2018	£63.00	£62.00	2,500	£64.74	£61.80	3,800
Dec Fwd 2018	£62.00	£62.00	2,500	£62.00	£62.00	2,500
Glass Aggregate						
Spot 2018	£16.50	£13.50	1,867	£15.20	£13.77	3,073
Jul Fwd 2018	£15.50	£15.50	400	£15.50	£15.50	400
Glass Remelt						
Spot 2018	£16.50	£13.75	12,177	£14.97	£14.58	16,623
Jul Fwd 2018	£16.00	£14.00	11,750	£14.81	£14.81	11,750
Oct Fwd 2018	£16.50	£14.00	23,000	£14.78	£14.78	23,000
Dec Fwd 2018	£15.75	£14.00	16,500	£14.39	£14.39	16,500
Steel						
Spot 2018	£20.00	£6.45	15,724	£10.33	£7.59	37,221
Jul Fwd 2018	£17.50	£7.00	7,600	£9.64	£8.43	11,383
Oct Fwd 2018	£17.50	£8.00	11,750	£9.78	£9.78	11,750
Dec Fwd 2018	£17.50	£8.00	10,750	£9.85	£9.85	10,750
Jan Trans Fwd 18	13.5	13.5	2,000	£13.50	£13.50	2,000
Wood						
Spot 2018	£60.00	£25.00	10,414	£39.07	£28.04	18,822
Jul Fwd 2018	£37.50	£25.00	2,121	£30.76	£10.12	13,621
Oct Fwd 2018	£60.00	£25.00	5,649	£32.72	£26.64	8,649
Dec Fwd 2018	£50.00	£29.00	2,000	£40.75	£24.92	4,500
Aluminium						
Spot 2018	£36.00	£22.00	1,973	£27.00	£23.09	3,840
Recovery						
Spot 2018	£0.70	£0.45	4,542	£0.49	£0.34	27,740
Apr Fwd 2019	£0.45	£0.45	7,500	£0.45	£0.45	7,500
Jul Fwd 2019	£0.45	£0.45	7,500	£0.45	£0.45	7,500

Managing Director's Comments – August 2018



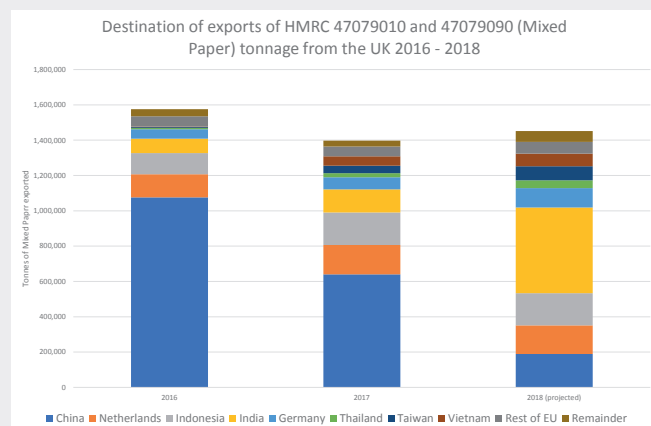
A quarter blessed by beautiful sunny weather but a stormy diplomatic period in the UK with debate raging on the location of the golden egg which Brexit represents and whether the goose that laid it has or has not been killed. To add anxiety a global trade war has broken out between

China and the United States and a contagious sequence of restrictions and bans have broken out throughout the Far East in succession to China's National Sword with Indonesia, Malaysia, Thailand, Taiwan and Vietnam enacting similar policies.

Against this background the PRN system has continued to strive to deliver compliance for the UK with its commitments to the environment and Europe. Prices have strengthened throughout the quarter reflecting the global challenges and PRN growth has been achieved.

On the back of strong forward trading into 2018, a million tonnes have been traded through t2e in 2018 PRNs. The earliest this has been done. As of yet forward trading into 2019 has not been as strong due partially to the focus on 2018, partially to the high prices and partially to the uncertainties of what may lie ahead with the whiff of change hovering in the anticipated Resources and Waste strategy due in the autumn.

Plastic PRN Growth



Despite this global turmoil Q2 has been a surprisingly good quarter for exports as paper exporters have found new markets, principally in India, for their mixed paper grades and exporters of glass remelt has had their best first half ever.

The major surprise has come from the rapid growth of PERNs issued on plastic exports. Since the beginning of National Sword HMRC data for all exported waste plastics indicates a decline in exports with Europe and Turkey picking up some of the slack created by China's, now 30%, reduction in intake, which reflects most people's experience on the ground, but PERNs have not only been consistently above HMRC waste plastic exports but in the most recent quarter that divergence



has increased to reach the highest quarterly figure to date.

