Managing Freight Market Volatility and Risk: Are Futures Right for You?

November 1, 2018 || 2pm ET
TODAY’S AGENDA

- Introductions
- Market size and Opportunity
- Trucking Freight Futures Overview
- Use Case Examples
- Access to Trucking Freight Futures
- Additional Training Opportunity
Craig Fuller, CEO and Managing Director, FreightWaves
Craig is the CEO and Founder of FreightWaves, the largest provider of news, content, and analytics for the freight market. The company is also the founder of Blockchain in Transport Alliance (BiTA), a consortium of technology enterprises, manufacturers, carriers, and logistics technology organizations committed to implementing blockchain technology in transportation. Prior to founding FreightWaves, he was the founder and CEO of TransCard, a fleet payment processor that was sold to US Bank. He also has been deep in the industry, having founded and managed the largest provider of on-demand trucking services in North America, the Xpress Direct division of US Xpress Enterprises.
THE PARTNERSHIP
Nodal is a derivatives exchange and CFTC Designated Contract Market (DCM), wholly owned by EEX Group and part of Deutsche Börse.

Currently provides price, credit & liquidity risk management to participants in the North American energy markets.

Nodal offers over 1,000 futures and options contracts on hundreds of unique locations, providing the most effective basis risk management available.

All transactions are cleared through Nodal Clear, a CFTC Derivatives Clearing Organization (DCO).

Nodal utilizes portfolio margining, providing significant risk management & capital efficiencies.
The trucking market is valued at over $725B.

Futures markets operate in multiples by nature.

Making the theoretical size of the futures market for Trucking upwards of $2.8T.

Data source: Oxford Economics. Information based on forecasted 2017 revenue estimations for each industry sector.
84% of the products that are transported across the U.S. are commodities that have futures traded against them.
Trucking is the largest mode of freight in the U.S. and grows slightly faster than U.S. GDP.
Since Jan. 2014, trucking spot rates are up 40%.

But look at the volatility!
WHY NOW?

TECHNOLOGY EVOLUTION
- Ubiquity of Telematics
- Cloud vs. On-Premise
- Interconnected Systems

MARKET FORCES
- ELD Mandate
- Labor Shortage
- Amazon Impact
- Capacity Crunch

+40% of S&P 500 companies have stated that freight and transportation costs are among the most substantial risks to their earnings.
FLUCTUATIONS IN SUPPLY AND DEMAND DRIVE FREIGHT MARKET VOLATILITY

- Government Regulations
- Trade Policy & Balance
- Weather
- Diesel Prices
- Truck Production
- Driver Availability
- Commodity Supply
- Construction Activity
- Manufacturing Activity
- Consumer Spending
- Market Trends
- Seasonality
WHAT YOU NEED TO BUILD A LIQUID FUTURES MARKET

- Large & Volatile Market
- Benchmark Index
- Clearing House & Exchange
- Market Data, News and Commentary
Through partnerships with Nodal Exchange, our Designated Contract Market (DCM), and DAT, whose spot rate index will be used to settle all freight futures contracts, Trucking Freight Futures contracts will allow market participants to hedge exposure to rate volatility within the three largest U.S. freight corridors, as well as nationally.
Who is naturally exposed to freight market volatility?
Trucking Companies
4500+ companies w/ +$20M in revenue per year
**USE CASE: TRUCKING CARRIER IS CONCERNED RATES WILL FALL OVER THE NEXT 30 DAYS**

**TRUCKING CARRIER SELLS FUTURES TO PROTECT RATE COMPRESSION**

**PHYSICAL MARKET**
- **CARRIER’S AVERAGE RATE ON A LANE IS $2 per mile**, but is concerned rates are going to fall.

**FUTURES MARKET**
- **CARRIER Sells FUTURES LOCKED IN AT $2 per mile and in advance of rates falling**.
- **MARKET RATE FALLS TO $1.75 per mile**.

