

# Forecasting the Price of Polypropylene

<b>Commodity</b>	Polypropylene Copolymer (FD UK)
<b>Forecast Period</b>	August 2017 – January 2018
<b>Currency</b>	£
<b>Unit</b>	Metric Tonne
<b>Observations</b>	Monthly forecasts of the spot price in the first day of the month



## Forecasts



Month/Year	Forecast	Prob. of Raise
Aug. 2017	1177£	9 %
Sep. 2017	1166£	32 %
Oct. 2017	1153£	37 %
Nov. 2017	1296£	67 %
Dec. 2017	1301£	51 %
Jan. 2018	1127£	47 %

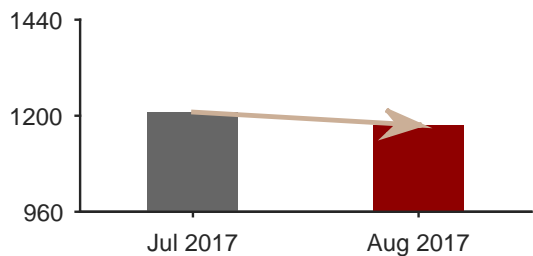
## Suggested Action for Procurement

Purchase Limit Month	Suggested Action
August 2017	Buy in August
September 2017	Wait
October 2017	Wait
November 2017	Wait
December 2017	Wait
January 2018	Buy part of requirements

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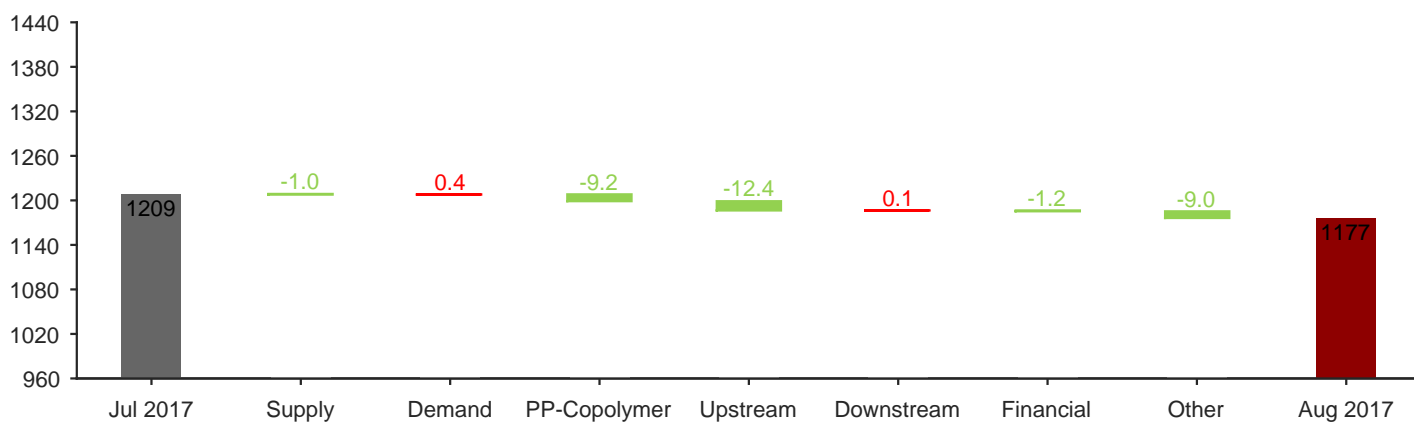
# Forecasting the Price of Polypropylene

## Impact Analysis: One Month Forecast



Our algorithm forecasts a lower price of PP-Copolymer in one month: it is expectable that the price decreases 2.67% from 1209£ to 1177£ until the beginning of August.

