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**ABInBev**



# TRUCKING FREIGHT FUTURES

Launching March 29, 2019

In partnership with:

**> nodal**

**DAT**

**FREIGHTWAVES**



## WHO

FreightWaves is building a world-class community in freight that uses data and technology to understand, react, project changes, and de-risk the market.

## WHY

To empower a freight community that's struggling to deal with the risks and volatility of being exposed to the freight markets with data, insights and actionable tools.



# Market Size and Opportunity



# Recent Futures Contract Markets



WTI Crude Oil Futures  
**\$421 billion underlying industry**



Henry Hub Natural Gas Futures  
**\$138 billion underlying industry**



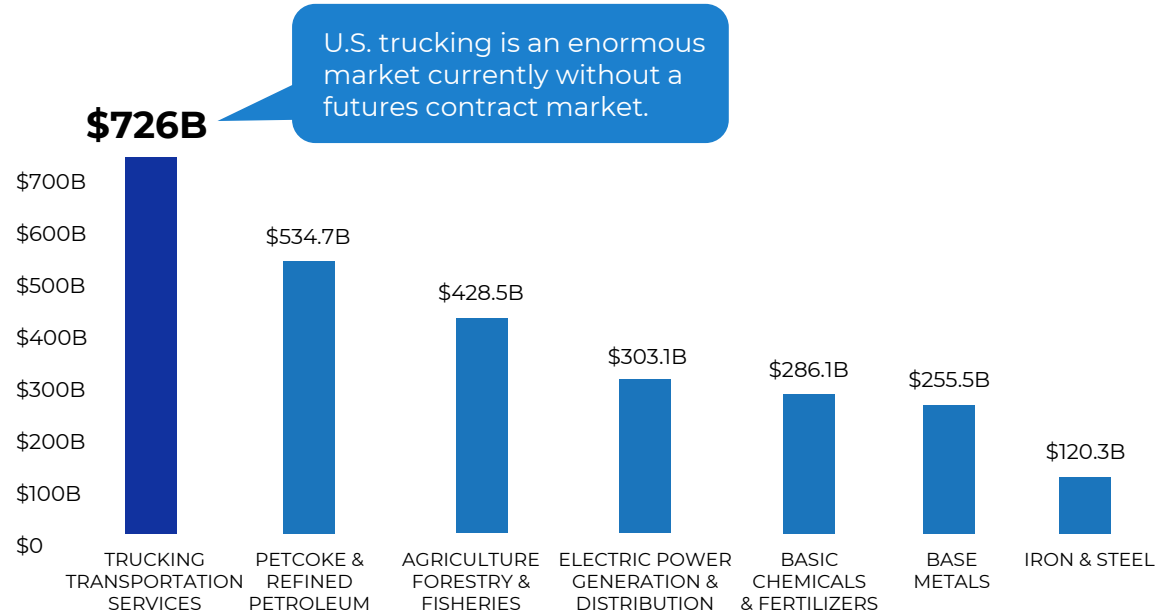
Electricity Futures  
**\$390 billion underlying industry**

# Market Opportunity

The trucking market is valued at over \$726B.

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 estimates for each industry sector.

