



SPECIAL REPRINT

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looking ahead paul cusenza, nodal exchange

Earlier this month we interviewed Nodal Exchange chief Paul Cusenza on the two latest additions to his growing suite of products. Nodal launched a basket of new environmental products, in addition to a first-ever market for trucking freight futures contracts. This latter set of products will be in the market by the end of March. When we last talked on Dec. 5, 2019 was looking a whole lot different than what we see right now. Equities markets had not yet been savaged so completely; oil prices had not yet taken such a beating and natural gas was flirting with \$4.70 and not \$3.80 as we see this week. Suddenly, lots of plans are on hold or up in the air.

We asked Cusenza this week if he's looking at 2019 in a different way.

"I am. Only in the sense of when I look at our commodity markets, which, though volatile, aren't as painfully volatile as equities have seen lately. Commodity market volatility comes and goes in waves, so to me, I'm just going to ride these current waves out."

"If I look at 2018 – say just the end of November – our core power markets – monthly term power futures – that market is down about 4 percent, but Nodal is up over 20 percent. We continue to grow in what's a sort of flat or down market. It

all depends on what you're offering right now, and who needs it most."

This is a record volume year for Nodal, Cusenza says. More than a billion MWhs traded this year.

"We're looking forward to 2019, excited about it, but recognize the uncertainty, the volatility within. A week ago, equities were strong, now, not so much. What does that say? It says hedge. Time to hedge. In commodities, it's the weather that adds the volatility, and I don't see that coming off for a while. So, more extreme pricing pressures, in power gas, and so on. The answer is to hedge price risk and credit risk, and liquidity risk. We got into the natural gas space at the right time, our customers cannot hedge all of these risks brought on by volatile weather conditions. The trucking freight business is also impacted by weather and seasonality ..."

Given the trade conflicts with major trading partners and the rumor of a global economic slowdown, plus the recent convulsions in the equity space, we wondered how these massive (potential) moves might impact the freight futures market he plans to launch by March.

"Well, these actions might have an impact on prices. But, if it does, all the more reason to hedge that risk. Will we see

a recession? I don't know, it may or may not happen in a couple years. Regardless, there are other factors prevailing, which is, while the inclination might be that demand doesn't go up, it may be true in the aggregate ... But even if it is true, there's nothing saying that trucking doesn't increase. The fact is, people are getting more individual shipments, not less. People are buying more on Amazon, or online generally, not less. The more you buy online, from groceries to tires, trucking becomes a more important factor. Plus, we're still stuck with the dilemma next year of a shortage of truck drivers in the US and other supply-demand issues."

So, to sit there and say, I don't need to worry about my trucking costs because demand may drop for shipping next year because the economy might be down, he says is a very short-sighted perspective. Indeed.

"Depending on what your needs are, there will always be weather risk in the truck freight industry, regardless of the economic situation. Hedging will be the safe thing to do, in any case.

"There certainly is some uncertainty in 2019, we see the volatility already. But from my standpoint, all that uncertainty and volatility means it makes that much more sense to hedge your price risk.

(Continued)

“If there was no price risk, we wouldn’t be around. Since we manage future price risk, you need to look to credit risk protection unless you want to be stuck with Lehman Bros as your counterparty. And positions change, you need to protect your liquidity risk.”

What else do you see emerging from this chaotic period?

“Well, new opportunities hopefully to be identified. As markets shift and change, things are often uncovered, like

that sea shell on the beach that’s covered with sand, and the waves wash clean. Waves of change. Suddenly a shell appears that wasn’t visible before, and you find it. Maybe the trucking freight business will offer a similar opportunity.”

He asks us to consider the general lack of truck drivers and the rise of GPS and automation out there, driverless cars and the like.

“With the rise of GPS and automation, plus the rise in more stuff being

shipped because of more internet sales, things must evolve and change. The trick is to be flexible to be ready and prepared when the change happens, right?”

“Others might say you were lucky that you found that shell on the beach. I say that I made that luck because I hit that beach every morning at the same time.”

What about the vacation guy who randomly shows up on the beach and finds the shell?

“Well, that can happen, but it kills the metaphor,” Cusenza says.

