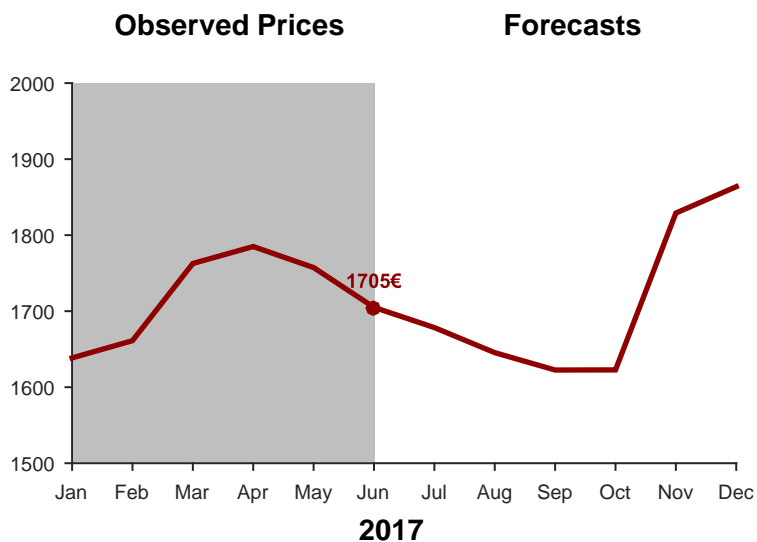


Forecasting the Price of Aluminium

Commodity	Aluminium (London Metal Exchange)
Forecast Period	July 2017 – December 2017
Currency	€
Unit	Metric Tonne
Observations	Monthly forecasts of the monthly average price



Forecasts



Month/Year	Forecast	Prob. of Raise
Jul. 2017	1678€	30 %
Aug. 2017	1645€	44 %
Sep. 2017	1623€	47 %
Oct. 2017	1623€	49 %
Nov. 2017	1829€	61 %
Dec. 2017	1864€	57 %

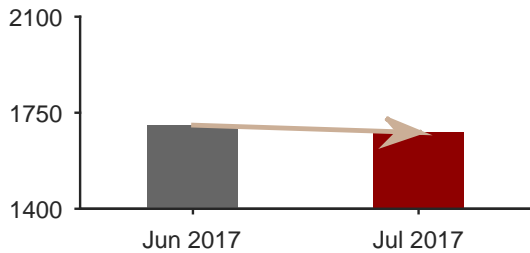
Suggested Action for Procurement

Purchase Limit Month	Suggested Action
July 2017	Buy in July
August 2017	Wait
September 2017	Wait
October 2017	Wait
November 2017	Wait
December 2017	Buy part of requirements

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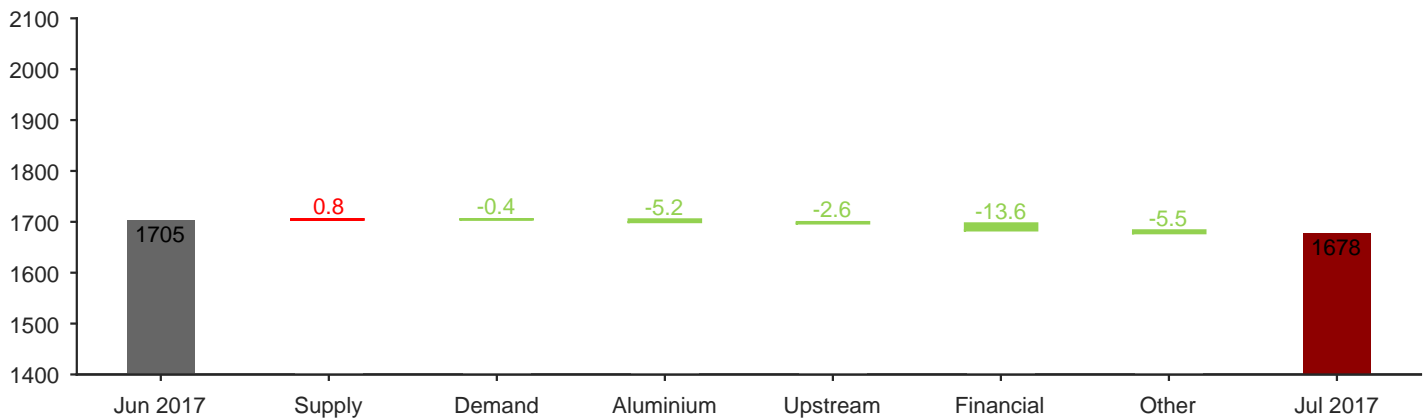
Forecasting the Price of Aluminium

