Tealinc

Touchbase

APRIL 2016

In This Issue

Visit us at:
www.tealinc.com

STB releases Reauthorization Act reports

Words of wisdom *before* upgrading your fleet

Railroad & Policy Updates

STB Releases Reauthorization Act Reports

[April 1, 2016] the Surface Transportation Board issued reports as part of its implementation of the STB Reauthorization Act of 2015, P.L. 114-110 (2015).

The Board issued four reports:

--the first quarterly report on rate case review metrics;
--the first quarterly report on formal and informal service complaints;
--the second quarterly report on unfinished regulatory proceedings; and
--a status report for the month of March showing the Board's progress in implementing the key initiatives of the Reauthorization Act.

The Board also continues to make progress on implementing the Reauthorization Act's provisions to improve the processing of rate reasonableness cases. The Board began this implementation with rules issued on March 9, 2016, regarding rate case procedural schedules. Pursuant to the Board's announcement on March 15, 2016, meetings have been scheduled with practitioners, consultants, and stakeholders who have significant experience in rate reasonableness litigation, especially stand-alone cost cases, to share their views and ideas for expediting rate cases. The Board will conduct these meetings in April and will initiate a proceeding by June 15, 2016, in accordance with the Act.

The Board Members continue to hold meetings under the Board's new collaborative discussion authority established by the Act. In March, the Board and staff members discussed modifying the agency's existing arbitration rules consistent with the requirements of the Reauthorization Act. A summary of this meeting is posted in the Reauthorization Act section of the Board's website. The Board intends to begin rulemakings on both the arbitration rules and its new investigative powers under the Act within the next quarter.

"The reports being transmitted to Congress today show that the Board is aggressively moving forward with the mandates of the STB Reauthorization Act and making steady progress on its key objectives," said STB Chairman Daniel R. Elliott.

Read the entire article:
http://www.stb.dot.gov/__85256593004F576F.nsf/0/7580D9B9BC3045C185257F88006AA4B2?OpenDocument

Mechanical Brief with Steve Christian

For a few decades I was a Manager/ General Manager of a group of shops that maintained several utility fleets that used Powder River Basin coal, Illinois Basin coal and Appalachian coal. During that period of time, I saw the steel trainsets being replaced by aluminum sets.

The earliest aluminum sets that I remember had bodies that were either welded construction or used aluminum rivets and plated two piece rivets. It became very apparent to me and everyone else that aluminum welding was a poor choice and now all cars are mechanically fastened. Aluminum is more likely to expand and contract which stresses the welds and causes cracks. Mechanical fastening allows the aluminum to expand and contract more easily without causing damage. The interior bracing of the aluminum cars was also either welded or mechanically fastened. Over time the interior bracing was attached to the side sheets and center sills utilizing pins and bushings. This gave the aluminum body an even greater ability to expand and contract with the loaded and unloaded conditions. Overall, the aluminum bodied open top hoppers and gondolas have undergone a great deal of real world testing over millions of miles and the result of this has been many updates to the cars that make them far superior to their predecessors. As the result of this evolution, I have also seen aluminum sets being replaced by new aluminum sets that incorporate the latest and greatest engineering. Of course, all of that occurred when coal was king and the railroads struggled with cycle times because railroad capacity was strained to the limit.

Aluminum is more likely to expand and contract which stresses the welds and causes cracks. Mechanical fastening allows the aluminum to expand and contract more easily without causing damage.

Fast forward to today, coal is no longer king, mines are being closed, miners are being laid off, cycle times are excellent because traffic is down and many trainsets are in long term storage. While there is a dark cloud over the whole coal industry, there are some companies that are looking to seize the opportunity to update their fleet with newer design aluminum coal sets at bargain prices.

I have been involved in efforts to purchase aluminum rotary gondolas for a few years now. I can tell you that the first cars that were offered for sale were the earlier generation cars and/or others that had a hard life in dumpers where the pressure on the car clamps was set too high and top chords and bolster posts were damaged. Others had obstructions on the dumpers that raked and gouged side posts.

Recently the newer cars are beginning to be marketed. I expect more and more newer cars to be available as leases terminate and the chances for renewing are declining.