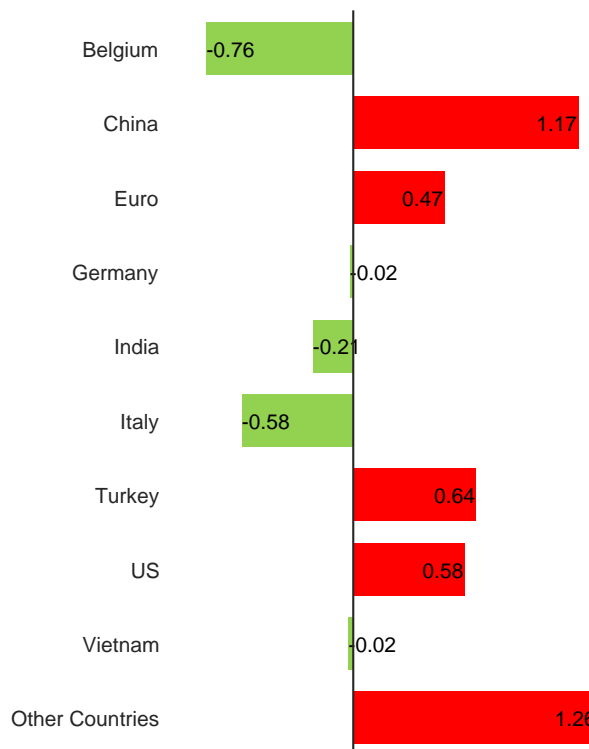
## Indices of Factors



### Interpretation

- Slight increase of Supply: Negative pressure of the Supply index
- Slight increase of Demand: Positive pressure of the Demand index
- Negative pressure of the index of PP-Copolymer
- **Considerably negative pressure of the index of variables representing the market upstream**
- Slightly positive pressure of the index of variables representing the market downstream
- Negative pressure of the financial index
- Negative pressure of other commodities and other factors
- Focus on Japan, China, and Mexico

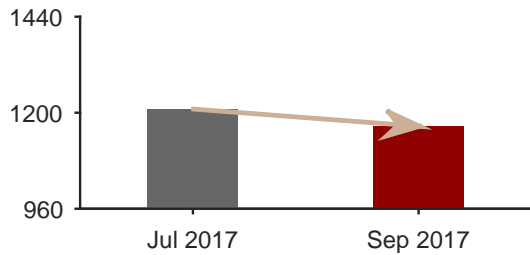
### Impact per Country



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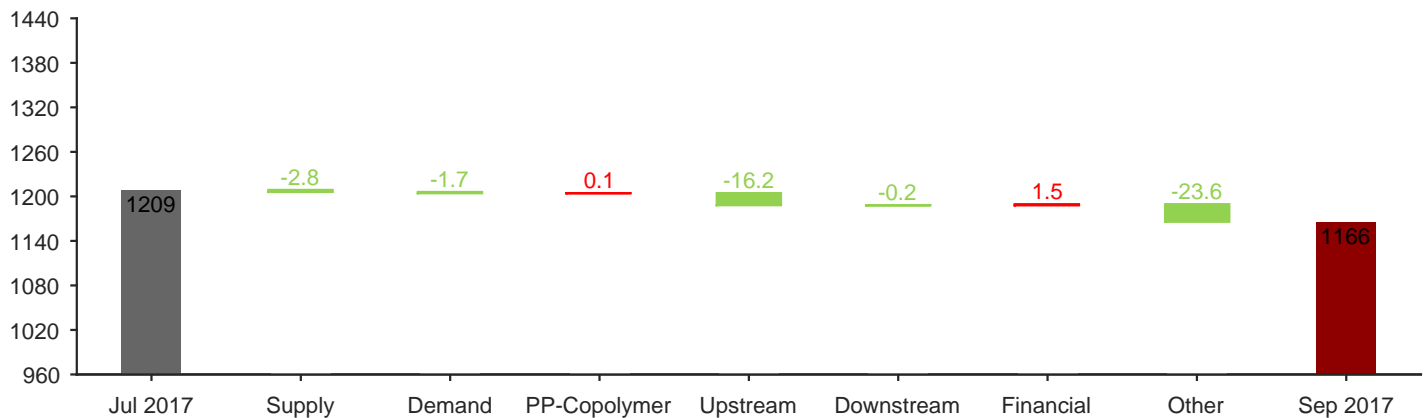
# Forecasting the Price of Polypropylene

## Impact Analysis: Two Months Forecast



Our algorithm forecasts a lower price of PP-Copolymer in two months: it is expectable that the price decreases 3.53% from 1209£ to 1166£ until the beginning of September.

