

November 27, 2019 | 1:59 PM EST

Intermodal Markets

Overview

This week's volumes comps (+13.5%) are noisy due to the timing of the Thanksgiving holiday one week later than last year; weekly y/y comparisons are comparing a holiday week to a post-holiday week. For that reason, we feel that the four week moving average is more relevant here: the trend is 3.1% below the year-ago period.

Railroads are still refusing to budge on intermodal spot rates despite compressing spreads against trucking rates. Although truck rates in some lanes will surge leading into the holiday, most freight brokers we spoke to believe that trucking markets will return to the persistent softness we've experienced shortly after the holiday and perhaps as early as Monday, December 2.

So far, the railroads' strategy appears to be waiting out deflationary trucking spot rates. If the truckload spot market is really the tail that wags the dog, then the industry's performance in Q1 2020 is what matters. Some industry participants, notably Coyote Logistics, have called for spot rates to break out to the upside in Q1 after enough capacity has left the market, but that call contradicts the experience of many industry participants. In most years, Q1 is the weakest, and an executive we spoke to yesterday from GlobalTranz, a top 10 freight brokerage, said that he did not expect a turn up until Q2.

If trucking spot rates crash further in the first quarter, it may force the railroads' hand to lower prices, widen intermodal spreads, and attract volume. But if trucking spot markets melt up, like Coyote thinks they will, we may see upward price action on major intermodal lanes as well.

Spot Rates Per Mile

Chicago, IL to Linden, NJ	\$2.02
Los Angeles, CA to Dallas, TX	\$1.52
Linden, NJ to Chicago, IL	\$1.20
Los Angeles, CA to Chicago, IL	\$1.16
Chicago, IL to Los Angeles, CA	\$0.92

53' Container Vol. 7-Day MA (Weekly Change)

Los Angeles to Chicago	1218.43 (+0.90%)
Chicago to Los Angeles	843.86 (+0.40%)
Chicago to Elizabeth	702.00 (-0.40%)
Los Angeles to Dallas	446.00 (-0.30%)
Chicago to Harrisburg	425.00 (+0.30%)

Outbound Intermodal Tender Rejections

Savannah, GA	1.53%
Joliet, IL	4.59%
Chicago, IL	3.94%
Memphis, TN	0.48%
Los Angeles, CA	0.11%

JP Hampstead

Director, Passport Research
 jphampstead@freightwaves.com
 (865) 388-1708

Hunter Carroll

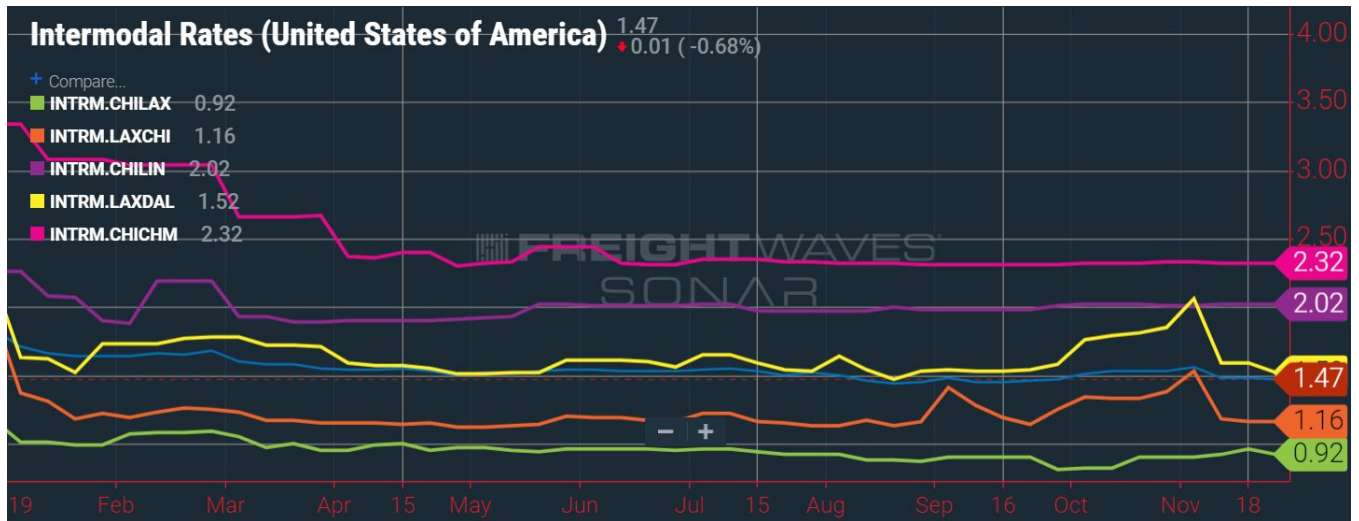
Research Associate
 hcarroll@freightwaves.com
 (423) 650-5702

Tony Mulvey

Research Associate
 tmulvey@freightwaves.com
 (423) 637-1940

November 27, 2019 | 1:59 PM EST

Intermodal Spot Rates



(Chart: FreightWaves SONAR)