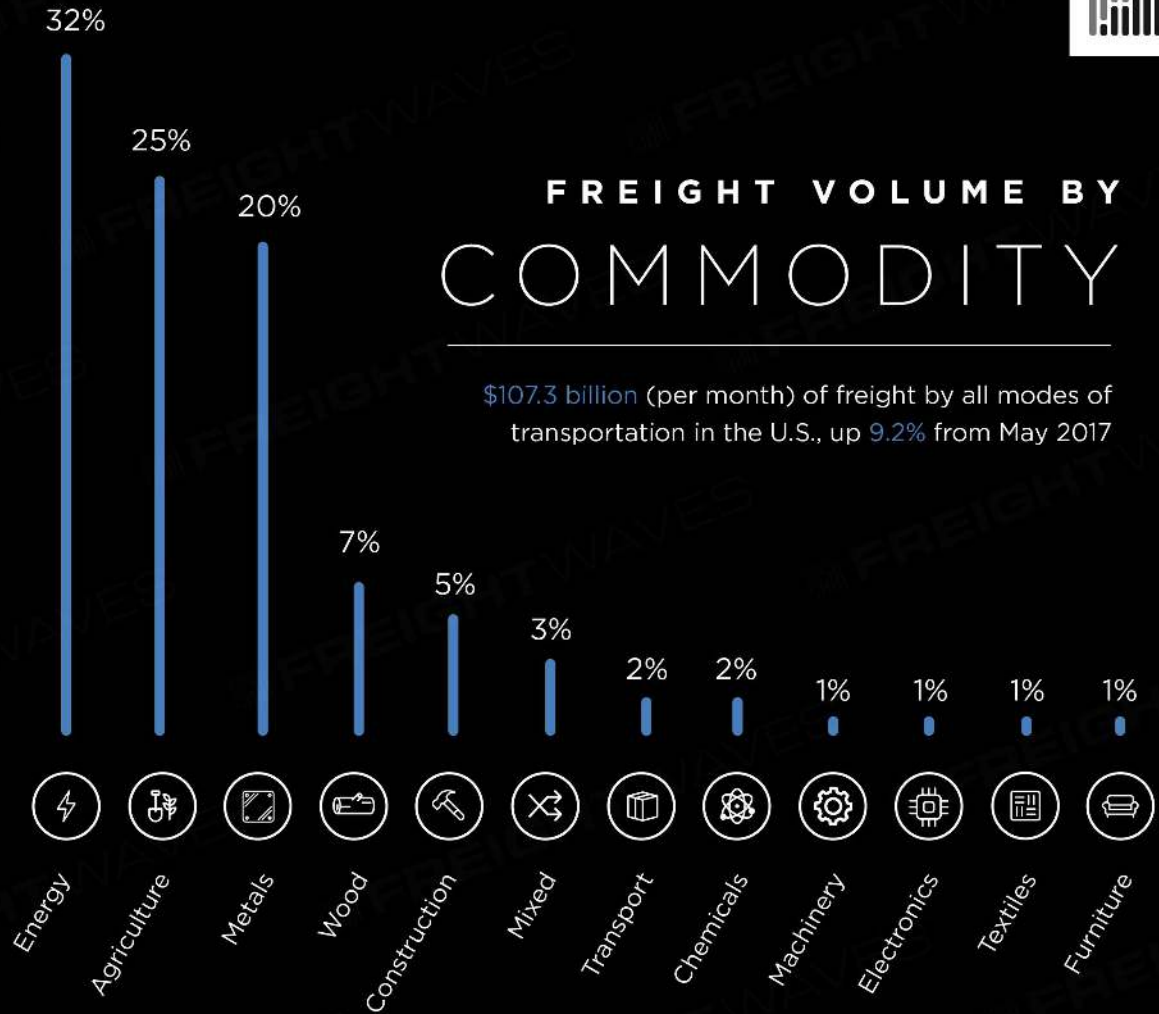


Physical commodities make up the majority of goods being moved by surface transportation.

Approximately 84%, including Energy, Ag, Industrial Metals, Chemicals and Wood have futures traded against them.

## FREIGHT VOLUME BY COMMODITY

\$107.3 billion (per month) of freight by all modes of transportation in the U.S., up 9.2% from May 2017

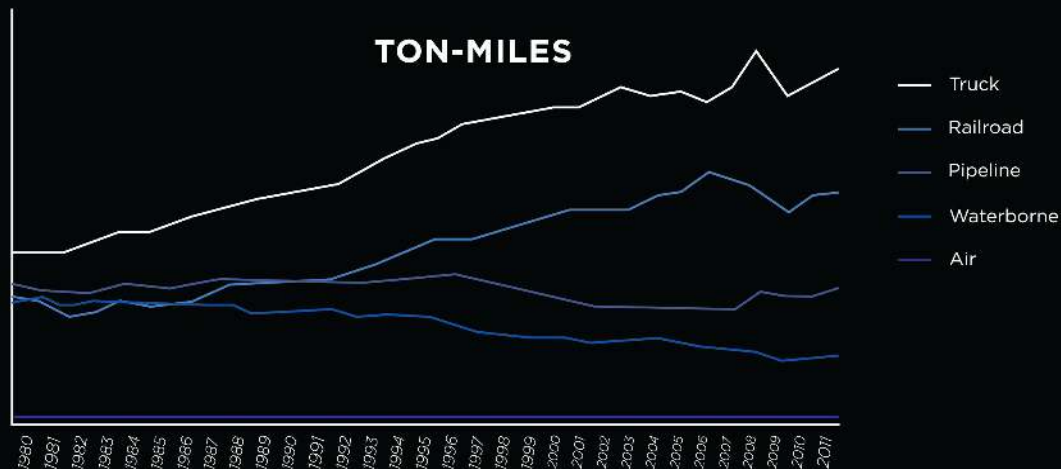


Trucking is the largest mode of transport in the U.S. and grows slightly faster than U.S. GDP

## FREIGHT TRENDS BY MODE



Ton Miles (bill.)



