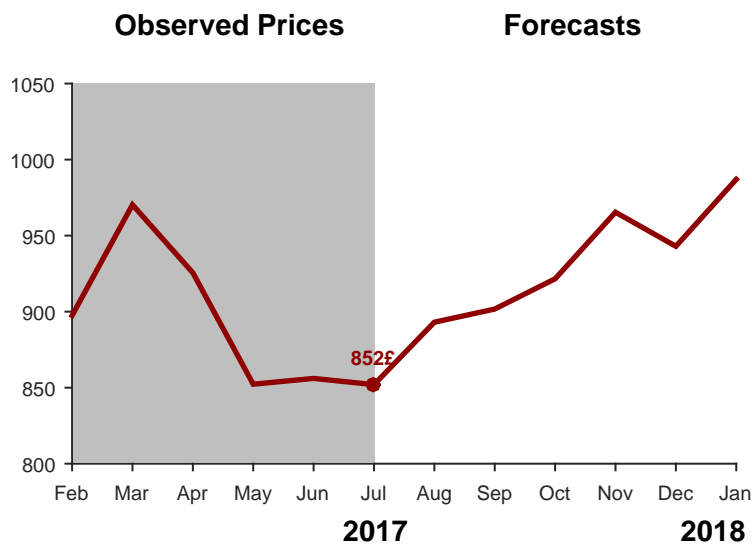


Forecasting the Price of Polypropylene Film

Commodity	Polypropylene Film (Spot South East Asia)
Forecast Period	August 2017 – January 2018
Currency	£
Unit	Metric Tonne
Observations	Monthly forecasts of the spot price in the first day of the month



Forecasts



Month/Year	Forecast	Prob. of Raise
Aug. 2017	893£	66 %
Sep. 2017	902£	69 %
Oct. 2017	922£	74 %
Nov. 2017	965£	74 %
Dec. 2017	943£	56 %
Jan. 2018	987£	68 %

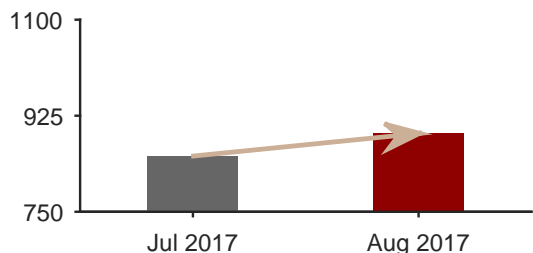
Suggested Action for Procurement

Purchase Limit Month	Suggested Action
August 2017	Buy in July at 852£
September 2017	Buy in July at 852£
October 2017	Buy in July at 852£
November 2017	Buy in July at 852£
December 2017	Buy in July at 852£
January 2018	Buy in July at 852£

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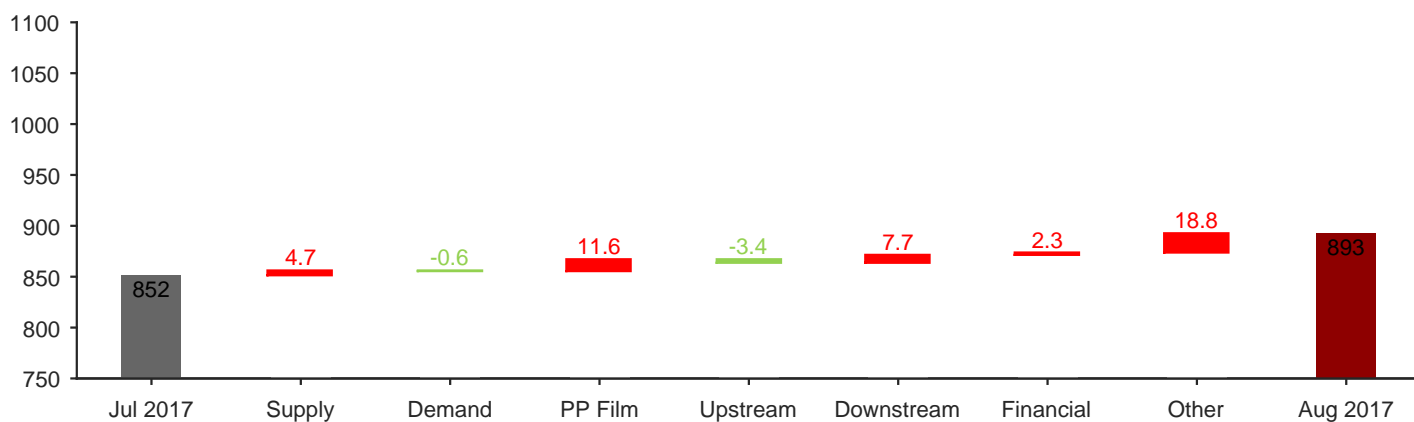
Forecasting the Price of Polypropylene Film