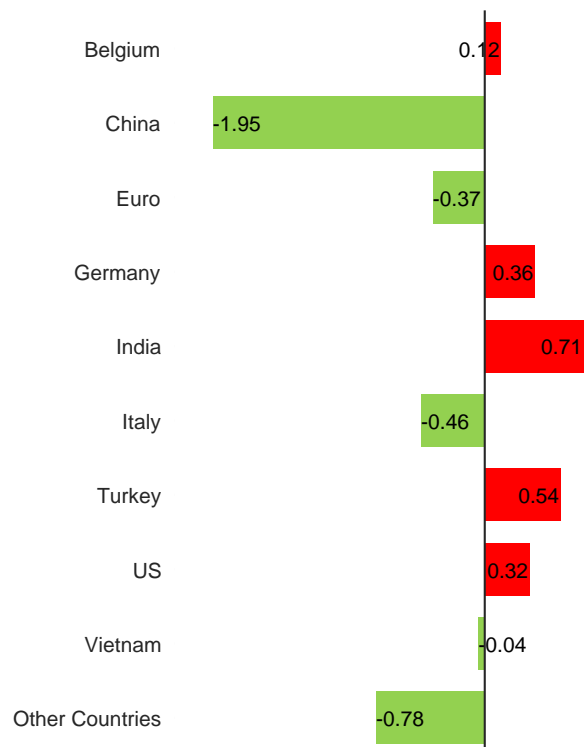
## Indices of Factors



### Interpretation

- **Increase of Supply:** Negative pressure of the Supply index
- **Decrease of Demand:** Negative pressure of the Demand index
- Slightly positive pressure of the index of PP-Copolymer
- **Considerably negative pressure of the index of variables representing the market upstream**
- Slightly negative pressure of the index of variables representing the market downstream
- Slightly positive pressure of the financial index
- **Considerably negative pressure of other commodities and other factors**
- Focus on Mexico, China, and South Korea

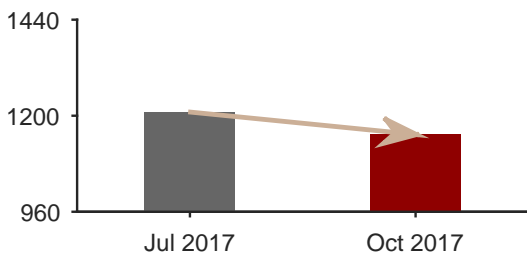
### Impact per Country



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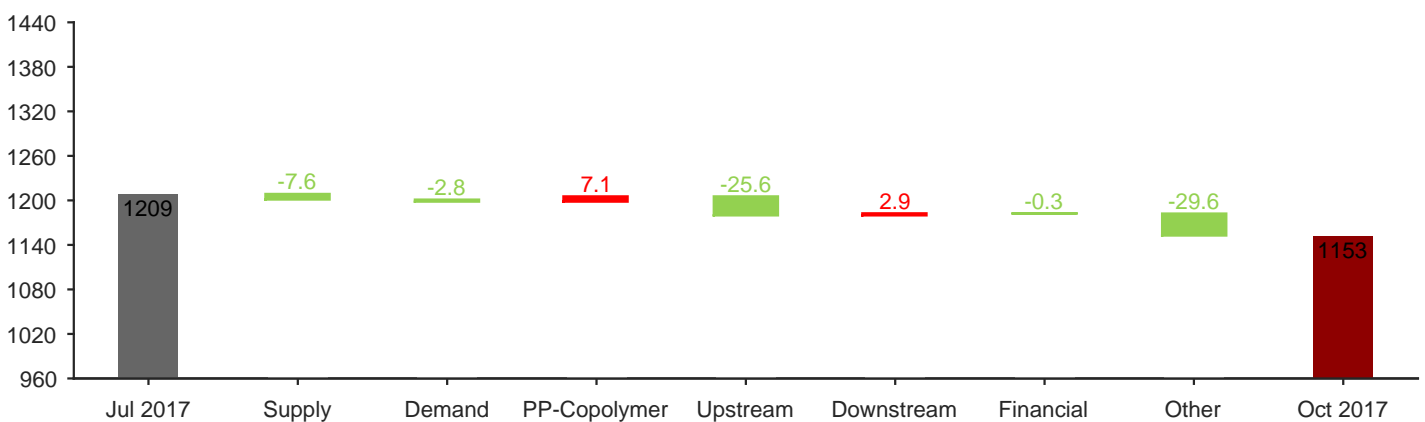
# Forecasting the Price of Polypropylene

## Impact Analysis: Three Months Forecast



Our algorithm forecasts a lower price of PP-Copolymer in three months: it is expectable that the price decreases 4.62% from 1209£ to 1153£ until the beginning of October.

