The Marketplace for PRNs Q1 2024

Market Status Report By Tom Rickerby, Head of Trading

The UK recycling sector continues to show resilience in the face of strong economic headwinds, geopolitical tensions and supply chain disruption caused by the Red Sea shipping crisis. PRN prices in the period initially rallied on the back of weak sentiment and longer-term market uncertainty but have cooled on stronger than expected Q1 supply data. However, Aluminium and Glass both look to have underperformed in Q1, sending PRN prices higher in the period.

A total of 287,157 tonnes traded on t2e during Q1. 196,453 tonnes were traded in the 2024 Spot Market, 30,359 tonnes were traded in the 28 Day Rolling Market and 60,345 tonnes were traded in the 2024 Forward Markets.

Paper

Despite a comfortable finish to the 2023 compliance year, Paper markets opened 2024 pricing-in the uncertainty of a 3% General Recycling target increase. Spot prices opened the period at £8.00 but quickly consolidated around £7.50. However, a sequence of positive supply signals in Recovered Paper markets, contradicting weak market sentiment, saw buying support wane over the period. Confirmation of another record quarter broke sellers' resistance by the end of the quarter as Spot prices fell over 20% to close the quarter at £6.00 per tonne. The Paper PRN market continues to have sellers scratching their heads as record PRN generation in Q1 contradicts widespread reports of reduced arisings. If expected obligation growth in general recycling does not rebalance the market, Paper may be facing a return to low single figure PRN prices.

Plastic

A record supply year combined with a significant contraction in obligation in 2023 and improved carry-in volume has resulted in one of the more bearish starts to the Plastic market in recent years. Spot prices initially rallied to a quarter high of £205.00 per tonne. However, persistent selling pressure backed up by strong supply data saw prices begin to soften again from early March. Initially the market relinquished early gains to retrace to the £170.00 - £175.00 support level. However, by the release of strong April monthly data and subsequent record Q1 data, the correction had become more pronounced. By quarter close Spot prices had slipped to £135.00, down 34% on the quarter high. More favorable conditions for buyers saw the Q1 average Spot price drop by 43% on the same period last year. Q1 also saw record plastic volume trade on t2e, boosted by strong Forward trading as wary sellers sought to hedge against longer term downside price risk, a potential further indicator of a bearish outlook for the 2024 Plastic market.

Wood

Despite a soft finish to 2023, Wood PRN markets opened 2024 in a more optimistic mood, predicated by increases in both the Wood specific and General Recycling targets (forecast to generate a further 200-300K of demand). Spot prices flirted with a return to double figures for the first 2 months of the quarter but by April, sellers' early optimism was beginning to waver. Unsettled by a bearish turn in the Paper market following a surprisingly strong Q1 supply, Wood prices duly followed Paper prices south. Spot prices fell 28% to close the period at £7.25, maintaining a 20% premium over the Paper price.

Glass

Glass Remelt kicked off 2024 in typically polarized fashion with buyers and sellers appearing to occupy very different ends of the pricing spectrum and showing little appetite for compromise. There was little trading to report on in the first 2 months, however, prices opened (reluctantly) in line with the previous year's low price of £105.00. By early April there was sufficient data evidence to back up sellers' claims of reduced material arisings to initiate some upward price movement. The final month of the quarter saw prices rise 19%, closing the period at £125.00, 1.5% above the 2023 average.

This year's change to the Glass target split has brought a more bearish outlook to the 2024 Aggregate market. Spot price initially opened in line with the Remelt price trading at a £2.00 discount following the established trend of recent years. However, by March prices had begun to decouple and by quarter close prices had fallen13.5% to £89.00, opening up a £36.00 per tonne gap to the Remelt price. ***[Continued on page 4]***