Impact Analysis: One Month Forecast



Our algorithm forecasts a higher price of PP Film in one month: it is expectable that the price increases 4.81% from 852£ to 893£ until the beginning of August.

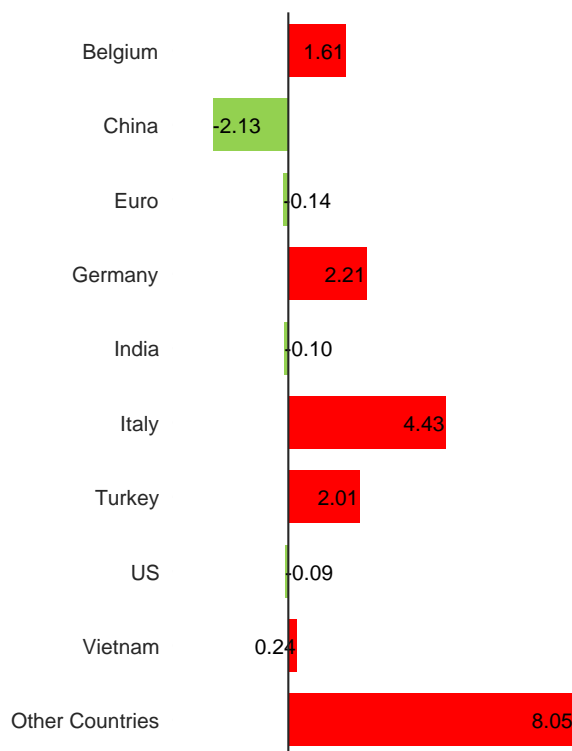
Indices of Factors



Interpretation

- **Decrease of Supply:** Positive pressure of the Supply index
- Slight decrease of Demand: Negative pressure of the Demand index
- Positive pressure of the index of PP Film
- Negative 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
- **Considerably positive pressure of other commodities and other factors**
- Focus on Italy, Germany, and China