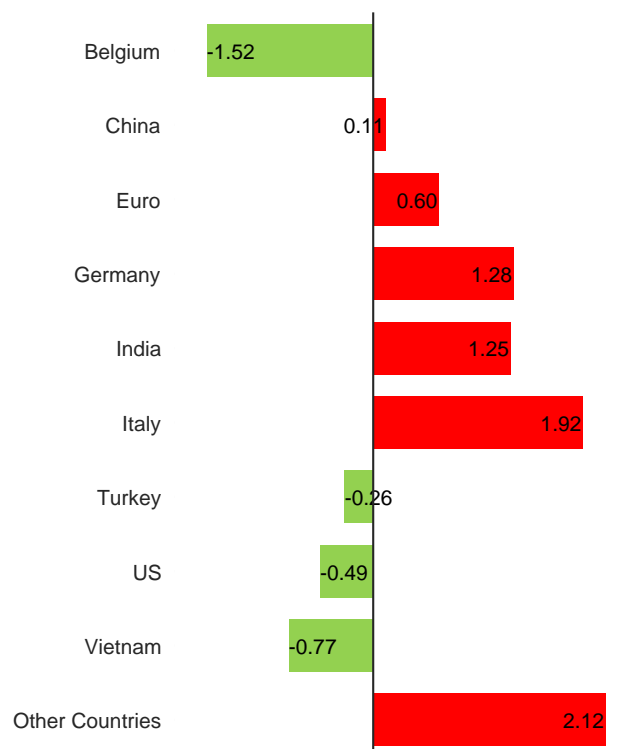
## Indices of Factors



### Interpretation

- **Increase of Supply:** Negative pressure of the Supply index
- **Decrease of Demand:** Negative pressure of the Demand index
- Positive pressure of the index of PP-Copolymer
- **Considerably negative pressure of the index of variables representing the market upstream**
- Positive pressure of the index of variables representing the market downstream
- Slightly negative pressure of the financial index
- **Considerably negative pressure of other commodities and other factors**
- Focus on South Korea, Singapore, and Italy

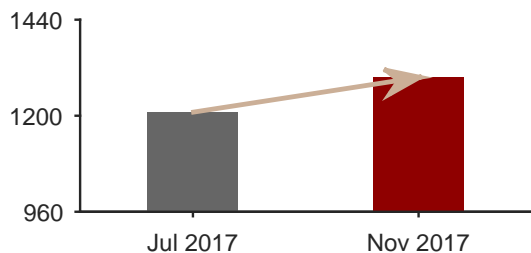
### Impact per Country



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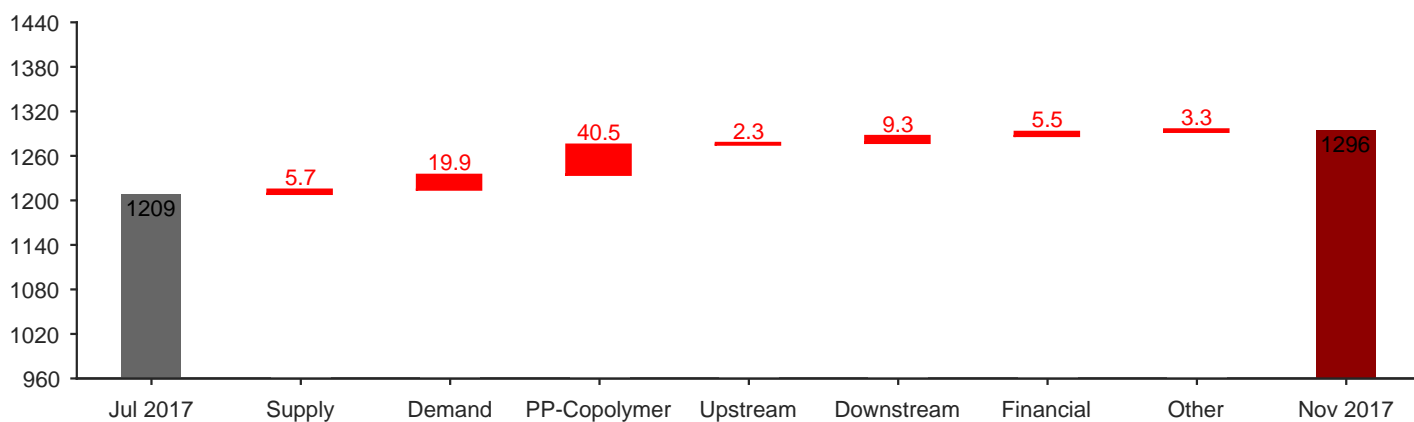
# Forecasting the Price of Polypropylene