### AVERAGE ANNUAL GROWTH RATE

|  | 1990-2000    | 2000-2010    | 2010-2015    | FORECASTED<br>2015-2040 |
|--|--------------|--------------|--------------|-------------------------|
| <b>TRUCK :</b>                         | <b>+3.2%</b> | <b>+1.0%</b> | <b>+3.0%</b> | <b>+1.6%</b>            |
| <b>RAILROAD:</b>                       | <b>+3.8%</b> | <b>+1.1%</b> | <b>+1.4%</b> | <b>+0.6%</b>            |
| <b>PIPELINE:</b>                       | <b>-0.8%</b> | <b>+0.5%</b> | <b>+1.5%</b> | <b>-0.3%</b>            |
| <b>WATERBORNE:</b>                     | <b>-2.8%</b> | <b>-2.0%</b> | <b>-1.8%</b> | <b>+0.6%</b>            |
| <b>AIR:</b>                            | <b>+1.1%</b> | <b>+1.0%</b> | <b>+0.9%</b> | <b>+0.8%</b>            |
| <b>TOTAL TON MILES:</b><br>(TRILLIONS) | <b>+1.6%</b> | <b>+0.6%</b> | <b>+1.9%</b> | <b>+1.0%</b>            |



# Freight Industry Sizing

- Transportation costs represent 8% of U.S. GDP
- Freight is a larger COGS than energy in many sectors of the economy
- 40% of S&P 500 companies have stated that freight and transportation costs are the most substantial risk to their earnings.





# Massive Volatility in the Trucking Spot Market





# Freight Market Volatility Drivers



GOVERNMENT  
REGULATIONS



TRADE POLICY &  
BALANCE



WEATHER



SEASONALITY



DRIVER  
AVAILABILITY



COMMODITY  
SUPPLY



CONSTRUCTION  
ACTIVITY



MANUFACTURING  
ACTIVITY



CONSUMER  
SPENDING



MARKET  
TRENDS



# Why Now?

## Technology Evolution

- Ubiquity of Telematics
- Cloud vs. On-Premise
- Interconnected Systems
- Mobile Devices

## Market Forces

- ELD Mandate & Regulatory
- Labor Shortage
- Amazon Impact
- Capacity Crunch



**Who is naturally exposed to  
freight market volatility?**



## What About the Trucks?

Financially settled futures contracts.

No truck will show up. EVER.





# Trucking Companies

4500+ companies with +\$20M in revenue per year



# Shippers

20,000 that spend more than \$10M on trucking freight per year





# Freight Brokers

1,600 with \$10M revenue per Year







# What you need to build a liquid futures market



**Large & Volatile Market**



**Benchmark Index**



**Exchange & Clearing**



**Market Data, News & Insights**



## Contract Market Size Potential

**40 billion miles =  
40 million futures contracts**



# The Exchange & Clearing



## **Nodal Exchange**

Derivatives exchange providing price, credit and liquidity risk management to participants in the North American commodities markets.

## **Nodal Clear**

Clearing house using portfolio margining that provides participants risk management and capital efficiency advantages.



# Nodal Exchange FCMs

## 12 approved FCM clearing members for Nodal Exchange:

- ADM Investor Services Inc.
- BNP Paribas Securities Corp.
- Citigroup Global Markets, Inc.
- E D & F Man Capital Markets Inc.
- Goldman Sachs & Co. LLC
- Macquarie Futures USA LLC
- Merrill Lynch, Pierce, Fenner & Smith
- Mizuho Securities USA LLC
- Morgan Stanley & Co. LLC
- RBC Capital Markets LLC
- SG Americas Securities LLC
- Wells Fargo Securities LLC