Impact Analysis: One Month Forecast



Our algorithm forecasts a lower price of Aluminium in one month: it is expectable that the price decreases 1.55% from 1705€ to 1678€ until the beginning of July.

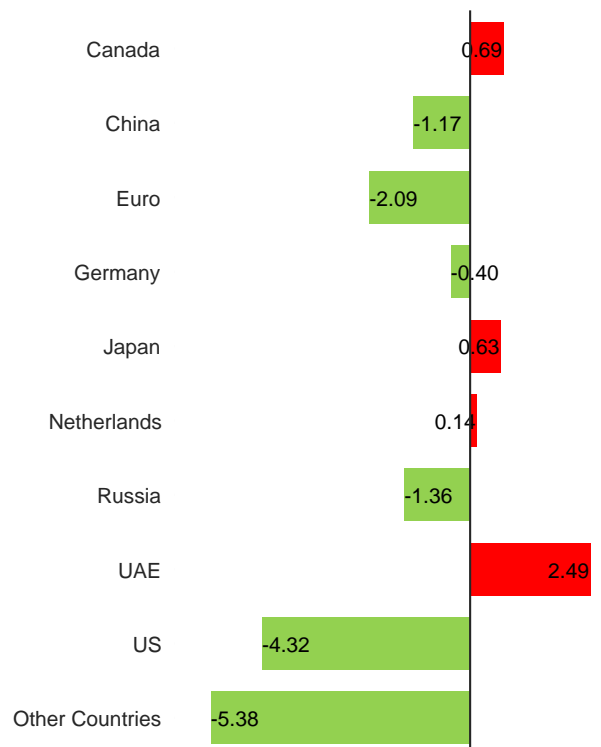
Indices of Factors



Interpretation

- Slight decrease of Supply: Positive pressure of the Supply index
- Slight decrease of Demand: Negative pressure of the Demand index
- Negative pressure of the index of Aluminium
- Negative pressure of the index of variables representing the market upstream
- **Considerably negative pressure of the financial index**
- Negative pressure of other commodities and other factors
- Focus on US, Norway, and UAE

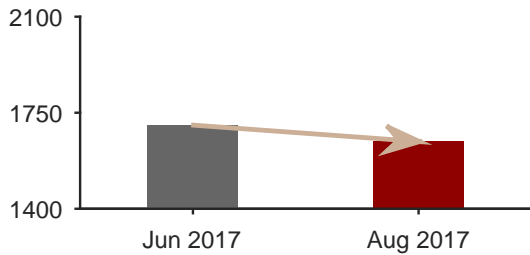
Impact per Country



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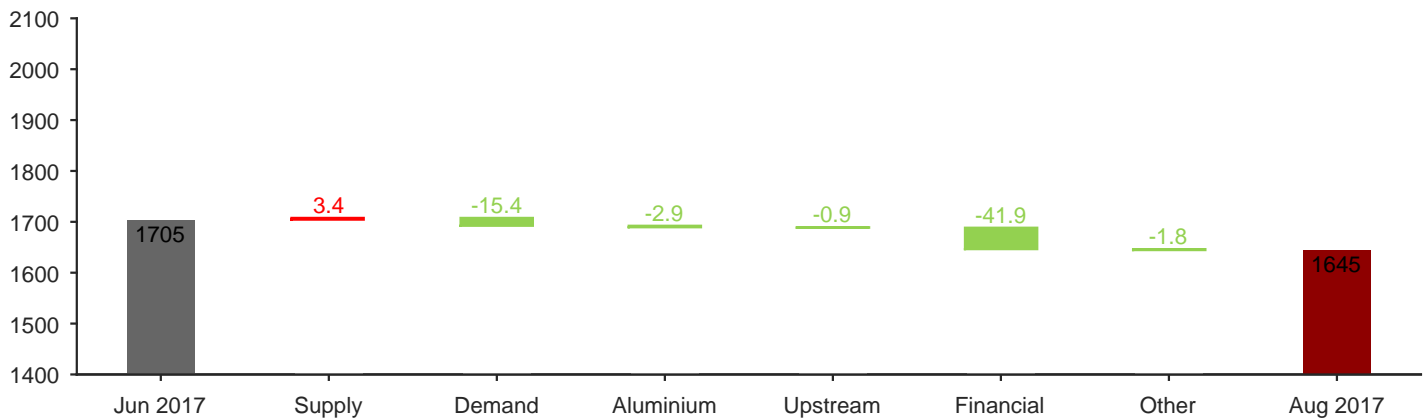
Forecasting the Price of Aluminium