**CARRIER will offset its $.25 per mile loss, with $.25 per mile gains made from BUYING futures contracts**.

**CARRIER will lose $.25 per mile in the physical market as rates FALL**.
Shippers
20,000 that spend more than $10M on trucking freight/Year
**USE CASE:** SHIPPER’S NORMAL CARRIER CONTRACT RATE IS $2.00. IT NEEDS EXTRA CAPACITY AND HAS TO BUY IN THE SPOT MARKET AND PAY THE HIGHER RATE

SHIPPER BUYS FUTURES TO HEDGE ITS COST EXPOSURE

**PHYSICAL MARKET**
- SHIPPER normally pays $2 per mile.
- SHIPPER pays $.25 per mile more in the physical market as rates RISE.

**FUTURES MARKET**
- SHIPPER Buys futures at $2 per mile and sells at the higher rate as rates rise.
- Futures settle at $2.25 per mile.
- SHIPPER offsets its $.25 per mile loss, with $.25 per mile gains made from BUYING futures contracts.
Freight Brokers
1,600 with $10M+ Revenue per Year
USE CASE: 3PL HAS A FIXED PRICE CONTRACT WITH A SHIPPER, BUT IS CONCERNED RATES WILL RISE

3PL BUYS FUTURES TO LOCK IN ITS MARGIN

3PL will lose $.25 per mile in the physical market as rates RISE.

MARKET RATES RISES TO $2.25 per mile

3PL BUYS FUTURES AT $2 per mile

3PL offsets its $.25 per mile loss, with $.25 per mile gains made from BUYING futures contracts.

AGREED RATE SHIPPER PAYS IS $2 per mile

FUTURES SETTLE AT $2.25 per mile
TRADING FREIGHT FUTURES

● Futures contracts can be traded on Nodal Exchange - both on a central limit order book and via block trades.

● All transactions on Nodal Exchange are cleared through Nodal Clear, using its award-winning portfolio margining methodology.

● Nodal Clear Risk Management tools, including portfolio margin limits and position limits, will be available for Trucking Freight Futures market participants.
MEMBERSHIP

New firms wishing to trade Trucking Freight Futures must:

- Meet the Eligible Contract Participant (ECP) standards set forth by the Commodities Exchange Act (CEA)
- Satisfy all other criteria set forth by the Nodal Exchange Rulebook and Participant Agreement
- Have an eligible clearing account with one of Nodal Clear’s registered Futures Commissions Merchant (FCM)
MEMBERSHIP REQUIREMENTS

1. Participant Agreement
2. Application
3. New Account Form – executed by participant and FCM
INTERESTED IN LEARNING MORE?

1. Join us for Trucking Freight Futures Training at MarketWaves18 in Grapevine, TX on Wednesday, November 14th

2. Spend 3 hours learning about freight futures and receive FREE admission to MarketWaves18
Best-Selling Author

MICHAEL LEWIS

NOV. 12-13 // GRAPEVINE, TX

THE BIG SHORT, MONEYBALL, & THE BLINDSIDE

The Digitization of Freight

Moderator: George Abernathy, FreightWaves

Panelists: Grant Goodale, Convoy | Scott Friesen, Echo
Clint Elcan, J.B. Hunt | Jett McCandless, project44
Appendix
TRADE LIFECYCLE

1. Trader executes trade on screen, through voice broker, or direct with a counterparty and the trade is sent to Nodal Exchange for validating and clearing.

2. Trade passes validation and is novated by the clearing house.

3. Trade confirms are sent to traders, brokers, and clearing members involved in the transaction.

4. Trading day closes and Nodal sends to the clearing members their clients initial margin and variation margin requirements.

5. Clearing members generate customer statements which include margin requirements and fees.

6. Nodal Exchange collects or pays to the clearing member any changes in initial or variation margin.

7. The clearing members subsequently collects or pays margin to the customer and collects trading fees.

8. The process repeats at the end of each trading day to allow the clearing house to collect or pay changes in variation margin due to changes in market prices or changes to positions through trading or contracts expiring.