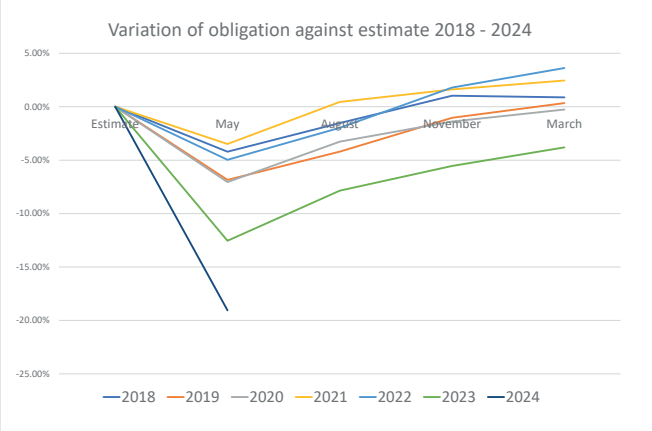
Q1 Feb - Apr 2024	High	Low	Traded this quarter	Quarterly Average Price	YTD Average Price	Total Volume
Paper						
Spot 2024	£8.50	£6.00	78,606	£7.50	£7.44	100,965
28 Day Rolling 2024	£8.00	£7.00	8,420	£7.72	£7.72	8,420
APR Forward 2024	£8.25	£7.25	7,250	£8.09	£7.53	17,750
JUL Forward 2024	£8.25	£7.25	7,350	£7.81	£7.63	9,450
Plastic						
Spot 2024	£205.00	£135.00	61,783	£177.10	£175.94	80,476
28 Day Rolling 2024	£200.00	£130.00	17,829	£173.40	£175.17	22,429
APR Forward 2024	£200.00	£172.00	5,965	£180.55	£175.93	12,325
JUL Forward 2024	£185.00	£140.00	7,200	£172.14	£175.58	11,550
OCT Forward 2024	£175.00	£165.00	7,545	£171.63	£174.63	11,295
DEC Forward 2024	£177.50	£172.00	2,250	£173.89	£178.24	6,100
Glass Other						
Spot 2024	£103.00	£89.00	10,613	£94.64	£95.67	12,113
28 Day Rolling 2024	£101.00	£91.00	1,250	£98.60	£99.86	1,750
APR Forward 2024	£101.00	£100.00	1,500	£100.33	£100.17	3,000
JUL Forward 2024	£101.00	£101.00	500	£101.00	£100.33	1,500
Glass Remelt						
Spot 2024	£125.00	£105.00	9,940	£111.02	£111.02	9,940
JUL Forward 2024	£110.00	£110.00	500	£110.00	£105.38	6,500
OCT Forward 2024	£120.00	£120.00	2,000	£120.00	£108.75	8,000
Steel						
Spot 2024	£35.00	£25.00	7,843	£31.10	£27.84	12,836
28 Day Rolling 2024	£35.00	£32.00	2,724	£32.54	£32.54	2,724
APR Forward 2024	£35.00	£30.00	4,135	£31.25	£24.93	9,135
JUL Forward 2024	£32.50	£32.00	2,800	£32.32	£27.19	4,800
OCT Forward 2024	£35.00	£32.00	3,000	£33.42	£33.42	3,000
DEC Forward 2024	£35.00	£32.50	1,800	£33.89	£30.71	2,800
Wood						
Spot 2024	£10.00	£7.00	23,829	£8.68	£8.30	37,980
28 Day Rolling 2024	£8.00	£8.00	91	£8.00	£8.00	91
JUL Forward 2024	£7.75	£7.75	4,000	£7.75	£8.62	6,500
OCT Forward 2024	£10.00	£10.00	750	£10.00	£10.00	3,250
Aluminium						
Spot 2024	£100.00	£32.50	3,839	£67.97	£59.43	5,144
28 Day Rolling 2024	£70.00	£70.00	45	£70.00	£70.00	45
JUL Forward 2024	£100.00	£80.00	600	£87.08	£87.08	600
OCT Forward 2024	£100.00	£80.00	600	£87.08	£87.08	600
DEC Forward 2024	£100.00	£80.00	600	£93.33	£93.33	600

Managing Director's Comments May 2024

A busy quarter with the final data from 2023 and the first from 2024. Trading has been steady but restrained. Partially attributed to high prices as the market tries to fathom the implications of the increased General Recycling target. The Deposit Return Scheme (DRS) has been further delayed to 2027 and a surprise election is announced. While nothing is ever certain in politics in all probability it looks as though there will be a change of Government exacerbated by Conservative Candidates getting mired in a betting controversy. It is to be anticipated that a Labour Government will continue down the route of Extended Producer Responsibility (EPR) and DRS.