Impact Analysis: Two Months Forecast



Our algorithm forecasts a lower price of Aluminium in two months: it is expectable that the price decreases 3.49% from 1705€ to 1645€ until the beginning of August.

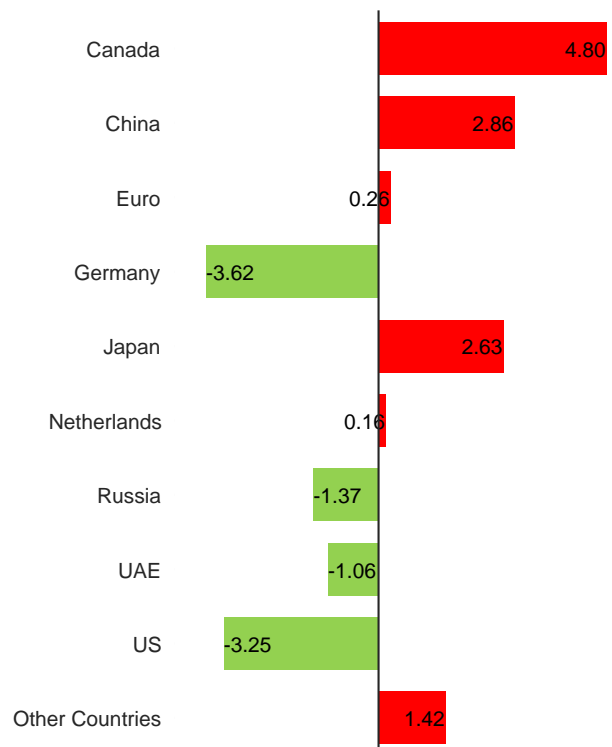
Indices of Factors



Interpretation

- **Decrease of Supply:** Positive pressure of the Supply index
- **Decrease of Demand:** Negative pressure of the Demand index
- Negative pressure of the index of Aluminium
- Slightly negative pressure of the index of variables representing the market upstream
- **Considerably negative pressure of the financial index**
- Slightly negative pressure of other commodities and other factors
- Focus on South Korea, Mexico, and Canada