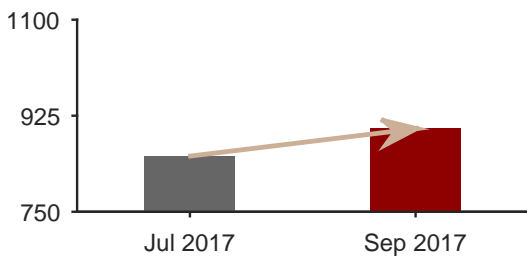
Impact per Country



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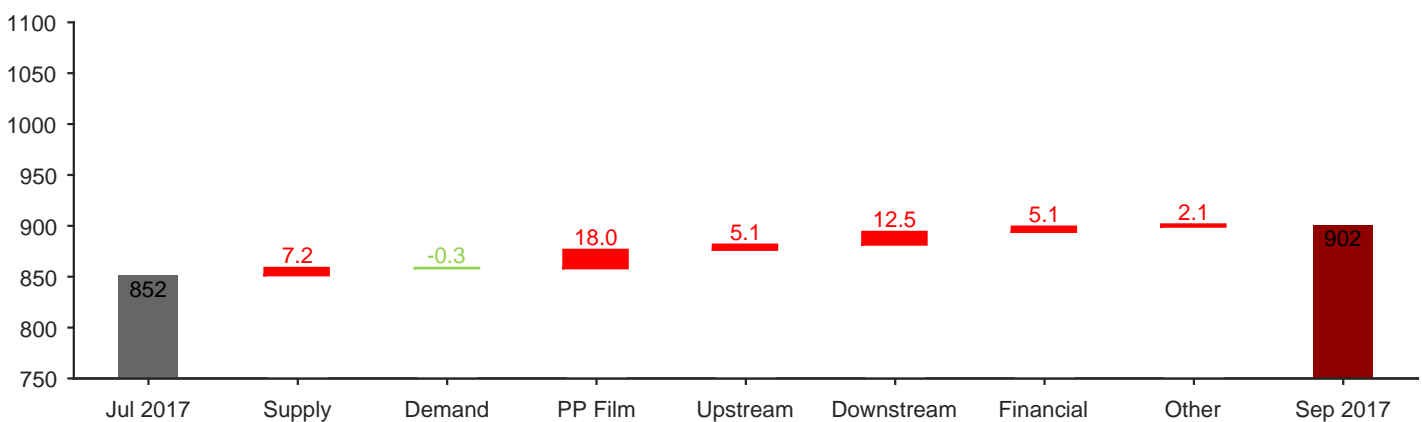
Forecasting the Price of Polypropylene Film

Impact Analysis: Two Months Forecast



Our algorithm forecasts a higher price of PP Film in two months: it is expectable that the price increases 5.83% from 852£ to 902£ until the beginning of September.

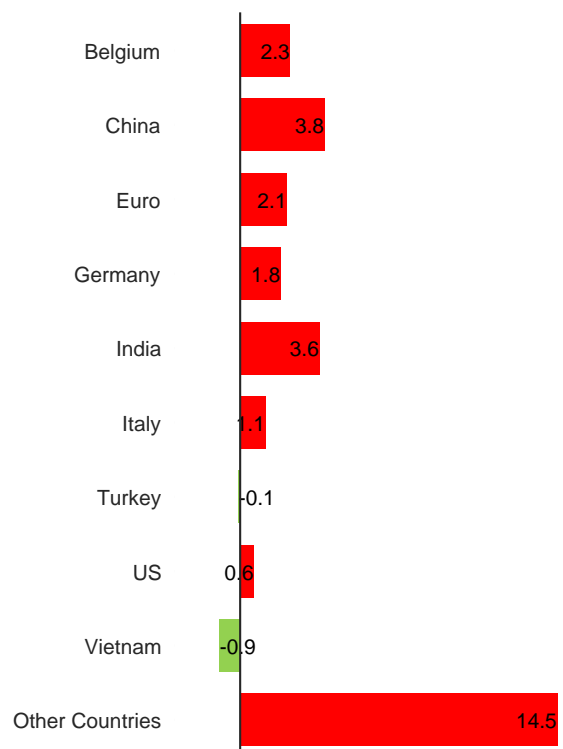
Indices of Factors



Interpretation

- **Decrease of Supply:** Positive pressure of the Supply index
- Slight decrease of Demand: Negative pressure of the Demand index
- **Considerably positive pressure of the index of PP Film**
- 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 China, India, and Singapore