The cause of this anomaly is not clear but it is an accreditation issue and may be a significant contributor to the belief within the plastic industry that the PRN system favours exporters.

PRN System review

There has been much speculation about what a review of the Packaging Waste Regulations might contain. While the PRN system is viewed to have worked well to date and successfully when compared with other producer responsibility regimes operating in the UK and Europe, there is a desire in some quarters that producers should pay more than they are currently. Whether this desire will remain after this year, which has been to date significantly more expensive than many of its predecessors, remains to be seen. There is also an ambition that producers should take on a wider range of financial responsibilities such as for litter collection.

The latest ideas are focusing on deposit schemes, an effective anti-litter deterrent but potentially detrimental to established recycling schemes, increasing tax on single use plastic bags, a direct cost to the consumer; and direct funding of local authority collections, pricing for which is potentially complex, rather than the indirect mechanism that applies currently through the PRN element within the payment for the secondary raw material.

Thank you to David and Colin for their insightful contributions and to you for your support. These are testing times. We look forward to continuing to be of service to you. I hope you have enjoyed the hot summer weather. We look forward to seeing you at RWM.

Angus Macpherson
Managing Director

Q2 Supply Analysis *By Andrew Letham, Sales and Marketing Manager*



A welcome improvement to recycling rates in Q2 with a 165,748 tonne(t) uplift in material specific recycling reported from the predominantly poor Q1 return. Above average results in Glass, Wood and Plastic saw total material specific recycling come in at 1,856,373t as Q1 supply also grew by 12,715t from the initial release in May. Although certainly positive, the growth in the overall material specific obligation which increased 168,840t from an additional 200 registered producers suggests caution tempers hope. The General Recycling obligation also grew by 30,579t meaning that at the halfway point of the year only 37.5% of the oversupply needed to meet this target has been generated.

Wood recycling got a much-needed boost in Q2 with 118,951t reported as recycled whilst the Q1 figure also increased by 5,848t. This leaves the market in a healthier position as we enter Q3 although it remains undersupplied by 3,409t. With the obligation expected to grow further (having already grown by 21,663t from Q1) and an element of keenly priced Wood certain to be held against General Recycling. We will need the strong Q2 result to be replicated or bettered in the final two quarters if there is going to be enough in the tank to meet the material specific obligation.

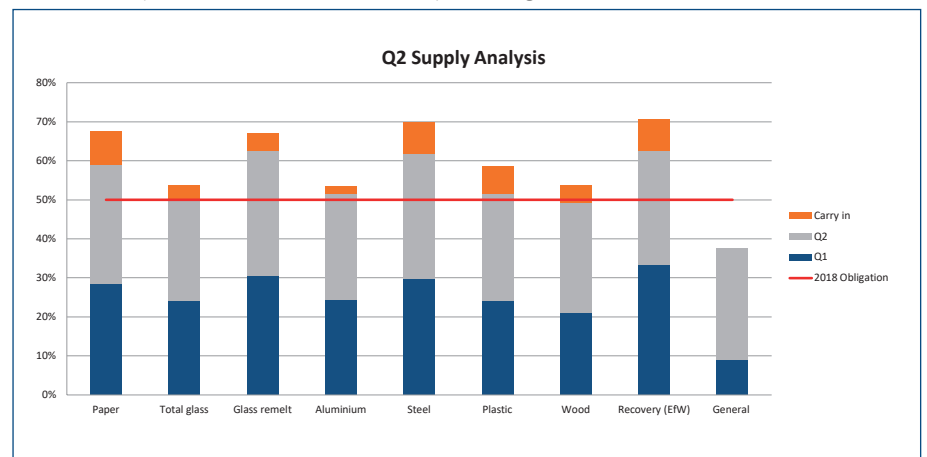
A rather extraordinary 285,053t of Plastic were reported as recycled in Q2, 10,482t higher than the previous record (274,571t in Q3, 2017) which was achieved with China still open for export. Even more staggering is that 7% more Plastic PERNs have been generated from export (354,199t) in 2018 than the supposed total of all Plastic waste exported from the UK (329,069t) as reported by HMRC. This highlights glaring errors in the policing/reporting of export and has a damaging effect on the credibility of the market. Tension has begun to build in the early part of Q3 with Vietnam and more recently Malaysia mirroring China's stance and closing their doors to imported waste. Now more than ever we need to have confidence that the situation on the ground is going to be reflected in the data so that recycling can be supported at a fair price for both parties.

