# the next big thing for speculators: trucking lane futures

This is beautiful. It's got all the right bits: it's new, it's fast, it has weather and fuel components, electronic markets, exclusive indices, and, maybe even … the Teamsters. Former ICE eConfirm chief Bruce Tupper contacted us last week to brief us on an all new exchange concept – transport lane futures and options. No kidding.

The name of the outfit is TransVix and they aim to create a new marketplace to help shippers, carriers and brokers hedge risk associated with trucking transport. And, go figure, the risks abound: from weather to fuel prices to capacity. We think it's a market tailor-made for speculators used to highly volatile, electronic markets replete with a set of fundamentals only an energy trader can appreciate. We spoke to Tupper, the president of TransVix, and several other company officers about the new operation, it's planned launch, possible prep for DCM status and other details.

So, there are a few things you need to know about the trucking business. First, when you hear the term "lanes," what's meant is pre-set routes, or an "origin-destination" (OD) pair like, NY to Boston or Dallas to Atlanta. Each OD pair or lane has its own local economics and volatilities. There are a limited number of truly 'liquid' lanes (around 12) and there is a limited amount of available transport capacity for each lane. Weather has a big effect on demand, the cost of fuel is a make-or-break proposition and key transport pricing and pricing data is the sole purview of an outfit called DAT. Think, Platts.

And before company CEO Craig Fuller did anything, he locked up an exclusive deal with DAT for price index data. Smart man. Early round investment from David Hunt of Hunt Technology Ventures wasn't far behind.

Tupper tells us that if you take a close look at the data, the price curves and so on, you'll see seasonality that looks all too familiar. "Demand cycles, holiday disruptions, weather-induced volatility, spikes, it's all in there. And this whole idea about the 'lanes' will remind you of the gas pipeline market, the network. There is a lot of correlation among some of the lanes, and so there's opportunities for spread trading," he says. "Our goal is first and foremost to build a set of contracts to serve the risk management needs of the trucking industry, but we also want this market to be intriguing to the prop shops and traders." So, while there may be only 12 truly liquid lanes in the US – the initial contracts they list will be tagged to these 12 core lanes – there are tens of thousands of possible OD pairs in the US, Fuller tells us. Read, basis opportunities. "For now, we're trying to concentrate liquidity on these core lane segments, which we see as representative of regional market conditions."

Fuller calls himself the "resident trucker" on the team, but he sounded like a trader to us. And in fact, he's that too. He's also started and operated a couple very successful electronic trucking services businesses. Running the regulatory traps for the TransVix is company chief compliance officer, Peter Kavounas. He's a former CFTC attorney who cut his teeth on Dodd-Frank policy implementation, and served on Bart Chilton's staff for a time. Like Tupper, he too did his time in Exchangeland. And also like Tupper, is a newcomer to the trucking business. No matter, he tells us. When Fuller first laid out his vision for this exchange concept, Kavounas said it sounded like home. Tupper concurs. "There are so many similarities to this market and other futures markets I've worked on. The correlations between the lanes for example – and there are many … and they may vary by time or season – will create huge arb opportunities … a natural for prop traders."

Fuller likens his creation to the capacity-constrained electricity markets, where we also find "a perishable commodity, one you can't really store and has so many potentially precipitous impacts on it that in no way can you fully predict accurately, or hedge yourself today against these fundamentals."

But unlike power or the pipeline business, where capacity is indeed limited, when you're talking about trucking lanes, shippers have the opportunity to actually shift lanes, that is, move to correlated lanes that may (or may not) have more (or less) capacity and less constraints, and as such, different prices. The result: price volatility city.

"This is the big difference between the energy markets and trucking," Tupper explains. "Unlike the pipeline business, shippers here can move a lot of their fleet into a market that might be overpriced at the moment, and take advantage of those rates, then bring it back down. There is a lot of short-term volatility in this market and so, contracts will be daily-priced, but we will also have a term curve," Tupper adds.

"There should be a very good spot market from the beginning, much like you see now in gas and power," Tupper says. Eventually, he says they will offer an 18-month curve to capture a year's worth of seasonality. Makes good sense to us.

Fuller had just returned from a major trucking conference and noted that the concept was very well received. Good thing too. A notice on the site revealed that the company had hoped to receive contract approval by Q3 of this year. In related news coverage, Fuller had discussed moving forward with applications for DCM status from the CFTC. That's an aggressive timetable by any standard, considering they first launched this idea last Summer. We asked if the exchange technology had been secured or built, also the current status of the nec-

*(Continued)*

essary clearances from the CFTC, funding, staffing, and so on.

Tupper tells us that for this year's launch "it looks like we will be partnering with an established exchange clearing operation to bring these contracts to market." Kavounas says the process for DCM status will come eventually. "Remember this is a whole new concept for this market. We think it will trade and a lot of people we've spoken to agree, but the reality is, the concept needs to be proved out first. So now, we're focused on developing the best products, get them trading and go from there." He added that if the company's current arrangement with a yet-to-be-named DCM "is strong enough, we may not need the designation (DCM) itself."

Try as we did, they wouldn't divulge the name of the DCM they are partnering with, who, at the moment, is running the traps and the risk models with the CFTC for the new trucking capacity contracts – an entirely new asset class. They did mention, however, that it is a US clearinghouse.

So, the subject of technology, finance, front and back office and all the rest of it are basically moot. They're basically listing their new contracts on a ready-made exchange. "The primary goal is to get it to market … to make sure there is a market," Fuller says. And from there, the three execs concede, the sky is the limit, or in this case, the open road.

Their timing may be ideal. The economy is up, and poised to move higher, and in the trucking business, this can only mean one thing. Good times ahead. "Trucking markets, truck loads, is usually a six-month leading indicator of the US finished goods economy," Fuller says. "And all this talk of a new tax plan, new infrastructure investments and so on, is very bullish for the transport business."

Fuller also notes that there are a number of new federal regs on food security and transport that are rolling along which could also have a major impact on the market they hope to launch in later this year. Google the term, ELD or electronic log books. The government is mandating this GPS-driven technology, for every truck, as a way of closing the book on old-style paper logs. Paper logs made it easy to "cheat," Fuller tells us. That is, truckers often run much longer on the clock than is legally allowed. Right now, truckers are only permitted to log 500 miles per day. But, many may go 650 or 700 miles per day, which could significantly change the capacity calculus on a given lane. Right now, it's estimated that between 30-70 percent of all trucks are ELD-noncompliant, and so there may be a lot of cheating on shipping. The compliance deadline is Jan. 1. 2018. See where we're going on this? Fuller says that some industry reports reveal that once all operators are fully ELD-compliant, from 8 to 20 percent of capacity may be taken away from the market, "and thus, we'll see accelerated rates. The capacity shakeout won't be immediate, but it will come." *Wow.*

So, these guys are hoping to launch a new market for trucking futures and options mere months before the US capacity markets for trucking are set to fundamentally change?

*We recommend you have a look. Go to https://transvix.com/*