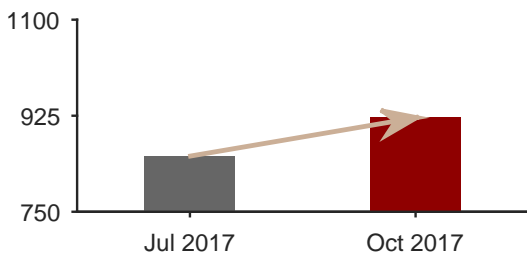
Impact per Country



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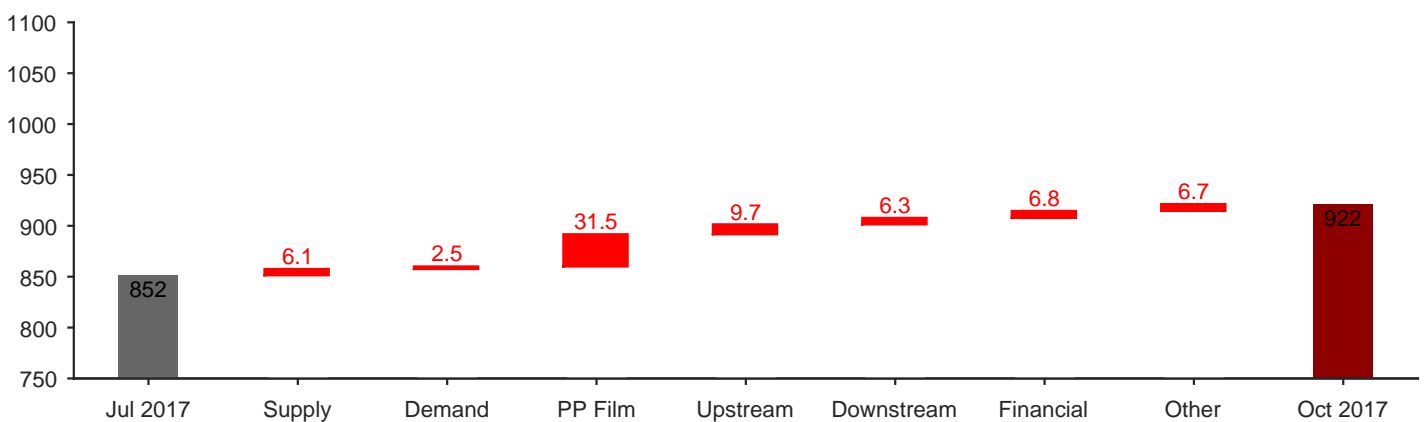
Forecasting the Price of Polypropylene Film

Impact Analysis: Three Months Forecast



Our algorithm forecasts a higher price of PP Film in three months: it is expectable that the price increases 8.16% from 852£ to 922£ until the beginning of October.

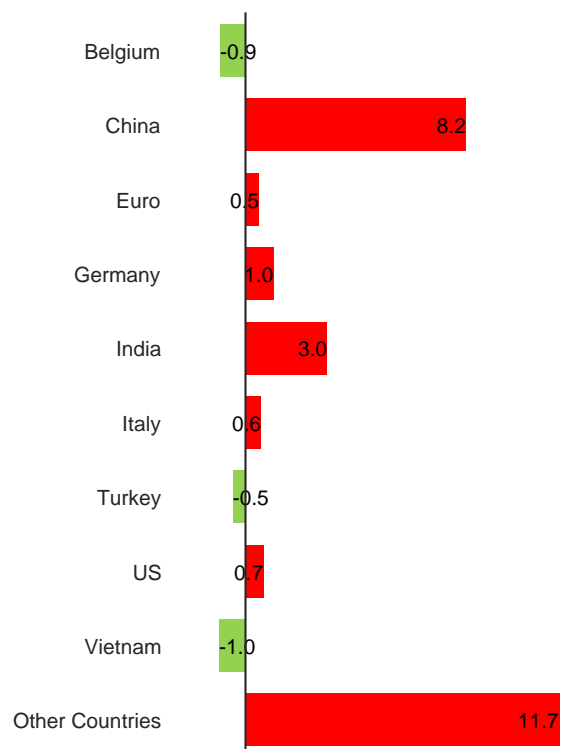
Indices of Factors



Interpretation

- **Decrease of Supply:** Positive pressure of the Supply index
- Slight increase of Demand: Positive pressure of the Demand index
- **Considerably positive pressure of the index of PP Film**
- 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 China, Singapore, and Mexico