# Tucking Freight Futures: Trade Execution

## **Nodal T7 Matching Engine**

Deutsche Börse ultra-low latency trade matching system used by Eurex, EEX and now Nodal Exchange (launched November 2018)

## **Nodal T7 Trading Platform**

Nodal Exchange's web-based trading screen, powered by **CQG**, provides access to Nodal's markets and is connected to the Nodal T7 trading architecture

## **Nodal BlockTrade**

Block trade submission of Nodal Exchange's futures and options contracts

## **FreightWaves SONAR**

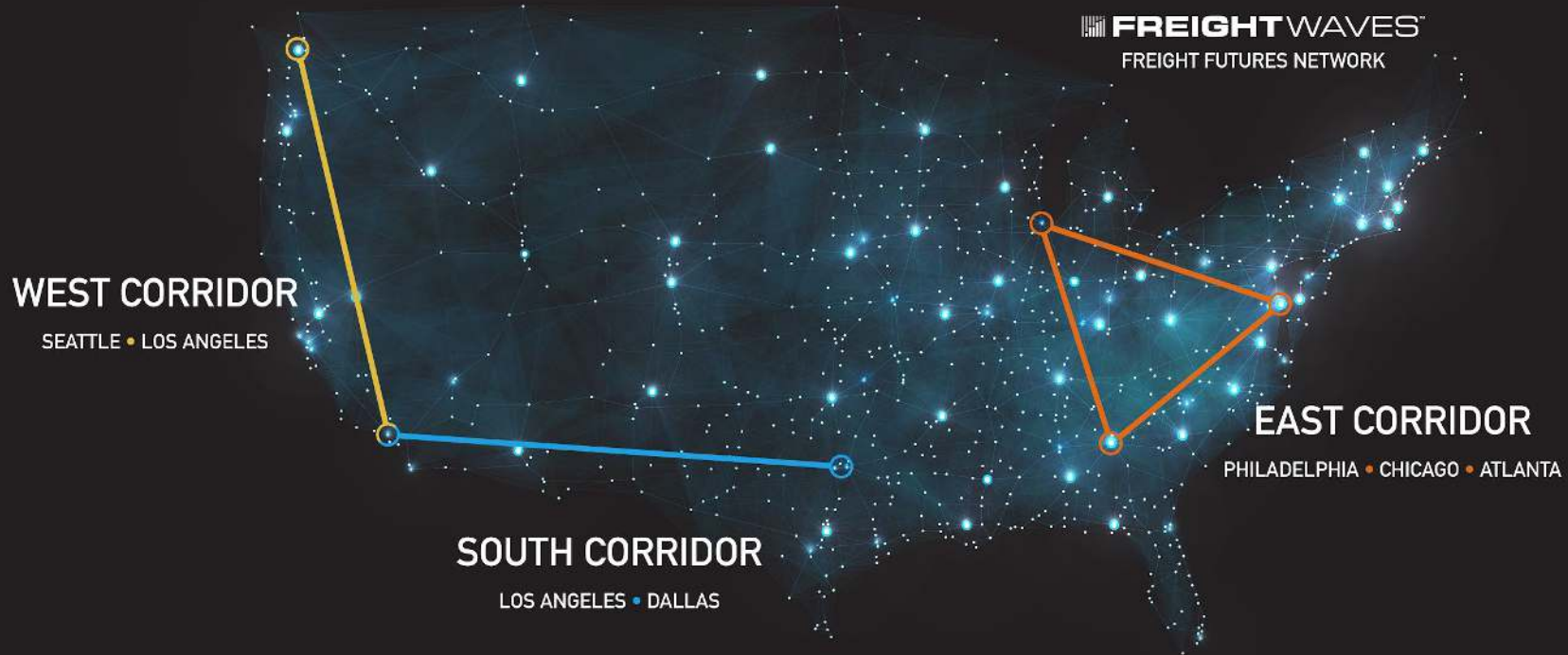
Direct link to launch Nodal's CQG Platform



# **Trucking Freight Futures Contract Highlights**



# Trucking Freight Futures Contract Lanes



Through a partnership between FreightWaves, Nodal Exchange as the DCM, and DAT for the spot rate index 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.