Final Analysis on 2023

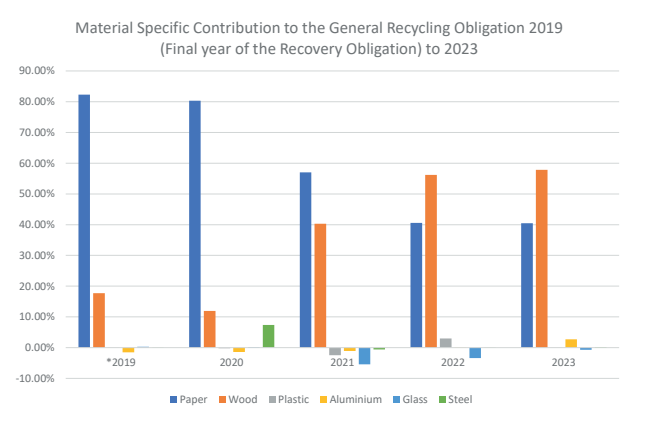
2023 finished in surplus. While this was rarely in doubt, the degree of surplus, particularly in plastics, plastics exports in particular, and to a lesser extent paper exports, has stimulated some incredulity. Similarly the degree of drop in the obligation (-3.81%), although forewarned in earlier quarters came as a surprise. As a result, carry forward has returned to the scale of previous years and PRNs retained value until the year end.



The obligation has opened in 2024 even lower than last year (-19.06%), some 6.5% below expectation based on 2023 tonnage and over a million tonnes less handled. While the economy hovered in and out of recession in 2023 with high interest rates (and inflation) curbing expenditure, this degree of drop is unprecedented. The fear of costs as a consequence of the introduction of EPR would appear to have driven some to revisit their packaging calculations or, some suggest, struggling to acquire the packaging data required for EPR, which has delayed their NPWD submission.

General Recycling

Increasing concern is being expressed about the withdrawal of the General Recycling obligation from EPR. It has been a major contributors to price stability in the PRN market as well as targets being not only being met but also exceeded with a consequent avoidance of the introduction of a compliance fee. The current proposal where there are only material specific targets not only creates the prospect that the total of the material specific targets do not reach the desired overall packaging recycling level but also, with no reward for exceeding the targets added to the uncertainties that individual years provide, that material specific targets will not be met and consequently PRN prices soaring towards infinite values. At the other extreme, there is the prospect that material specific targets are always met with PRNs therefore tapering to administrative values and reprocessors and exporters becoming disincentivised from using secondary raw materials.



This graph demonstrates how important the General Obligation has been for all packaging materials, in particular Paper and Wood. The percentages have been calculated from the number of PRNs issued and accepted into the relevant compliance year divided by the net general recycling obligation once the material recycling obligations have been removed. Where negative amounts are shown this is because the PRNs have not been issued because of the non-compliance by obligated producers, which has pushed prices downwards, not because there has been insufficient packaging waste accepted for sufficient PRNs to be issued to meet the General obligation.

Conflict of aims

Against a background of EPR being a supply push with local authorities being rewarded to collect recyclable packaging, rather than demand pull model as currently, where reprocessors are rewarded for using secondary raw materials, there is the prospect that EPR may result in an increase in local authority recycling and a decrease of overall recycling at a great cost to society with costs ultimately being pushed onto the consumer, further stoking inflation!

Once again thank you for your support. We look forward to being of service to you in the future. There is a great deal of this year to run. We also look forward to welcoming Anna Groves-Henry who is taking over from Aimee Macintosh.

Angus Macpherson
Managing Director

Anna Groves-Henry

Anna has joined the t2e team as Office Manager, PA to Angus Macpherson, and Settlement Support. After graduating university with a degree in English Literature, Anna began her career in Public Relations. Since recently moving to Edinburgh, Anna is excited for her new role within environmental services. Outside of work, Anna can be found reading a book, at Pilates, or visiting a local café for brunch.