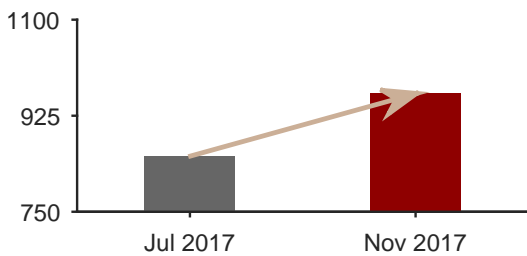
Impact per Country



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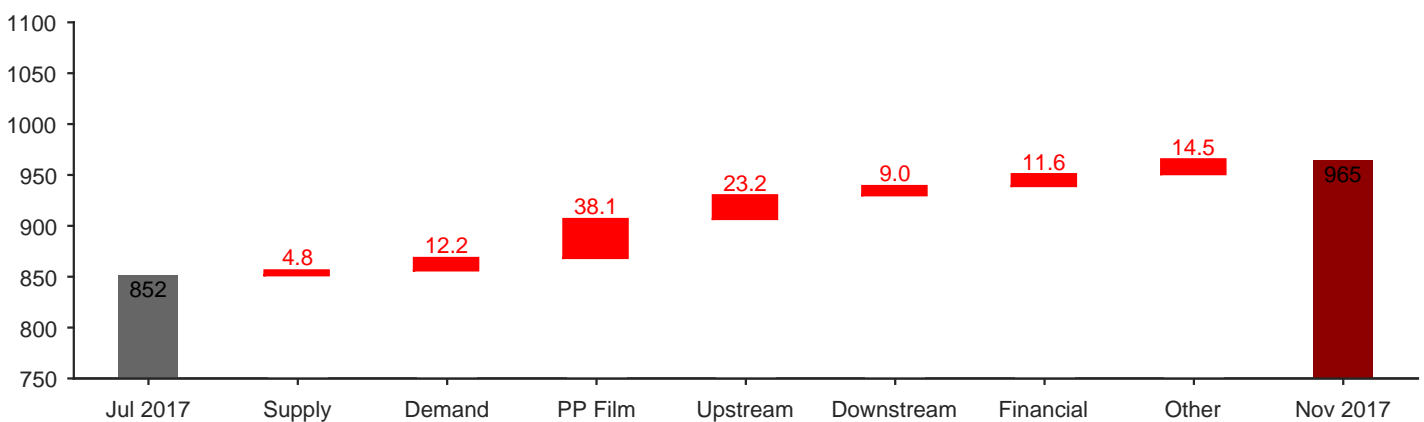
Forecasting the Price of Polypropylene Film

Impact Analysis: Four Months Forecast



Our algorithm forecasts a higher price of PP Film in four months: it is expectable that the price increases 13.30% from 852£ to 965£ until the beginning of November.

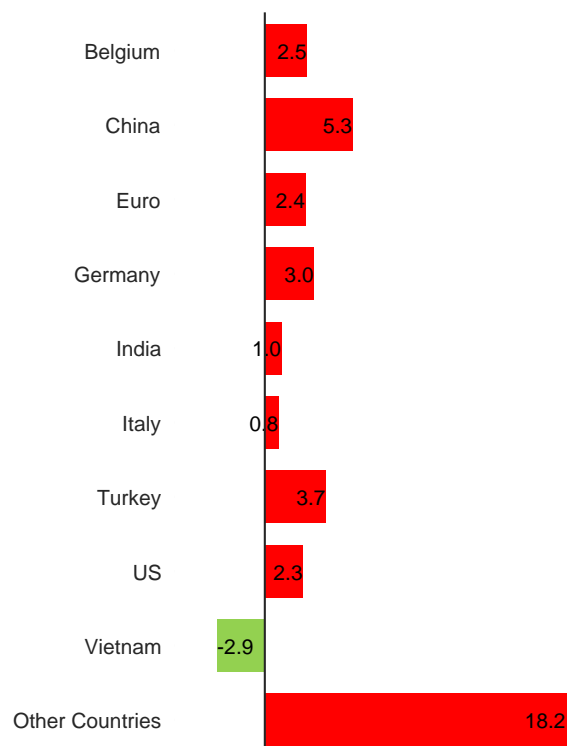
Indices of Factors



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 Film**
- 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 Japan, China, and Turkey