Now, I have some “words of wisdom” for you before you even begin the search to replace older cars with newer cars. Evaluate your current fleet and the maintenance program that you have used over the years. If you have crushed top chords, raked side posts, body cracks, and excessive slack in your draft systems and worn out trucks, it is obvious that you need to make changes before you purchase newer and better cars. Without changes, the new cars will soon look like the old ones pretty quickly and the value will decrease accordingly.

Evaluate your current fleet and the maintenance program that you have used over the years. If you have crushed top chords, raked side posts, body cracks, and excessive slack in your draft systems and worn out trucks, it is obvious that you need to make changes before you purchase newer and better cars. Without changes, the new cars will soon look like the old ones.

Just recently, I had the pleasure of visiting a power plant that did things right. The cars showed no signs of excessive dumper pressure, the car bodies were straight, the truck friction shoe heights were all good and there was minimal coupler slack. From what I saw, the existing cars were a great indication that proceeding with the acquisition of newer cars would be a good idea for them. The habits they have established and maintained

Tealinc's wide variety of talents and experiences [will help] guide you through an evaluation of your current fleet and operating practices

for many years indicate that the acquisition of newer cars should be successful. There will probably need to be some changes/adjustments made to accommodate the new cars. With the correct guidance, I am confident that they will implement them successfully.

Tealinc has a wide variety of talents and experiences within our company to guide you through an evaluation of your current fleet and operating practices and then we can guide your through the process of finding replacement cars. As always, Tealinc stands ready to serve you.

Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. You may contact Steve directly in his new Colorado office at (719) 358-9212 or via email at ***steve@tealinc.com****.*

Railroad Traffic

U.S. rail traffic up 0.5 percent in February

Total U.S. rail traffic moved up slightly — 0.5 percent — [in February] compared with a year ago, thanks to a boost from railroads' intermodal business, according to data from the Association of American Railroads (AAR).

U.S. railroads' combined carload and intermodal traffic [in February 2016] was 2,028,168, an increase of 9,646 carloads and intermodal units from February 2015.

The railroads originated more than 1 million intermodal containers and trailers in February, a 12.9 percent increase from the same month a year ago. However, AAR noted that intermodal volumes in February 2015 were "severely affected" by a labor dispute at West Coast ports.

Carload traffic [in February] fell 10.1 percent to 979,042 carloads, compared with traffic in February 2015.

Nine of the 20 carload commodity categories tracked by the AAR experienced gains [in February] compared with February 2015. They included: motor vehicles and parts, up 19.4 percent or 12,573 carloads; miscellaneous carloads, up 30.6 percent or 5,345 carloads; and waste and nonferrous scrap, up 15.6 percent or 1,781 carloads.

"Coal carloads remain very troubling, intermodal is doing well, and the other rail traffic categories are somewhere in between"

Among commodity groups that posted declines, coal traffic plunged 27.3 percent or 112,620 carloads, last month. Also down were petroleum and petroleum products, 20.8 percent; and metallic ores, 25.3 percent.

Excluding coal, railroads posted a combined 0.4 percent increase in carload traffic.

Rail traffic, like the economy, continues to give mixed signals, said AAR Senior Vice President John Gray.

"Coal carloads remain very troubling, intermodal is doing well, and the other rail traffic categories are somewhere in between," Gray said.

"After Saudi announcements on energy pricing late last week it is painfully evident that it will take a while for the shakeout in that sector to play itself out," he added. "Until that happens, and until it becomes clear that the disruptions abroad aren't spreading into the domestic economy, rail traffic will remain in an uncertain environment."

Canadian railroads reported a 3.5 percent decrease in cumulative rail traffic volume... Mexican railroads report a 2.2 percent increase

Canadian railroads reported a 3.5 percent decrease in cumulative rail traffic volume during the first eight weeks of 2016 compared with traffic volume in the same period a year ago. Mexican railroads reported cumulative volume during the eight-week period rose 2.2 percent compared with the year-ago period.

Visit the AAR at:
http://www.progressiverailroading.com/rail_industry_trends/news/AAR-Intermodal-lifts-US-rail-traffic-numbers-in-February--47488?email=julie@tealinc.com&utm_medium=email&utm_source=prdailynews&utm_campaign=prdailynews03/03/2016

Industrial Inside

Why this wheat cargo symbolizes waning U.S. market dominance

The U.S., once the world's largest wheat exporter, is scheduled to import the grain this month from South America in the latest sign of how the country is losing its domination of the global trade.