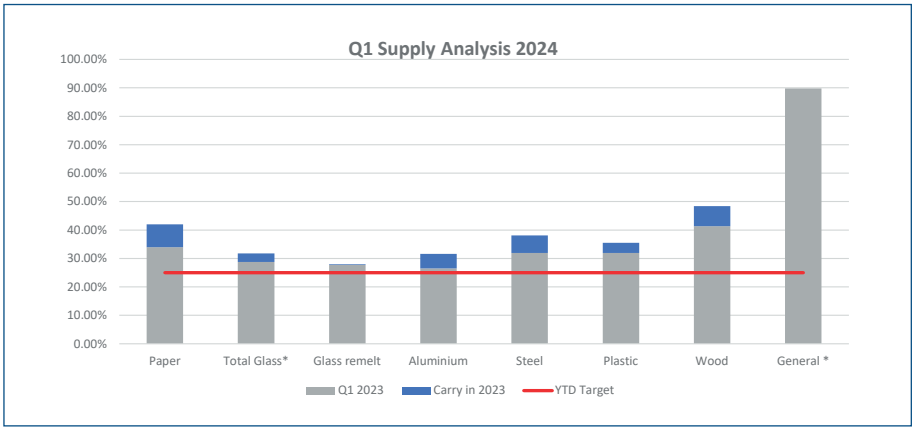
Q1, 2024 Supply Analysis

By Andrew Letham, Operations Manager

Major disruption in the Red Sea at the turn of the year had minimal impact on materials heavily reliant on deep-sea export in Q1, as both Paper and Plastic saw supply increase year on year (YoY) by 1% and 7.5%, respectively. Other materials fared less well, as Glass, Aluminium, Steel, and Wood supply dropped, with Aluminium experiencing the largest decline at 14.5%. Overall supply fell by 26,763 tonnes (t) YoY, as 2,075,300t were reported as recycled, slightly exceeding last year's quarterly average of 2,050,964t.

Material	Carry In	Q1	2024 Obligation	YTD Supply + Carry In	Balance
Paper	244,510	1,039,155	3,056,465	1,283,665	-1,772,800
Total Glass*	45,163	435,034	1,510,686	480,197	-1,030,489
Glass remelt	2,755	313,808	1,133,014	316,563	-816,451
Aluminium	6,733	35,366	133,260	42,099	-91,161
Steel	18,857	97,988	306,487	116,845	-189,642
Plastic	33,940	304,614	953,602	338,554	-615,048
Wood	27,647	163,143	394,418	190,790	-203,628
General *	0	486,475	541,888		
Total	*376,850*	*2,075,300*	*6,896,806*	*2,452,150*	*-3,902,768*

**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.*



Carry-in increased by 235,838t from last year, however, much of this additional availability will be absorbed by target increases in Wood (+7%) and General Recycling (+3%), potentially adding approximately 250,000t of additional obligations if packaging handled remains consistent with last year.

Late producer submissions continue to affect the market, with only 6,184 producers registered in the initial obligation release, down 4% from last year's opening number and 14% (1,014) from the final release of 2023. New EPR deadlines were considered a factor; however, only 79 additional producers have been added at the time of writing, despite the EPR deadline passing. This trend is significant, as obligations are currently over a million tonnes below the final figure in 2023, and it is highly likely that 2024 will surpass this, potentially resulting in the addition of 1.2 million tonnes come the end of the year.

A record **Paper** return in Q1 defies expectations, with reported collections and exports down during the period. 1,039,155t were reported as recycled, up 1% YoY and 4% above last year's average of 995,153t. Current obligation levels (3,061,013t) do not reflect the true requirement, which will likely exceed 850,000t per quarter before considering increased demand for General Recycling. However, if current recycling rates persist, this will have little impact on what is currently a well-supplied market.

