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MARKETS

Will Truckers Trade Futures? A New Market Seeks to Draw Freight Bets

Recent volatility in freight costs bolsters the case for the contracts, but getting firms on board is likely to be an uphill battle

By Alexander Osipovich

The first futures tied to the cost of trucking goods across the U.S. are set to launch on Friday, testing whether an old-school industry will embrace a new financial tool designed to protect cargo haulers and shippers against swings in freight rates.

Nodal Exchange, a unit of German exchange giant Deutsche Böse AG, plans to debut 11 new futures contracts linked to trucking costs. Futures allow firms to bet on whether the price of an asset will rise or fall, or to hedge against unfavorable price moves. There is an established market for futures-like contracts on ocean freight rates, but Nodal's trucking futures will be the first of their kind, their creators say.

It is far from certain that trucking futures will take off. Most new futures never gain traction, and the history of exchanges is littered with failed attempts to introduce futures on markets like shrimp or Canadian silver coins.

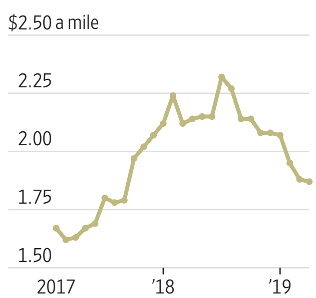
About $6.4 billion worth of seaborne freight contracts changed hands last year on Singapore Exchange, the largest operator in that market. That is a small slice of the trillions of dollars that trade annually on futures exchanges world-wide.

Still, Nodal and its partners say they're cautiously optimistic. "We think it's going to start very small and build over time," said Craig Fuller, chief executive of trucking data and news provider FreightWaves, which worked with Nodal and DAT Solutions, an online freight marketplace, to develop the new contracts.

Bumpy Ride

Freight transport costs spiked last year due to a booming economy and new regulations. They have since tumbled.

Average cost to book a truck in the U.S. spot market, monthly



Note: The figure for March 2019 is the monthly average through March 24.
Source: DAT Solutions

Recent volatility in trucking rates has bolstered the case for hedging freight costs. Average national trucking costs hit a record $2.32 per mile in June 2018, up 29% from a year earlier, according to DAT. Since then the market has cooled, with costs averaging $1.87 per mile so far this month.

The 2018 run-up squeezed profits at corporations like Hershey Co. and Procter & Gamble Co. It was fueled by a booming economy and new government rules mandating the use of electronic logging devices, which effectively cut truck drivers' availability by forcing them to adhere more strictly to timekeeping rules.

One potential problem for Nodal's futures is that they will apply only to a narrow slice of U.S. trucking transactions. They will track prices in the "spot" market, in which truckers and shippers enter hauling agreements to be executed over the next week or so. By various estimates, spot deals account for 15% to 30% of the U.S. trucking business. The rest is tied up in longer-term contracts, in which firms lock in freight costs for months in advance.

For firms that tend to stick with long-term deals, fluctuations in spot rates aren't that relevant. For instance, Knight-Swift Transportation Holdings Inc., the largest truckload carrier in North America, doesn't plan to use the new futures, according to CEO David Jackson.

"It appears that the data sets relied upon [for the futures] come disproportionately from the smallest of carriers, which is less relevant for the way large shippers and medium-to-large truckload carriers transact business," Mr. Jackson said in an email.

Nodal and its partners note that the U.S. trucking industry has annual revenues of over $700 billion, which they see as a large, untapped market. Potential users of the futures include both trucking firms and their customers, such as food companies and commodity-trading firms, said FreightWaves' Mr. Fuller.

He added that the futures could still be useful for companies that use long-term trucking contracts, because the prices of such deals move in tandem with spot prices, albeit with a delay.

Seven of Nodal's new contracts will track the cost of booking a truck over popular routes, such as Los Angeles to Dallas and Philadelphia to Chicago. Another three will reflect regional averages for trucking rates in the western, southern and eastern U.S., and one will track a national benchmark.

More futures for various routes could be added if the concept succeeds, according to Nodal CEO Paul Cusenza.

Nodal, founded in 2007, handles about one-third of the market for U.S. electricity futures. It will pay DAT and FreightWaves a fee for listing the futures.

Mr. Fuller, who is based in Chattanooga, Tenn., is the main salesman for the new futures, having promoted the idea for several years. His father co-founded one of the biggest U.S. truckload carriers.

Many in the trucking business will be watching closely to see if the futures succeed.

"It's a really cool idea," said Gary Girotti, an executive at supply-chain consulting firm Chainalytics. "It's not something that we've seen before, and I'd love to see how it plays out."

—Jennifer Smith and Paul Page contributed to this article.