Paper made a slight recovery in Q2 which has historically been a slower quarter. 894,376t were reported as recycled, representing 8% (64,319t) growth on Q1 this year and a small 0.5% (3,571t) increase year on year. With the Paper obligation growing 84,041t from the initial Q1 release and the expectation that this will grow further (potentially above 3 million tonnes) along with the General Recycling obligation (closer to 900,000t) we will still need to see

Material	Carry In	Q2	2017 Obligation	YTD Supply + Carry In	Balance
Paper	249,995	894,376	2,925,119	1,974,428	-950,691
Total Glass*	54,279	423,475	1,622,210	871,013	-751,197
Glass remelt	48,856	347,471	1,086,881	728,666	-358,215
Aluminium	1,802	25,388	94,143	50,295	-43,848
Steel	27,111	109,130	340,610	237,547	-103,063
Plastic	73,350	285,053	1,044,121	611,154	-432,967
Wood	19,062	118,951	425,013	228,159	-196,854
EfW	48,713	176,289	603,661	425,963	-177,698
General *	0	243,569	855,597		
Total	474,312		7,910,474	4,398,559	-3,511,915

*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.



a stark improvement in Paper recycling to achieve the overall recycling target in year with all other materials excluding Wood contributing only 83,618t of oversupply in 2017.

A strong Q2 for Glass with 423,475t in total recycled and an upturn in both Remelt and Aggregate which came in at 332,339t and 76,004t respectively. At these levels of recycling the material specific obligations should be easily met. However, with the increased Paper price making Glass a very viable option for General Recycling, anyone leaving buying to the last minute may well find volume difficult to come by.

Steel continues to be in a position of significant oversupply (40,131t to date) with 109,130t reported in Q2 for a quarterly target of 85,153. With prices starting particularly low this year, volume will again be used to cover General Recycling obligations. However, with the Steel price approximately 12% higher than General for the last two months one would expect that buyers are predominantly looking elsewhere.

A strong Q2 (25,388t) has done little to affect the upward price pressure seen in Aluminium since the beginning of the year. With supply extremely hard to come by but only 45% of Aluminium PRNs issued it would seem that sellers are reluctant to commit volume in a rising market.

The Marketplace for PRNs

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Six months on from imposed restrictions on export to China. We ask a both a Paper and Plastic exporter how this has impacted on their business.



**David Wilson, Managing Director
Vanden Recycling (Plastic exporter)**

Never has the phrase domino effect been more appropriate in the world of recycling than after the de-facto China ban on scrap plastic imports. All Asian territories, bar one, have now severely enhanced import regimes, imposed outright bans or were already operating on a notification system.

We all know the conundrum this exposes. The trading world sees export to Asia collapse. HMRC data shows no large scale increase in scrap exports to non-Asia destinations. Yet the NPWD reports another record breaking quarter; how can this be?

We're in the 3rd decade of Producer Responsibility regulation with

Industry & Government reviewing its operation. Consideration is being given to things like recyclability and properly allocating costs between Local Government and Producers. Laudable but potentially undermined by lack of reliable data.

To be a seller or buyer of evidence is one of life's great frustrations where PRN prices are dominated by news rather than numbers. The uncomfortable thought in all our minds is that the numbers are wrong and that will be explicitly shown one day. The market reacts accordingly and pricing is set by fear of exposure. When a market-based system was adopted all those years ago the assumption at the time is that it would be supported by data that made sense.

The quest for reliable data may be taken out of all our hands though. The Norwegians will propose at the upcoming Basel Convention that plastics be taken off the green list meaning all plastic scrap exports will require pre-notification. And we think exporting is difficult now.....

**Colin Clarke, Managing Director
Mark Lyndon (Paper exporter)**

Although the new GB China standard has been challenging for the UK paper industry, it has undoubtedly led to an improvement in quality as well as procedures to ensure standards are consistently met if producers wish to sell to China. Market dynamics have led to a big enough premium being paid that allows collectors of OCC to invest time and effort in additional sortation. Higher PRN values have also helped to offset these additional costs.

Chinese customs are strengthening their inspection teams in an effort to ensure UK material meets the Chinese specification but also working alongside exporters and depots to make UK material not only meet expectation but exceed it, which will help to solidify the UK's reputation as a quality source of raw material for the future.

China's ambition to become self-sufficient for raw material has also meant that large Chinese mill groups are fast realising that to give maximum return to their shareholders they need to become global businesses not just restrict themselves to Chinese manufacturing plants. This in turn should give UK producers of OCC and other paper grades more potential end destinations for their product. This has already been the case since the ban on Mixed Papers into China which has resulted in large volumes of UK Mixed dispersing into other South East Asian destinations. Producers must continue to improve quality though as the China ban has given the grade a poor quality reputation which may lead to other countries following suit and implementing similar bans.



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