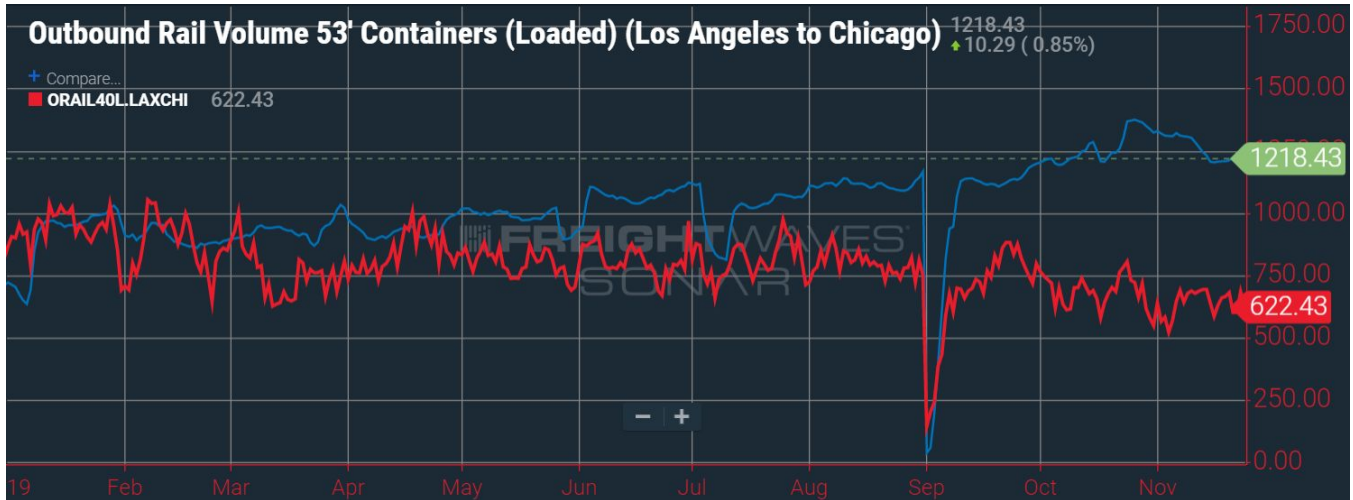
Intermodal rates continue to remain relatively steady and continue their walk along the x-axis. Over the past month, some lanes saw a slight increase in rates before falling back down. We expect that rates will continue to stay relatively flat as dry van rates continue to stay low. Note however that van outbound tender rejection rates for trucking are trending upward, which may lead to higher van rates, which would in turn give intermodal rates a boost.

“With truck capacity still loose and expectations of weak contract rates into 1H20, intermodal volumes, pricing, and margins continue to remain at risk until deeper into 2020,” wrote Susquehanna equities analyst Bascome Majors this morning in an investor note, and we tend to agree.

Railroads are not budging on price and instead seem content to tolerate lower volumes while they wait for trucking capacity to appreciably tighten. We note that current trucking spot rates from Los Angeles to Dallas are \$1.56/mile, just \$0.04 more than the intermodal rate. A persistent spread that narrow signals to us that railroads are not even attempting to compete with trucking in that lane.

November 27, 2019 | 1:59 PM EST

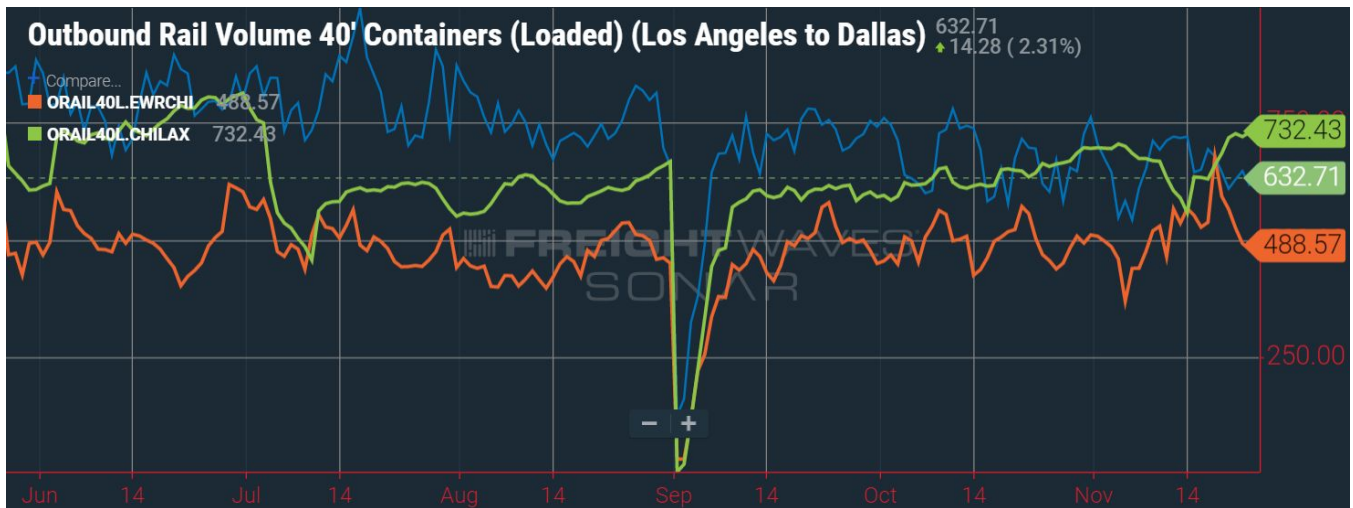
Freight Demand



(Chart: FreightWaves SONAR. Chart displays 7 day moving averages.)