# Futures Contract Highlights

- **Eleven Contracts:**
  - Seven (7) directional lanes: (Seattle-LA, LA-Dallas, Philadelphia-Chicago-Atlanta)
  - Three (3) regional indices (West, South, East)
  - One (1) national average indices
- **Contract Type:** Monthly, cash settled (no physical delivery of trucks or goods)
- **Market Indices:** Based on trucking spot rates only (excludes contracted business)
- **Settlement:** Daily
- **Position:** Open and marked-to-market
- **Type:** Dry van line haul rate only (excludes diesel fuel price)
- **Lot Size:** 1,000 mile
- **Currency:** USD
- **Contract Series:** 16 Months



# Market Index Partner



Operates the largest truckload freight marketplace in North America. Derived market trends and data insights from 256 million freight matches in 2018, and a database of \$60 billion of market transactions.



# **Trucking Freight Futures Trade Simulator Demo**

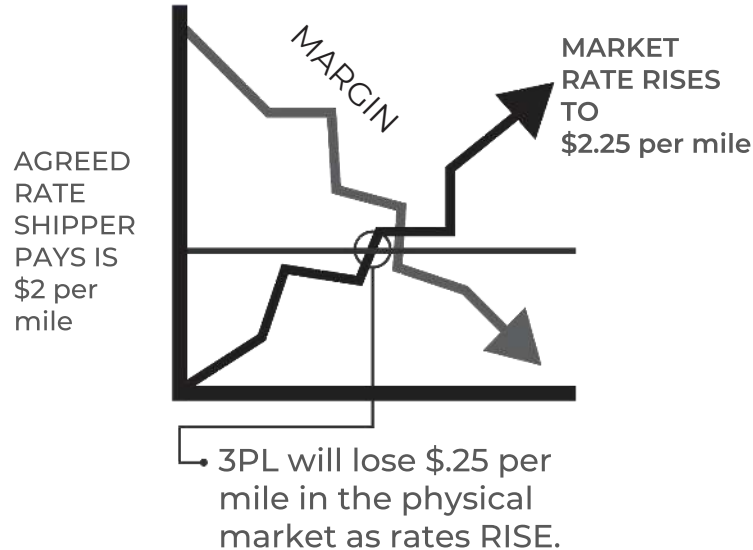


# **Trucking Freight Futures Use Cases**

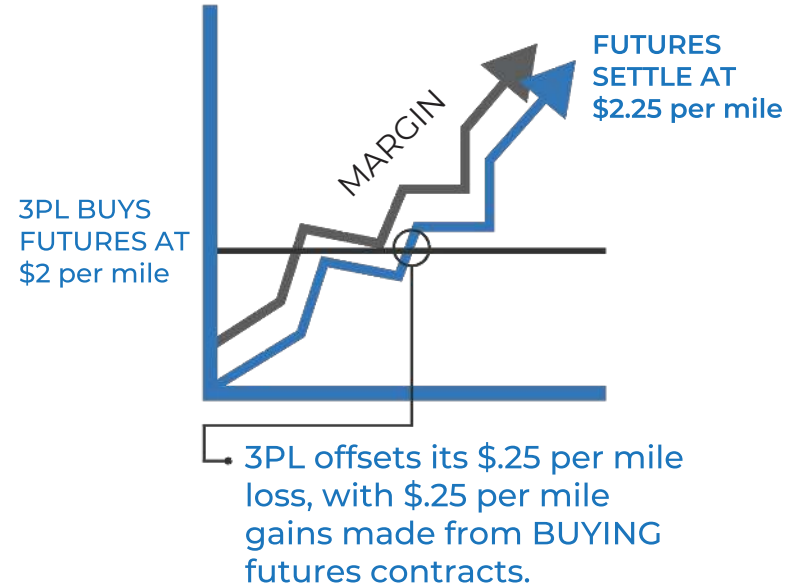
# USE CASE: 3PL HAS A FIXED PRICE CONTRACT WITH A SHIPPER, BUT IS CONCERNED RATES WILL RISE