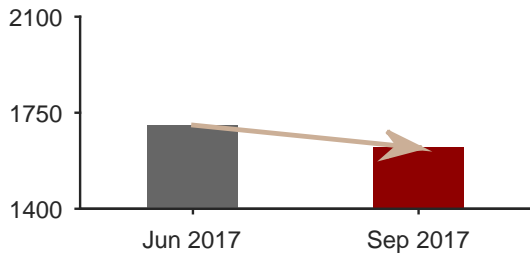
Impact per Country



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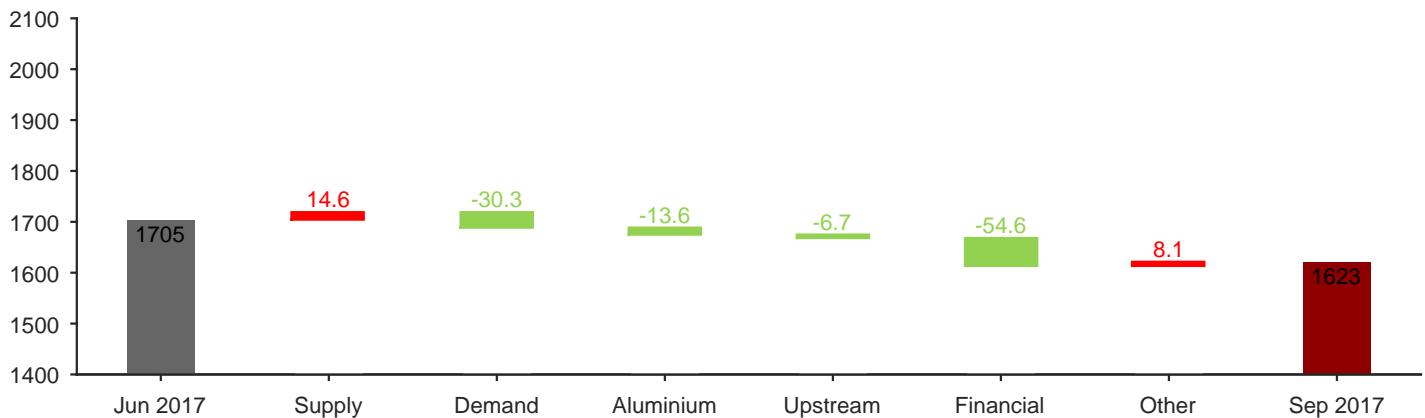
Forecasting the Price of Aluminium

Impact Analysis: Three Months Forecast



Our algorithm forecasts a lower price of Aluminium in three months: it is expectable that the price decreases 4.83% from 1705€ to 1623€ until the beginning of September.

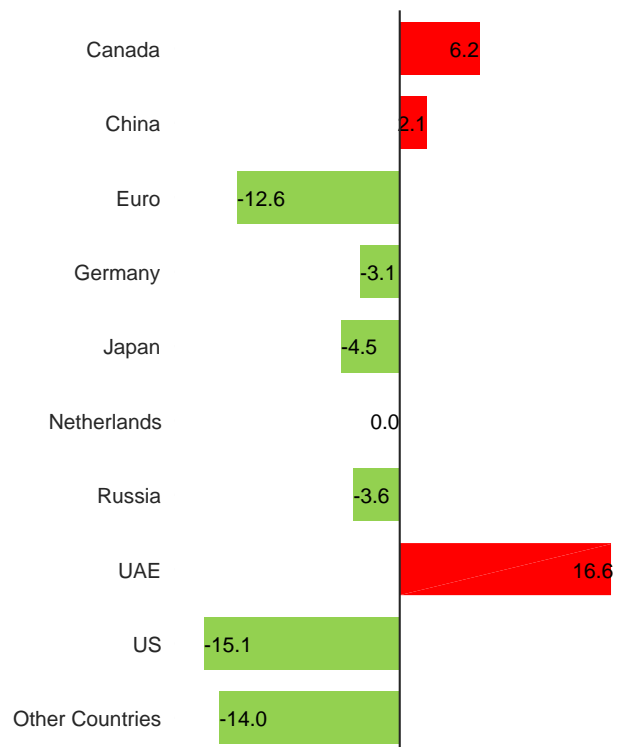
Indices of Factors



Interpretation

- **Decrease of Supply:** Positive pressure of the Supply index
- **Considerable decrease of Demand:** Negative pressure of the Demand index
- Negative pressure of the index of Aluminium
- Negative pressure of the index of variables representing the market upstream
- **Considerably negative pressure of the financial index**
- Positive pressure of other commodities and other factors
- Focus on UAE, US, and Euro