Plastic had its best opening quarter ever, with 304,614t reported, up 7.5% YoY. Coupled with an increased carry-in of 33,940t, Plastic appears to be in a comfortable position, reflected in a 30% price drop from January's highs. The current obligation (955,379t) is 203,436t below last year's final total, and it is expected to be close to this figure by the end of the compliance year in January 2025. This means around 270,000t will be required in each of the remaining quarters to meet compliance if no PRNs are to be carried into 2025.

Aluminium recycling saw the most significant decline in Q1, down 14.5% YoY and 13% (5,223t) below last year's average. If this trend continues, the 35,366t recycled in Q1 will be insufficient to meet annual compliance, despite obligations currently sitting 10% below last year's final number of 149,047t. A healthy carry-in of 6,733t will help, but higher PRN prices will prove the biggest driver for increasing supply.

Glass also had a poor opening quarter, down 30,139t YoY. With Remelt declining -32,458t, and Aggregate experiencing a slight increase +2,319t as early trading prices for the two grades were similar. With Aggregate on course to meet its newly reduced target (25%) and Remelt struggling, the price divergence between the two grades has increased. The resulting reduction in competition for Remelt material from creators of Glass Aggregate should boost Remelt PRN supply significantly. How significantly will dictate if Remelt PRNs will need to be held against Aggregate obligations, as has been the case for nine of the past ten years.

The full impact of changes in the **Steel** market remains to be seen, but Q1 recycling fell in line with last year's average at 97,988t, down 7,245t (6.8%) YoY. Domestic reprocessing of Steel doubled in Q1 2024 compared to 2023. However, this trend may reverse in the second half of the year as Tata exits the market to transition to electric production. At current supply levels, there is little room for error, making Steel a material to watch in Q2.

Despite a 7% increase in the **Wood** recycling target and a 9% YoY drop, Wood is unlikely to face significant supply pressure unless Paper recycling declines substantially from current levels. The anticipated increase of around 70,000t in obligation will be easily met by current Wood supply, which slightly fell below last year's Q1 average at 163,143t. In this scenario, Wood could contribute approximately 200,000t to General Recycling, down 85,000t from last year.

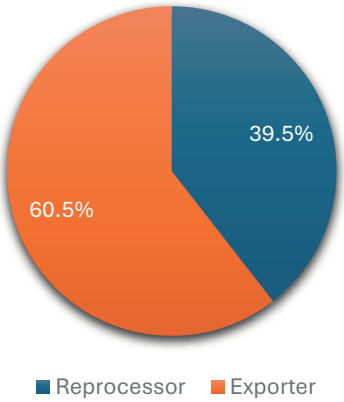
Reprocessor & Exporter Survey 2024 Analysis

By Todd Lines

Accreditation Type

The t2e Reprocessor & Exporter Survey 2024 saw responses from both accreditation types, Exporters and Reprocessors – with the majority of respondents (60.5%) operating as Exporters compared to 39.5% currently registered as Reprocessors. A similar breakdown to what was observed in 2023.

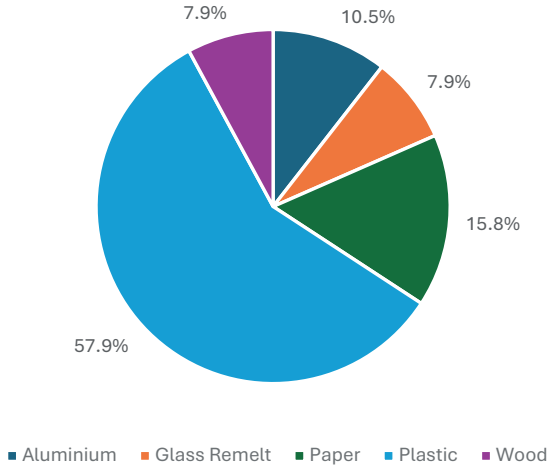
ACCREDITATION TYPE



Material Type

Plastic sellers, as in previous years, were the lions share of responders with 57.9% of those completing the survey being registered to handle Plastic. Followed by Paper at 15.8%, Aluminium at 10.5%, and Wood and Glass Remelt at 7.9% respectively. Unfortunately, no respondents who completed the survey handled either GlassOther or Steel, meaning further answer trends will not reflect the opinion of those who do. The survey in 2023 saw a slightly better representation across the materials, with only GlassRemelt sellers failing to complete.