## 3PL BUYS FUTURES TO LOCK IN ITS MARGIN

### PHYSICAL MARKET



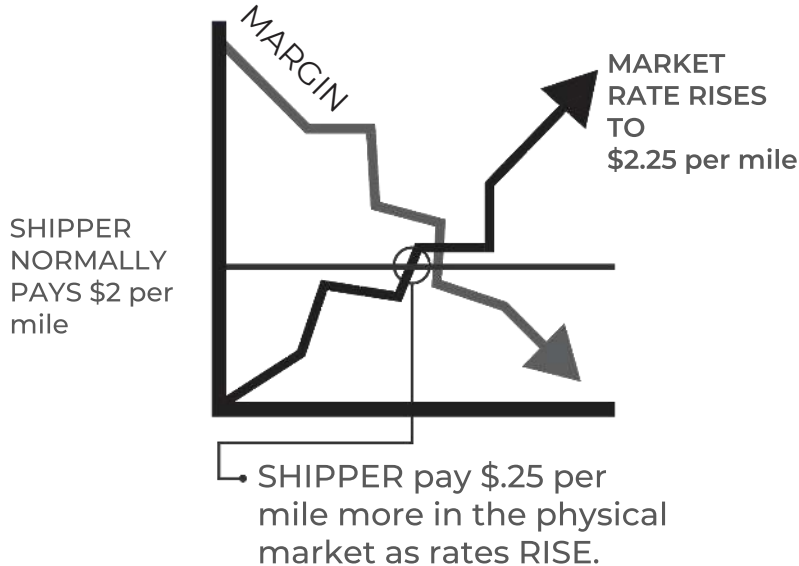
### FUTURES MARKET



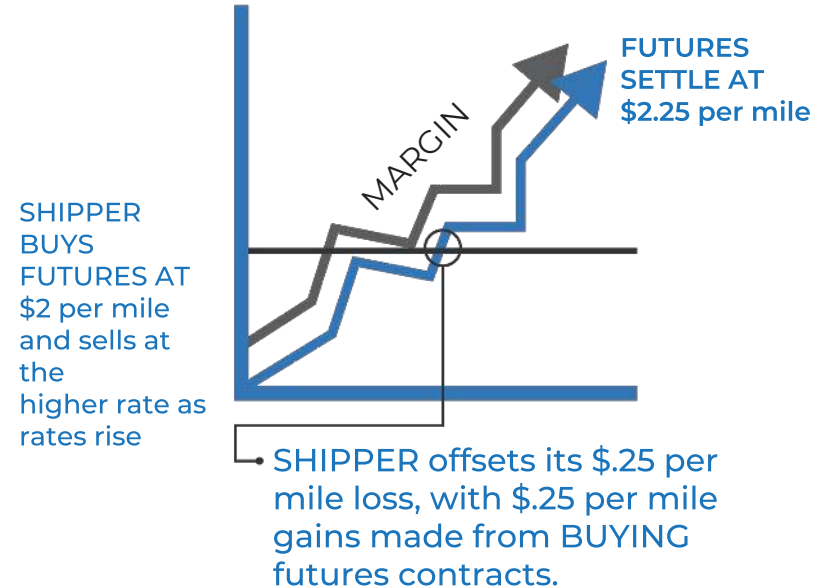
**USE CASE: SHIPPER'S NORMAL CARRIER CONTRACT RATE IS \$2.00. IT NEEDS EXTRA CAPACITY AND HAS TO BUY IN THE SPOT MARKET AND PAY THE HIGHER RATE**

## SHIPPER BUYS FUTURES TO HEDGE ITS COST EXPOSURE

### PHYSICAL MARKET



### FUTURES MARKET

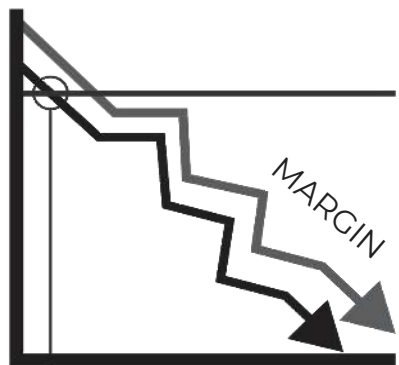


# USE CASE: CARRIER IS CONCERNED RATES WILL FALL OVER THE NEXT 30 DAYS

## 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



MARKET RATE FALLS TO \$1.75 per mile

CARRIER will lose \$.25 per mile in the physical market as rates FALL.

### FUTURES MARKET

CARRIER SELLS FUTURES LOCKED IN AT \$2 per mile and in advance of rates falling



FUTURES SETTLE AT \$1.75 per mile

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



# Need More Information?

## VISIT:

[www.freightwaves.com/freight-futures](http://www.freightwaves.com/freight-futures)

## CONTACT:

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