## Impact Analysis: Four Months Forecast



Our algorithm forecasts a higher price of PP-Copolymer in four months: it is expectable that the price increases 7.15% from 1209£ to 1296£ until the beginning of November.

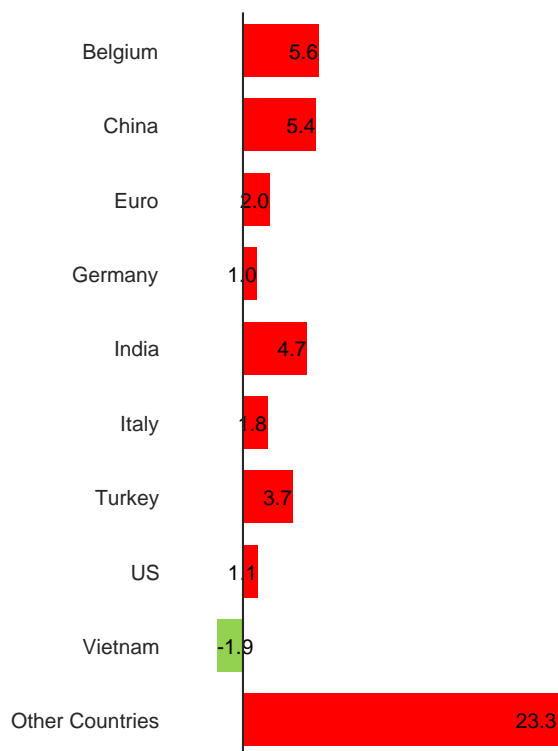
## Indices of Factors



### Interpretation

- **Decrease of Supply:** Positive pressure of the Supply index
- **Increase of Demand:** Positive pressure of the Demand index
- **Considerably positive pressure of the index of PP-Copolymer**
- Slightly positive pressure of the index of variables representing the market upstream
- Positive pressure of the index of variables representing the market downstream
- Positive pressure of the financial index
- Positive pressure of other commodities and other factors
- Focus on Indonesia, Belgium, and China

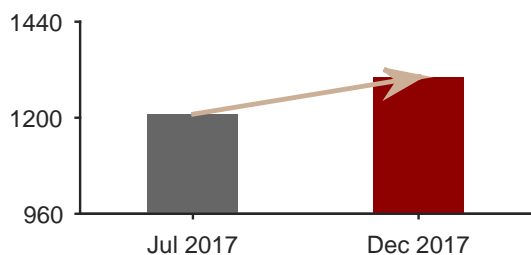
### Impact per Country



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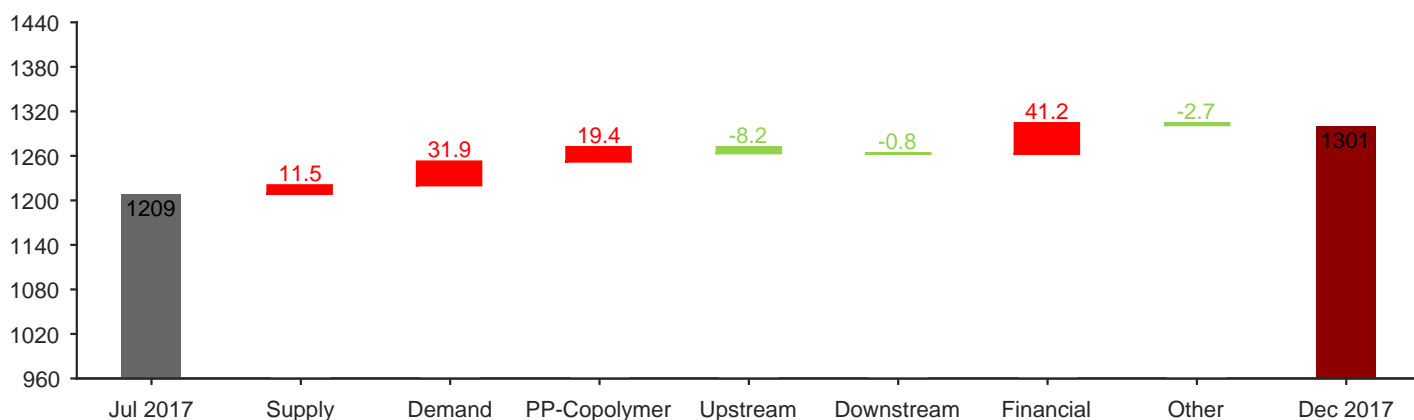
# Forecasting the Price of Polypropylene

