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SPECIAL REPRINT

two new lines for nodal exchange

November was a busy month for the DC-area digital exchange. For one thing, we can't describe Nodal as simply a power or energy exchange any longer, though energy remains its core market. Nodal has long offered power and more recently Henry Hub natural gas contracts, but this month they upped the ante a few notches. In November, Nodal launched a swath of new environmental products, created in cooperation with IncubEx, the same brain trust that developed the original Climate Exchange (later acquired by ICE) and the EU's most liquid-traded emissions products on the EEX. Secondly, Nodal announced the March 29, 2019, launch of first-ever (anywhere) trucking freight futures contracts, in cooperation with a data and analytics outfit called FreightWaves. Environmental contracts and trucking freight? And not cryptocurrencies like all the rest? We'll see who's ahead a year from now.

We called Nodal CEO Paul Cusenza for more details.

Why now? November is a good time to launch new things, he tells us. "You can get in some trades now to plan for 2019, and you're still far enough away from the holidays," he says. True enough.

The enviro contracts are a natural for Nodal, given that its current customer base includes most of the big generators in North America, Cusenza tells us. "That said, we we're hoping to expand our base with these new contracts as well." Indeed. Parent company EEX has listed environmental contracts for many years across European markets. Given that many of these entities operate subsidiary companies in the US and vice versa – and given that both Nodal and EEX companies use the same core exchange technology – you get it. "Same tech, same look and feel, underlying connections ..." This should translate to less of a hard sell, read, shorter approval process, for the new contracts.

"This is the first tranche of contracts (roughly 250) – our first physically delivered contracts actually – and we will continue to expand this product set going forward."

As for the new freight futures contracts, Nodal will serve as the exchange, the DCM and the DCO, much like the firm's power contracts and all else. In this new venture Cusenza says they collaborate with FreightWaves on sales and marketing side as well as on the price indices. "I think this is the best sort of model for us," Cusenza says. "We're not horizontally clearing, or clearing for somebody else's futures exchange, rather we're collaborating with firms that have deep industry knowledge and doing the rest ourselves."

He says the combo means Nodal will be faster to market "and with a better chance for success." The expectation is high for the financially-settled freight futures, he tells us, given the trucking industry is a \$700 billion marketplace in the US.

"It's a huge part of the value chain for so many companies." True. That seems to be doubly true for the energy sector, given the bottlenecks in takeaway capacity from Calgary to the Permian. Swaps or bilateral deals to hedge freight risk has always been a part of the land transport and transport business, though the methods have not much changed in 100 years.

"There has never been a cleared futures contract for this market, (so) we're bringing this market to a whole new stage. This is a market where companies are deeply exposed to a lot of price risks involved in delivery. Brick and mortar companies, internet companies, energy companies, it doesn't matter, they all have to hedge that transport risk."

A year or so ago when we first spoke to Cusenza about this idea, we had perceived freight futures as a purely spec market, but given the realities of internet sales growth, distribution bottlenecks in energy, weather volatility and in particular price volatility in fuels these days, we're coming around to Cusenza's assertion that this is indeed a hedger's market. This will be big, come the March 29, 2019, launch date.

For more info go to <http://www.nodalexchange.com/products-services/trucking-freight/>.