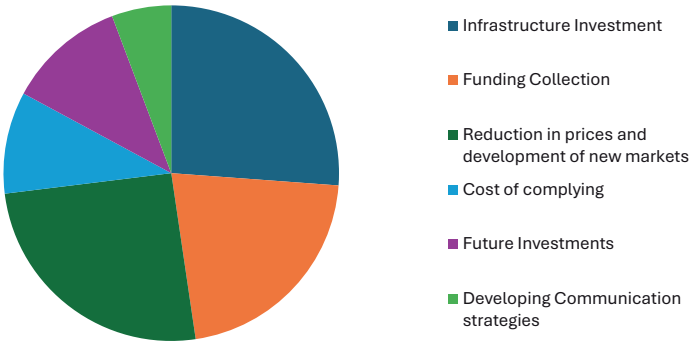
MATERIAL HANDLED



Allocation of PRN incomes 2023/2024

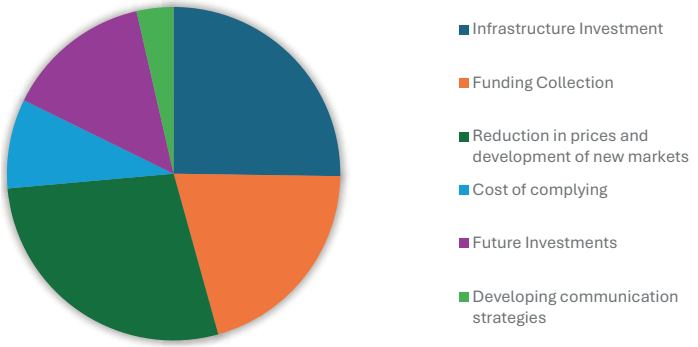
When asked what purpose respondents allocated the majority of their 2023 PRN/PERN income to, two causes were marked with equal importance – ***Infrastructure Investment***, and ***Reduction in prices and development of new markets***. The purpose which was noted by respondents as of least importance was **Developing Communication Strategies**.

PRN INCOME ALLOCATION 2023



A similar allocation was observed when respondents were asked how they intended to allocate their PRN/PERN income in the 2024 compliance year. ***Reduction in prices and development of new markets*** and ***Infrastructure Investment*** were the clear favourites, with **Developing Communication strategies** being marked as the least significant purpose impacting Reprocessors and Exporters.

INTENDED PRN INCOME ALLOCATION 2024



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Aluminium

The 2023 market saw the Aluminium PRN price 'pump and dump' in spectacular fashion, building to over £200.00 per tonne in the first 6 months before collapsing to less than £5.00 per tonne in the second half of the year. Aluminium buyers will be forgiven for feeling a foreboding sense of déjà vu in the 2024 market. Prices climbed consistently during the quarter, surging more than 200% to £100.00 per tonne. Improving prices brought renewed engagement from sellers as the quarter wore on. April saw 2.5 times the number of transactions as the previous 2 months combined and 75% of the total volume traded. Of more concern to buyers this year is that rising prices seem to be justified by weak supply. Q1 generation fell by 14% and appears to have missed target.

Steel

It has been an unsettled start to the 2024 Steel PRN market since news of Tata's planned transition to electric arc furnaces raised the risk outlook for the compliance year ahead. Early trading saw prices continue the upward trend established in January. Spot prices rose 40% to a 10-month high price of £35.00 per tonne in early March, but plateaued to see out the remainder of the quarter trading in a narrow range between £32.50 and £34.00. Sufficient Q1 supply should help to maintain price stability for now. However, generation in the period was down 7% on last year and has now failed to hit the key performance benchmark of 100,000 tonne/quarter for the 3rd consecutive quarter. This has not been seen since 2019 and suggests a market that is not 'firing on all cylinders' and remains vulnerable to stagnant global economic conditions. A strong Q2 is now needed to give confidence to the market going into the 2nd half of the year when Tata are expected to begin first phase decommissioning.

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