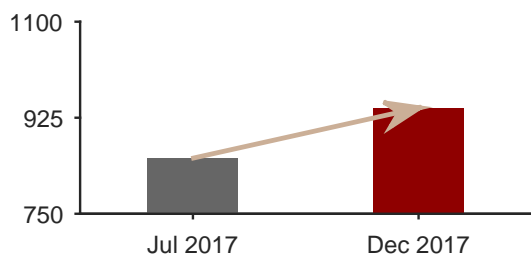
Impact per Country



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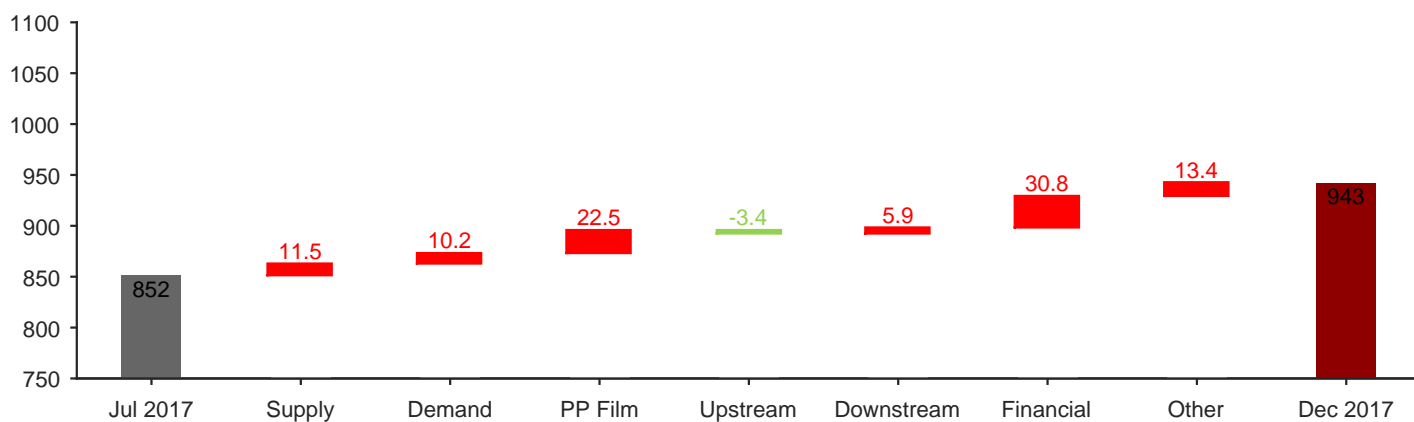
Forecasting the Price of Polypropylene Film

Impact Analysis: Five Months Forecast



Our algorithm forecasts a higher price of PP Film in five months: it is expectable that the price increases 10.68% from 852£ to 943£ until the beginning of December.

