

Material Focus Packaging

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The 2016 compliance year set a new benchmark for the generation of packaging recovery notes (PRNs). In-year PRN generation was up 15% on the previous year, resulting in large surpluses being carried into the 2017 compliance year during the transitional trading period.

High surpluses mean lower PRN prices, and the collapses at the end of the 2016 compliance year had natural repercussions for the opening ones of the 2017 markets.

PRN prices started on average 34% lower than the previous year, with only glass remelt and aggregate opening marginally higher than the 2016 early prices. Perceived risk plays a large role in determining early PRN values, and the lack of any significant change to recycling targets in 2017 gave sellers little hope of any early recovery.

Such low-risk, low-value conditions can create a general state of ambivalence towards PRN trading in the early months of the compliance year, as buyers divert resources to the task of collecting packaging data for the April submission deadline. This lack of urgency has clearly been evident in the 2017 markets, with traded volumes on t2e down a third on the same period last year.

With weak demand and a bearish outlook, prices softened from their opening levels during the first two months of the compliance year. During that trading period, aluminium spot prices fell 20% to £8 per tonne, steel fell 12% to £7 per tonne, wood fell 23% to £1.55, glass other was down 4% to £11.50. Glass remelt remained relatively stable during the period, trading between £11.75 and £12.

Even paper, starting the year at historic lows, fell 12% to 75p during the period. Plastic opened at its lowest price for four years and remained uncharacteristically flat, despite a 2% target increase. It traded at between £25 and £26.50 in the early exchanges.

However things were set to change, and it would take an unpredictable sequence of events in the waste export markets to shake the early lethargy from the PRN market.

In mid-February this year, China announced Operation National Sword, an initiative to clamp down on the illegal import of waste. Stringent checks would be carried out on all containers entering Chinese ports. If quality or weight irregularities were found, containers could be held or rejected, placing huge financial and reputational risk on the waste exporter.

The result has been an effective stop on all lower grades of recovered plastics (along with many packaging grades) to China. To compound the situation, unprecedented eastbound freight rate increases and container shortages have played havoc with the export markets, and has made shipping lower grade plastics to alternative markets in Malaysia and Vietnam unviable.

National Sword has drawn natural parallels with Operation Green Fence, the similar Chinese initiative in 2013, a year that saw PRN prices spike at £75 per tonne on supply fears.

A week after the National Sword announcement, PRN prices started to rise and have maintained a steady



increase, spiking at £46 in early April.

At the time of writing, plastic has seen a price correction down to £40 following the release of monthly supply data that hints at a record first quarter, contrary to the overwhelming market sentiment. Despite this, many sellers remain bullish and are predicting challenging export conditions on low-grade material and reduced PERN generation for the foreseeable future.

While the impact on PRN prices has so far been largely isolated to the plastic market, there are signs that paper exports are also finding trading conditions challenging. A recent collapse in the recovered cardboard price has knocked some of the confidence out of the market and PRN prices have firmed up as a result, increasing 27% to 95p in recent weeks.

After a slow start, 2017 is shaping up to be another unpredictable year in the PRN markets. 

SPOT PRICES COMPARISON