## Impact Analysis: Five Months Forecast



Our algorithm forecasts a higher price of PP-Copolymer in five months: it is expectable that the price increases 7.62% from 1209£ to 1301£ until the beginning of December.

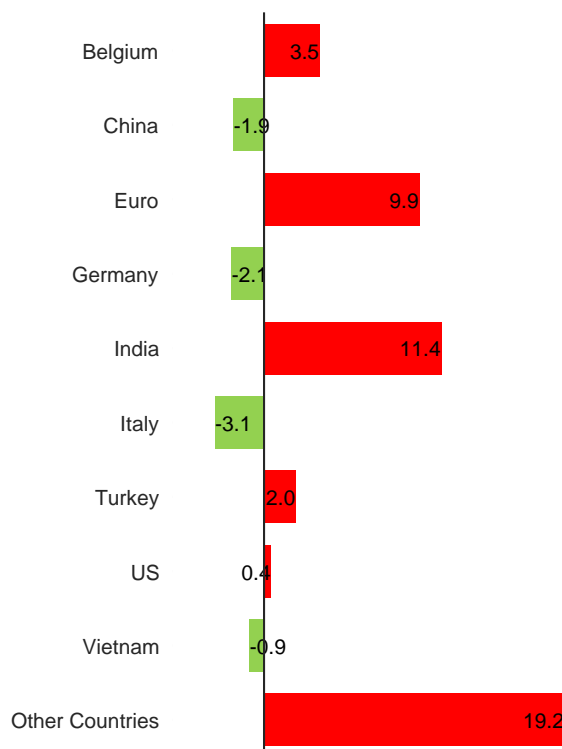
## Indices of Factors



### Interpretation

- **Decrease of Supply:** Positive pressure of the Supply index
- **Considerable increase of Demand:** Positive pressure of the Demand index
- Positive pressure of the index of PP-Copolymer
- Negative pressure of the index of variables representing the market upstream
- Slightly negative pressure of the index of variables representing the market downstream
- **Considerably positive pressure of the financial index**
- Slightly negative pressure of other commodities and other factors
- Focus on Indonesia, India, and Euro