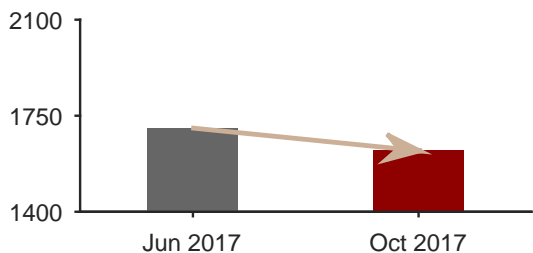
Impact per Country



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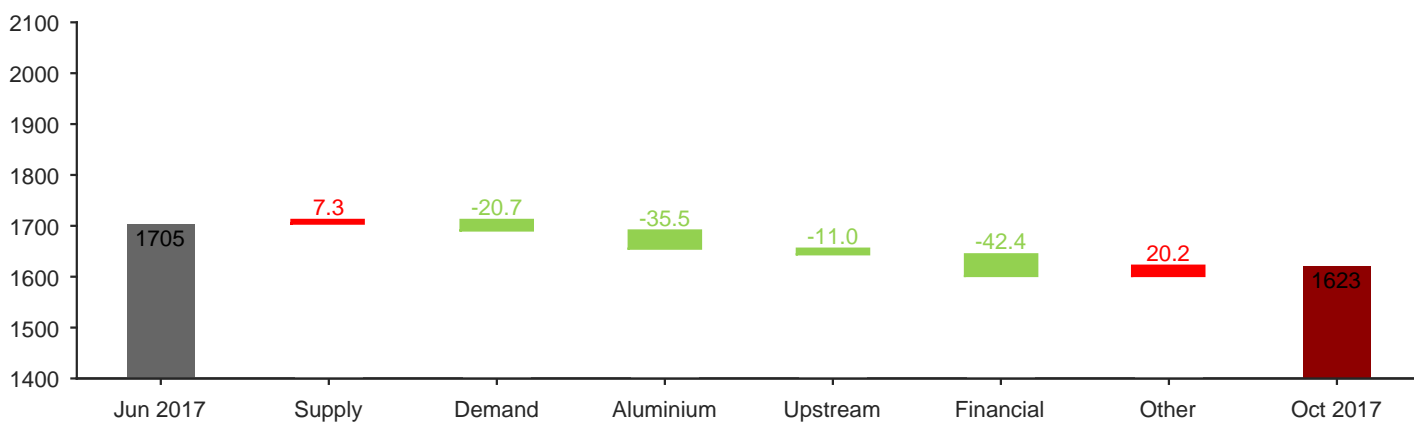
Forecasting the Price of Aluminium

Impact Analysis: Four Months Forecast



Our algorithm forecasts a lower price of Aluminium in four months: it is expectable that the price decreases 4.82% from 1705€ to 1623€ until the beginning of October.

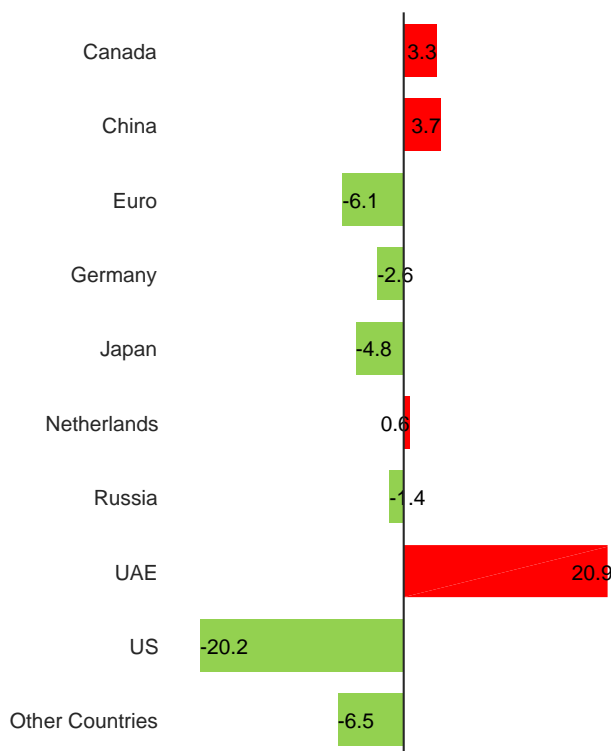
Indices of Factors



Interpretation

- **Decrease of Supply:** Positive pressure of the Supply index
- **Decrease of Demand:** Negative pressure of the Demand index
- **Considerably negative pressure of the index of Aluminium**
- Negative pressure of the index of variables representing the market upstream
- **Considerably negative pressure of the financial index**
- Positive pressure of other commodities and other factors
- Focus on UAE, US, and Norway