Even amid overflowing U.S. grain bins, there's a ship destined to reach North Carolina shores this month with supplies from Argentina. Olympos, the vessel that's loading 23,494 metric tons of wheat and 24,456 tons of soy meal at Las Palmas terminal, in Zarate province of Buenos Aires, will depart this week and is scheduled to reach Wilmington port on March 30, according to Rosario port data and a sailing schedule posted on the North Carolina State Ports Authority website.

As American farmers grapple with a stronger dollar that's making their grain less competitive against foreign sellers, the U.S. will fall to becoming the world's third-largest wheat shipper this year, trailing Russia and Canada

As American farmers grapple with a stronger dollar that's making their grain less competitive against foreign sellers, the U.S. will fall to becoming the world's third-largest wheat shipper this year, trailing Russia and Canada. As recently as 2014, the U.S. was No. 1. At the same time, exports from Argentina have been climbing since newly elected President Mauricio Macri eliminated most crop taxes and lifted four years of currency controls in December.

U.S. wheat shipments are projected to drop 9.3 percent this year to 21.1 million metric tons in the season that ends May 31, the lowest since 1972, government data show. The crimped export demand is helping to drive domestic inventories to a six-year high, while corn and soybean stockpiles are estimated to reach the highest in about a decade.

By contrast, the U.S. Department of Agriculture in a March 9 report boosted its estimate for Argentina wheat exports to 7 million tons, from 6.5 million, citing a stronger shipment pace. The agency also raised its forecast for soybean-meal shipments and production in the Latin American country, the world's largest exporter of the product.

The wheat being loaded to the Olympos vessel was sold by Molinos Canuelas Sacifia and the soy meal by Viluco SA. Two other cargoes of wheat from Argentina were scheduled to arrive in the U.S. in late January.

This year through March 11, Argentina has shipped $4.9 billion of grains and oilseeds abroad, a record for the period and double the amount of a year earlier

In addition to this month's shipment to the U.S., other Argentine cargoes are expected to transport a combined 675,000 tons of wheat to Brazil, Chile, Ecuador, Italy, Thailand, Morocco and Indonesia, according to Argentine port data. Brazil will be the largest buyer of Argentine wheat, followed by Indonesia.

This year through March 11, Argentina has shipped $4.9 billion of grains and oilseeds abroad, a record for the period and double the amount of a year earlier, according to data from an exporters' group.

Read the entire article at:
http://www.agweb.com/article/why-this-wheat-cargo-symbolizes-waning-us-market-dominance-blmg/

Financial Focus

Global fears are creeping up on the Federal Reserve

The Fed on [March 16, 2016] said it is not going to raise its key interest rate as expected. The Fed also cut its forecast for U.S. economic growth and inflation, and significantly lowered its estimate for the number of rate hikes in 2016.

The Fed's committee, led by Chair Janet Yellen, had estimated in December that the economy would grow 2.4% this year and it would raise rates four times. Then stock markets became volatile, oil prices fell and fears of a U.S. recession magnified in January and early February.

Now the Fed is dialing back. Yellen and other Fed leaders are only calling for about two rate hikes this year. The Fed also dimmed its economic growth outlook for the year to 2.2%, compared with 2.4% previously.

Those cuts reflect concerns about how much the slowdown is impacting American growth.

"Since the turn of the year, concerns about global economic prospects have led to increased market volatility and tighter financial conditions in the United States"

"Since the turn of the year, concerns about global economic prospects have led to increased market volatility and tighter financial conditions in the United States," Yellen said.

The Fed emphasized that any future rate increases will likely be "gradual" moves. She emphasized that "policy is not on a pre-set course" and will change because the "economy will surely evolve in unexpected ways."

Yellen also said that the rate could be reduced to zero in the event of any shock to the financial system.

U.S. markets reacted positively to Yellen's assessment. The Dow rose 125 points as she spoke.