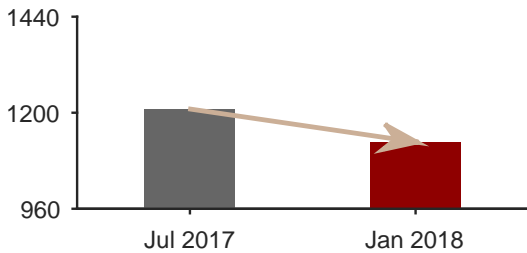
### Impact per Country



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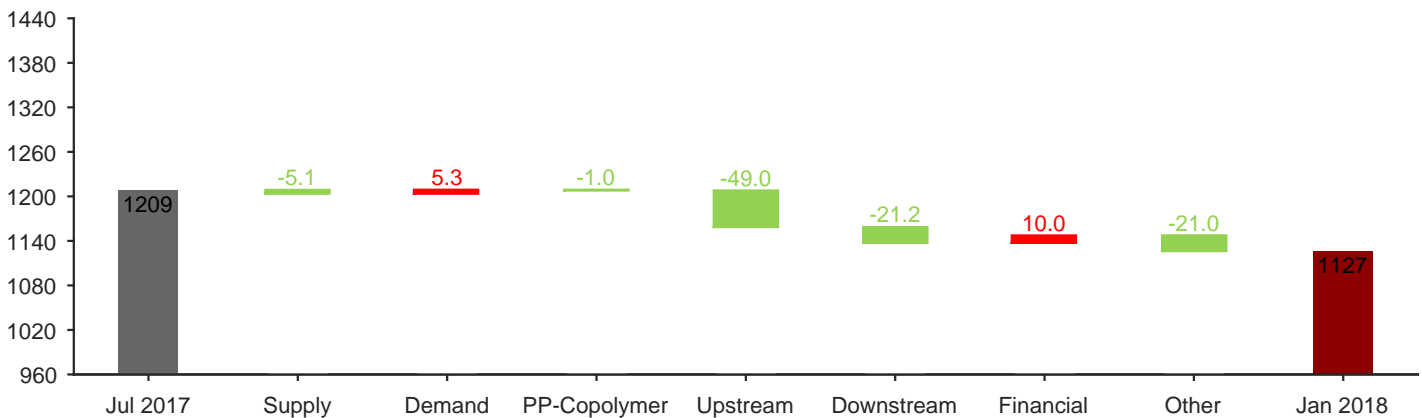
# Forecasting the Price of Polypropylene

## Impact Analysis: Six Months Forecast



Our algorithm forecasts a lower price of PP-Copolymer in six months: it is expectable that the price decreases 6.78% from 1209£ to 1127£ until the beginning of January.

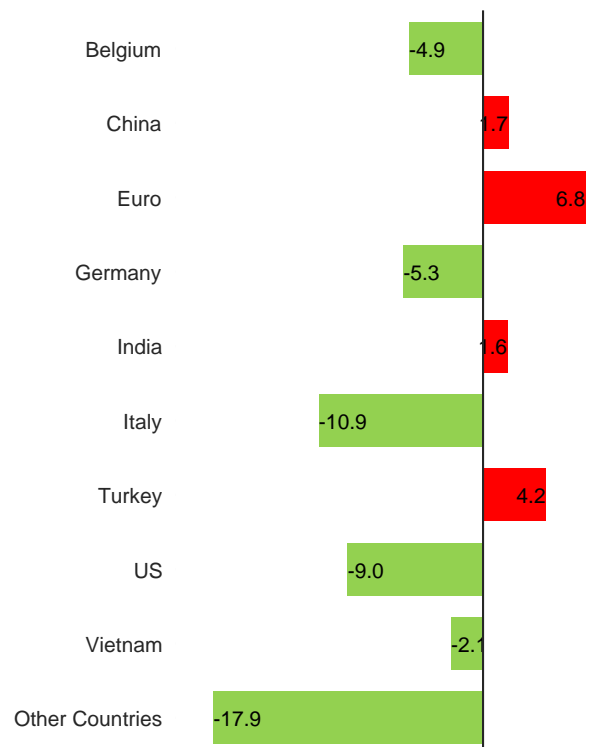
## Indices of Factors



### Interpretation

- **Increase of Supply:** Negative pressure of the Supply index
- **Increase of Demand:** Positive pressure of the Demand index
- Slightly negative pressure of the index of PP-Copolymer
- **Considerably negative pressure of the index of variables representing the market upstream**
- Negative pressure of the index of variables representing the market downstream
- Positive pressure of the financial index
- Negative pressure of other commodities and other factors
- Focus on Japan, Italy, and US

### Impact per Country



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# Forecasting the Price of Polypropylene

## 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;

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

**Upstream index**: composed of variables related to Propylene, Oil, Natural Gas and Naphtha. 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 Propylene should (in linear, general, and ceteris paribus terms) generate an increase in the price of Polypropylene;



# Forecasting the Price of Polypropylene

## APPENDIX – Technical Explanation of the Impact Analysis (II)

**Downstream index:** composed of variables related to downstream industries, such as Packaging. It includes variables such as the exports, imports, and producer prices of the Plastic Industry in some countries. For example, an increase in the demand of Plastic should (in linear, general, and ceteris paribus terms) generate an increase in the price of Polypropylene;

**Financial Variables Index:** composed of financial market variables. It includes the share price of companies that produce Polypropylene. It also includes financial indices related to this sector. For example, a positive change in the share price of a producer of Polypropylene 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 Polypropylene;

**Other Variables Index:** composed of variables related to other polymers and other commodities, such as Ethylene and Benzene. 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 Polypropylene, and thus, of the price of Polypropylene.

## 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 Polypropylene.

## 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.