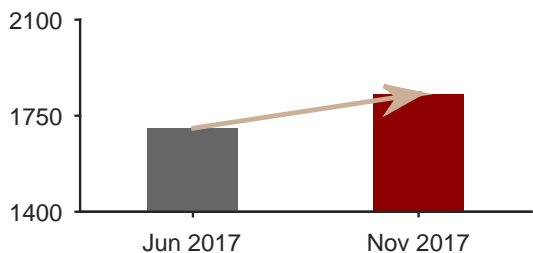
Impact per Country



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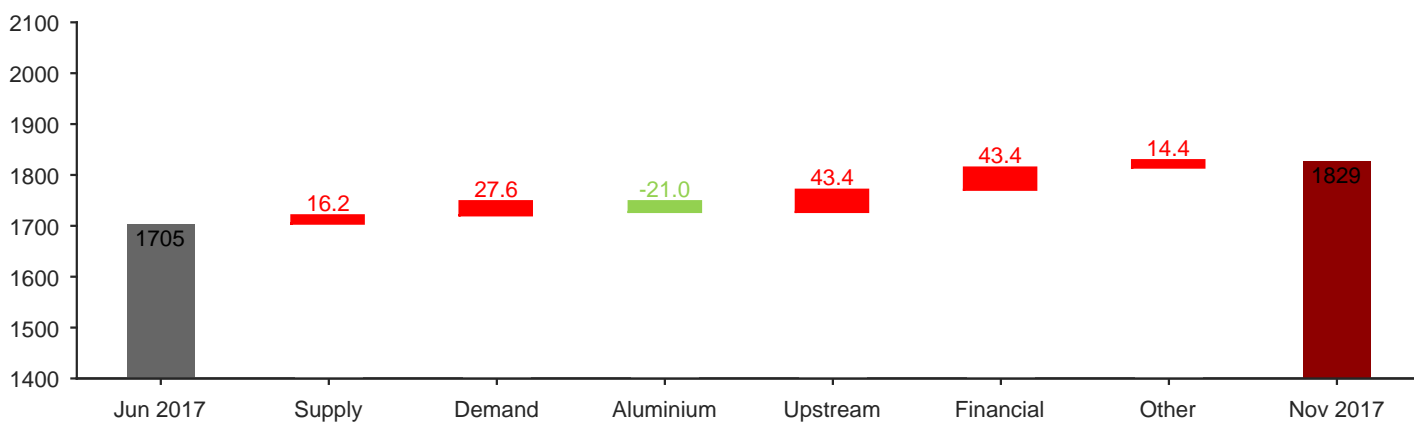
Forecasting the Price of Aluminium

Impact Analysis: Five Months Forecast



Our algorithm forecasts a higher price of Aluminium in five months: it is expectable that the price increases 7.27% from 1705€ to 1829€ until the beginning of November.

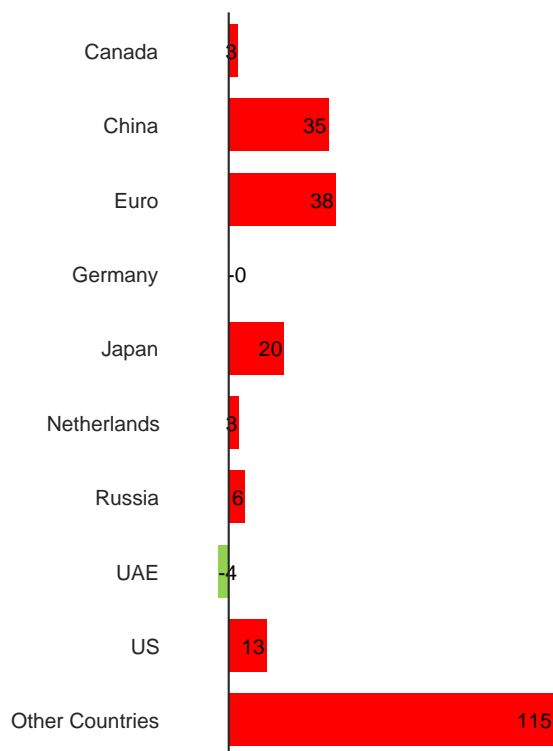
Indices of Factors



Interpretation

- **Decrease of Supply:** Positive pressure of the Supply index
- **Considerable increase of Demand:** Positive pressure of the Demand index
- Negative pressure of the index of Aluminium
- **Considerably positive pressure of the index of variables representing the market upstream**
- **Considerably positive pressure of the financial index**
- Positive pressure of other commodities and other factors
- Focus on Euro, China, and Japan