Since the middle of November, 53' intermodal container volumes on the major Los Angeles to Chicago lane, which is also BNSF's densest lane, have been in a trough below the late October peak. Still, BNSF's intermodal volumes over the past four weeks are up 0.6% compared to the same period a year ago, the best performance among North American Class 1s. Year-to-date, BNSF intermodal volumes are down 3.9%.

According to AAR data, year-to-date U.S. intermodal volumes are down 4.3%.



(Chart: FreightWaves SONAR. The chart displays 7 day moving averages.)

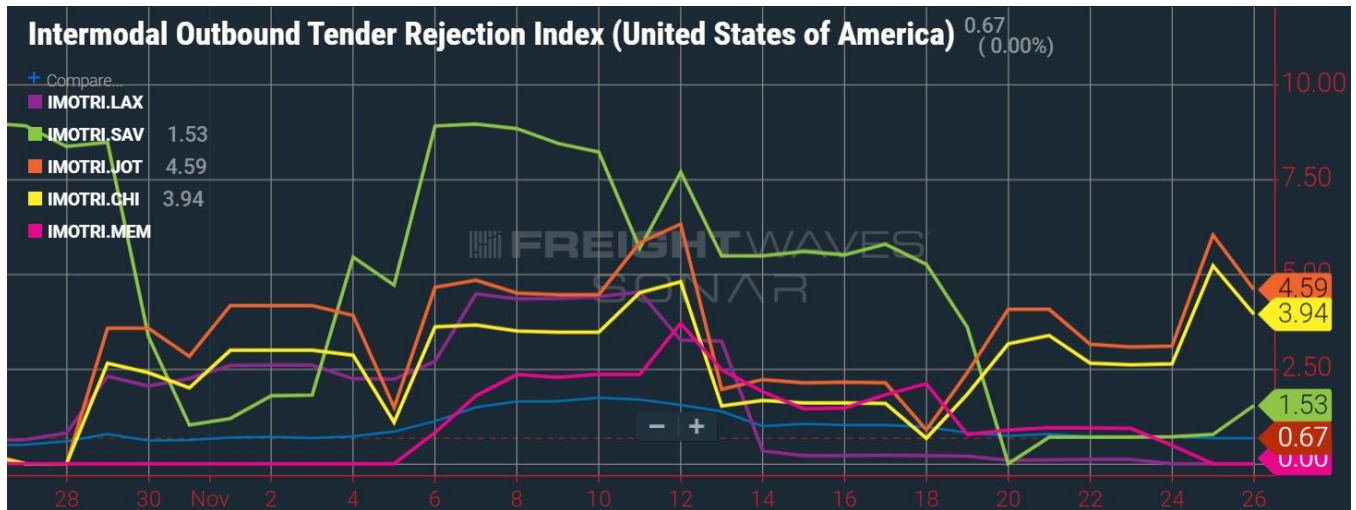
Together, the three intermodal lanes displayed in the above chart — LA to Dallas, Elizabeth, New Jersey to Chicago, and Chicago to LA — account for just over 30% of all 40' container rail traffic in the United States. Judging from 2017 and 2018 data, 40' container rail traffic still has further to fall this year (it typically bottoms during the holidays at the end of December).

Since last week, 40' intermodal container volumes on the Elizabeth (i.e., New York City) to Chicago lane have continued deteriorating, while the major Union Pacific lane from Los Angeles to Dallas has

November 27, 2019 | 1:59 PM EST

only fallen slightly. Meanwhile, loaded 40' containers returning to Los Angeles from Chicago picked up this week.

Intermodal Capacity



(Chart: FreightWaves SONAR)

As seen above, intermodal marketing companies are continuing to reject shippers' tenders at low rates. Meanwhile, important trucking markets are tightening significantly and experiencing the highest tender rejection rates since the beginning of the year. The primary reason for this is the time-sensitive nature of the products needing shipment during holiday and peak season, which fuels demand for the trucking market and tightens capacity while intermodal tends to carry less time-sensitive goods.

Both intermodal and trucking carriers haul similar freight, in many cases for the same kinds of retail shippers. The difference is that because intermodal transit times are longer and require transloading, drayage, and potential delays at train hump yards, intermodal peak season is already behind us. Retail goods that needed to be on store shelves by Black Friday were shipped by intermodal three weeks ago; this week was far too late. It's an example of modal rotation, where as certain deadlines approach, shippers shift their freight from a slower, less flexible mode of transportation to a faster, more flexible one (the same can be seen in the rotation from ocean to air freight in the lead-up to a tariff deadline).