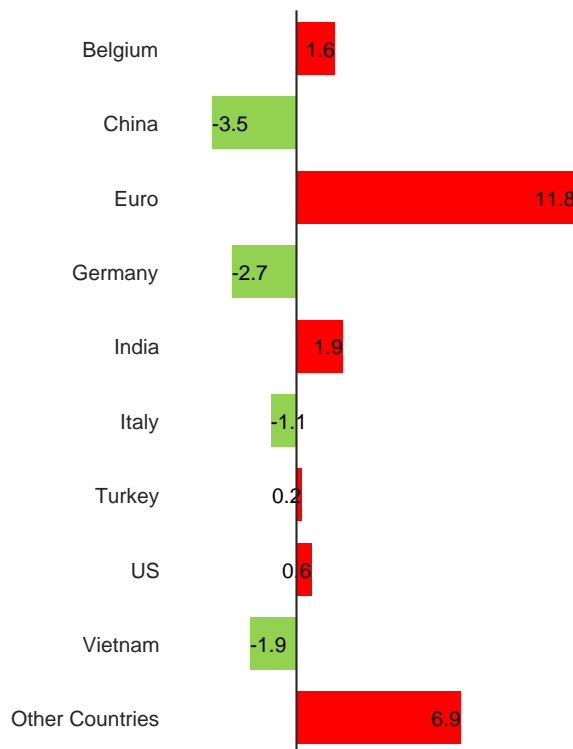
Indices of Factors



Interpretation

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

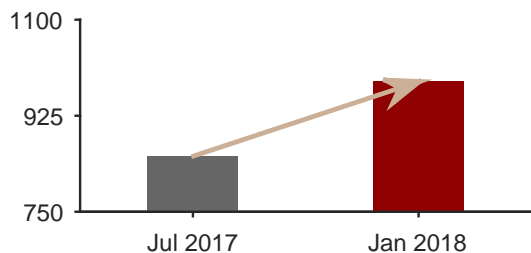
Impact per Country



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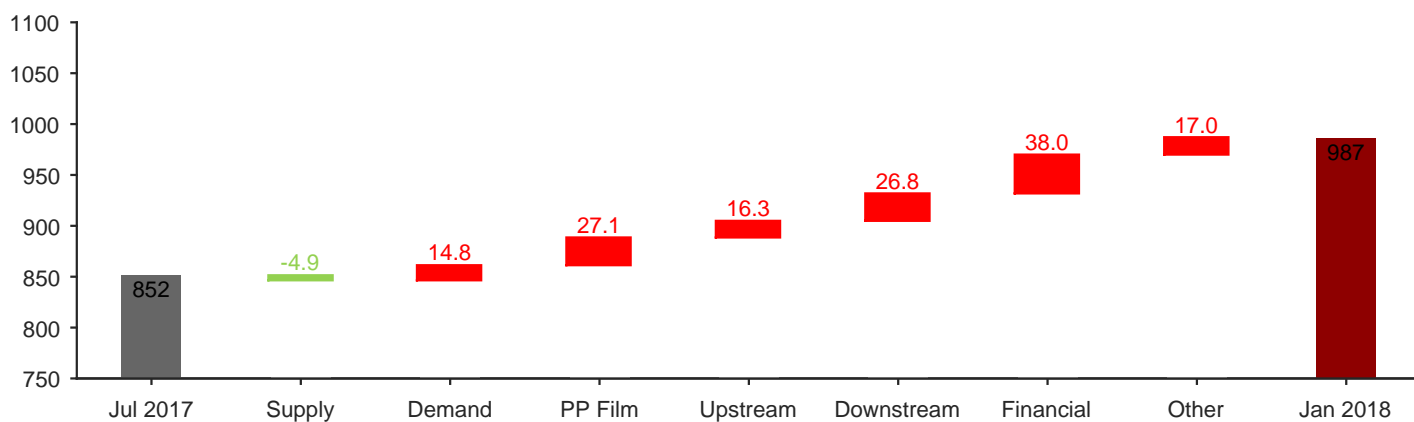
Forecasting the Price of Polypropylene Film

Impact Analysis: Six Months Forecast



Our algorithm forecasts a higher price of PP Film in six months: it is expectable that the price increases 15.84% from 852£ to 987£ until the beginning of January.

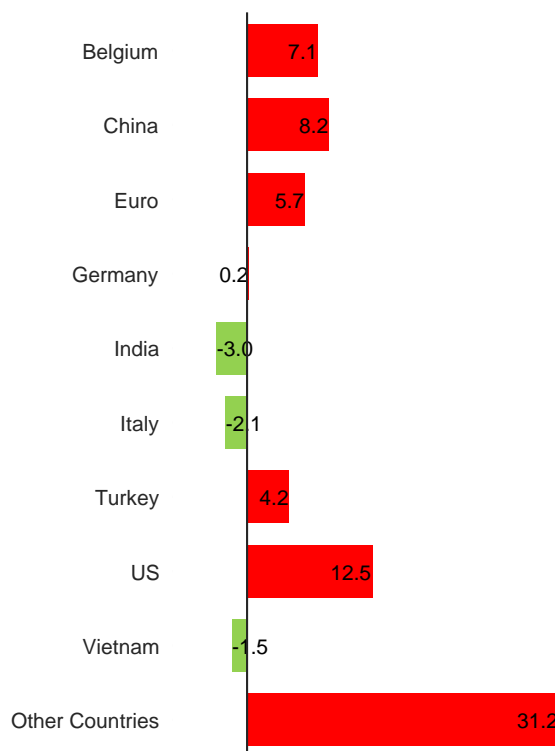
Indices of Factors



Interpretation

- Slight increase of Supply: Negative pressure of the Supply index
- **Increase of Demand:** Positive pressure of the Demand index
- Positive pressure of the index of PP Film
- Positive pressure of the index of variables representing the market upstream
- Positive pressure of the index of variables representing the market downstream
- **Considerably positive pressure of the financial index**
- Positive pressure of other commodities and other factors
- Focus on US, China, and Belgium

Impact per Country



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Forecasting the Price of Polypropylene Film

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

Forecasting the Price of Polypropylene Film

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 Film;

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

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 Film, and thus, of the price of Polypropylene Film.

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 Film.

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.