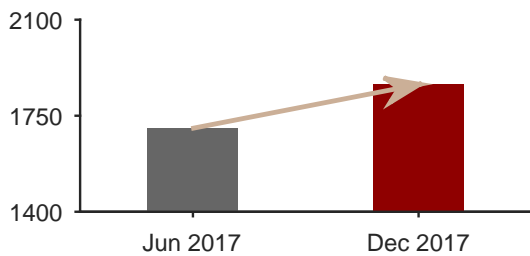
Impact per Country



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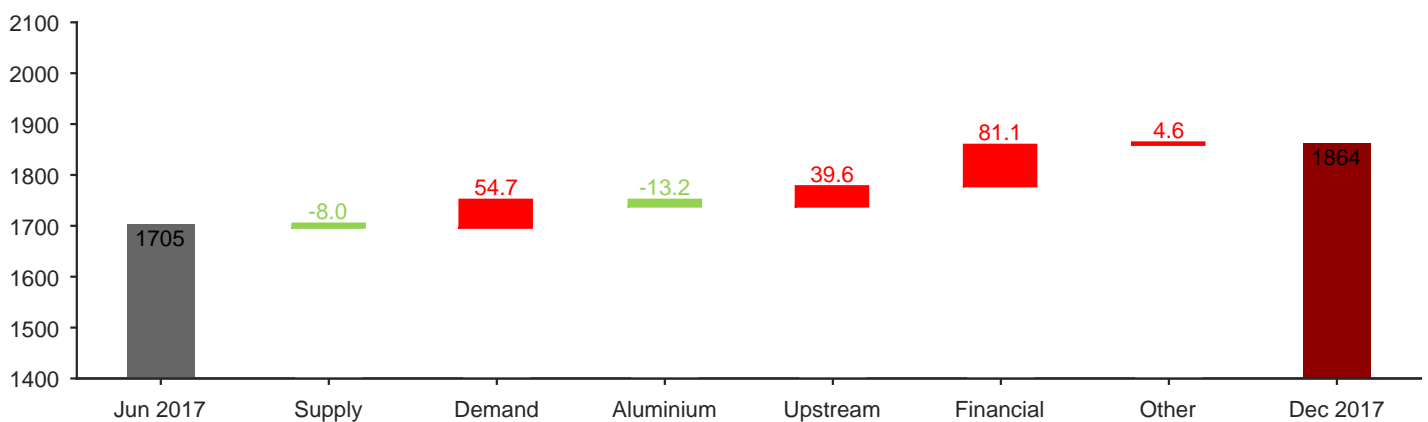
Forecasting the Price of Aluminium

Impact Analysis: Six Months Forecast



Our algorithm forecasts a higher price of Aluminium in six months: it is expectable that the price increases 9.31% from 1705€ to 1864€ until the beginning of December.

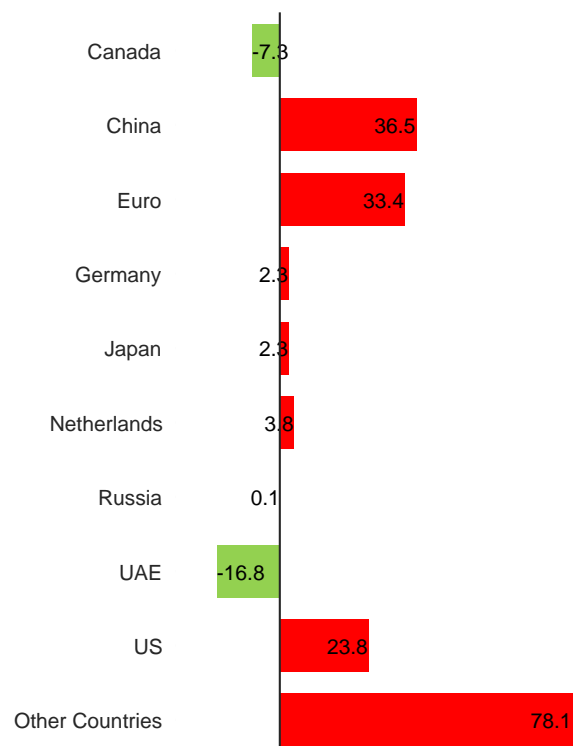
Indices of Factors



Interpretation

- Slight increase of Supply: Negative pressure of the Supply index
- **Considerable increase of Demand:** Positive pressure of the Demand index
- Negative pressure of the index of Aluminium
- **Considerably positive pressure of the index of variables representing the market upstream**
- **Considerably positive pressure of the financial index**
- Slightly positive pressure of other commodities and other factors
- Focus on UK, China, and Euro

Impact per Country



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Forecasting the Price of Aluminium

APPENDIX – Technical Explanation of the Impact Analysis

In this appendix, we explain the impact analysis of the factors that most contribute for our forecasts.

This Impact Analysis is conducted individually for **each time horizon**, allowing for a distinction between the indices of variables that contribute for our forecasts at short and medium run.

For each time horizon, our analysis has **two components**: first, we present the impact of variables grouped by **indices of factors**; second we present the impact of variables grouped by **indices of countries**.

Indices of Factors

Indices of factors are indices of the weighted contributions of the variables grouped in those factors.

Supply Index: composed of macroeconomic variables of the producing and exporting countries. It includes variables such as production, exchange rates, inflation, monetary policy, and wages. For example, an increase in wages implies higher production costs which should (in linear, general, and ceteris paribus terms) generate an incentive to increase prices;

Demand index: composed of macroeconomic variables of the consuming and importing countries. It includes variables such as production, exchange rates, inflation, monetary policy, and wages. For example, a decrease in a consumer confidence index should (in linear, general, and ceteris paribus terms) increase savings and decrease demand, leading to lower prices;

Aluminium Index: composed of variables related to Aluminium. It includes variables such as the price of Aluminium in different regions of the world and exports, imports, and producer prices of Aluminium in some countries. For example, an increase in the price of Aluminium in other region may imply an increase in the price of Aluminium in Europe due to arbitrage movements;

Upstream index: composed of variables related to Aluminium Ore and Coal. It includes variables such as the price and exports, imports, and producer prices of the inputs in some countries. For example, an increase in the price of Coal should (in linear, general, and ceteris paribus terms) generate an increase in the price of Aluminium;

Forecasting the Price of Aluminium

APPENDIX – Technical Explanation of the Impact Analysis (II)

Financial Variables Index: composed of financial market variables. It includes the share price of companies that produce Aluminium. It also includes financial indices related to this sector. For example, a positive change in the share price of a producer of Aluminium should (in linear, general, and ceteris paribus terms) imply an increase in expected profitability of the firm. This may signal an expectation of increase in the price of Aluminium;

Other Variables Index: composed of variables related to other commodities, such as Steel and Oil. It includes the price, exports, and imports of these commodities. For example, a positive change in the price of a substitute commodity, should (in linear, general, and ceteris paribus terms) imply an increase of demand of Aluminium, and thus, of the price of Aluminium.

Indices of Countries

Indices of Countries: are indices of the weighted contributions of the macroeconomic variables of each country. The countries we present are the most relevant countries in the production, consumption, and international commerce of Aluminium.

Interpretation Warning

It is important to note that the contribution of individual variables and indices of variables is not linear. The interaction between variables and between variables of different factors may not be neglectable, which means that the importance of each variable and indices of variables is determined together with the importance of all other variables.

Furthermore, the analysis of changes in variables is not linear. This means that the same variable with the same change in different moments of time may have different impacts given its previous evolution. For example, the algorithm contrasts the change in a variable with its expected change. A positive change but inferior to the expected change may originate an effect of price correction.