Unemployment fell in January to 4.9% and inflation has

Despite headwinds from oil, stocks and abroad, some parts of the U.S. economy continue to perform well. Unemployment fell in January to 4.9% and inflation has shown signs of life recently after being largely dormant in recent years.

In its statement, the Fed's committee noted the job market's continued

shown signs of life recently after being largely dormant in recent years.

improvement, but noted that inflation remains well below the central bank's target of 2%. Inflation had recently inched up to 1.3%.

However, the Fed's committee does not appear confident that inflation is gaining enough momentum. It cut its forecast for inflation this year to 1.2% from 1.6%.

Since December, Wall Street has bet there would only be two rate hikes this year, and at one point in February in the midst of market turmoil, investors were calling for no rate hikes. The Fed's plans now appear to be lining up with investors' expectations.

Learn more at:
http://money.cnn.com/2016/03/16/news/economy/federal-reserve-march-meeting/

The Edge
... with Darell Luther

The Baltic Dry Index (BDI) is a measure of prices for the transport of goods via vessel which represents shipping costs around the world for dry goods shipped in bulk or containerized ships. It is a direct indication of the health of the shipping industry and trade worldwide. As one can tell by viewing the chart below the BDI or cost to ship goods via ocean going vessel is as low as it's ever been. In fact on February 12, 2016 the BDI was 290, certainly the lowest ever in the past five years.

Baltic Dry Index

The Baltic Dry Index (replaces the Baltic Freight Index): A composite of the Baltic Capesize, Panamax, Handysize and Supramax indices. The index is designed as the successor to the Baltic Freight Index and was first published on January 4 1985 at 1000 points. Last day of trading year - Christmas Eve. (Source: Bloomberg)

Couple the relatively low BDI with the strength of the dollar against currency world-wide as represented over time by the chart below. One will see that the US Dollar has gained strength against a basket index of currencies and has remained relatively strong for the past year. This makes it easier for consumers to buy goods and out of country services since the dollar is worth more in foreign trade. It conversely makes it tougher for US companies to sell goods and services to foreign countries because of the complete opposite reason, e.g. their currency is worth less than the US dollar hence it takes more of foreign dollars (local country currency) to purchase the same level or amount of goods and services. Despite the low BDI the currency relationship of countries that consume US bulk commodities has a direct impact on exporters of bulk commodities such as grain, minerals and ores, coal and other like type bulk commodities. Currently the United States is running a $45.7 billion dollar trade deficit meaning we imported $45.7 billion more of goods and services than we exported (source: US Census).

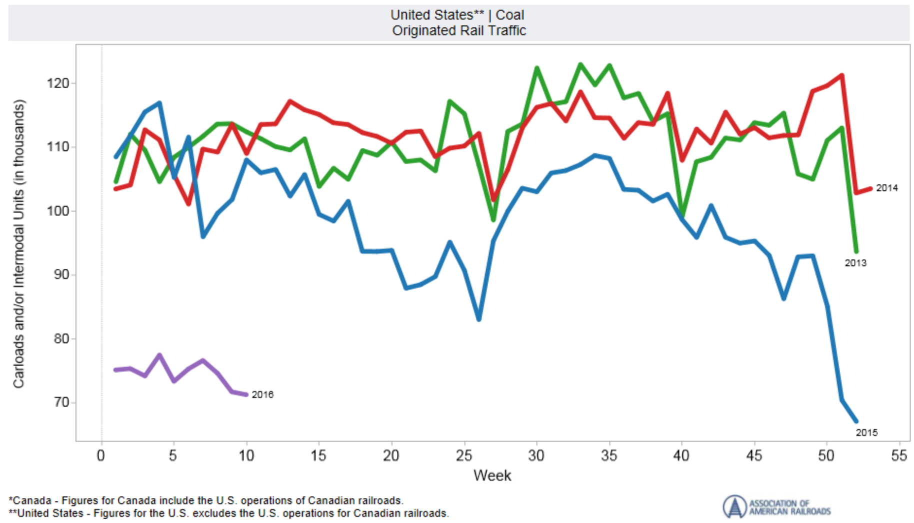
Source: The Forex Market (fxstreet.com)

The **USD Index** measures the performance of the **US Dollar** against a basket of currencies: EUR, JPY, GBP, CAD, CHF and SEK.

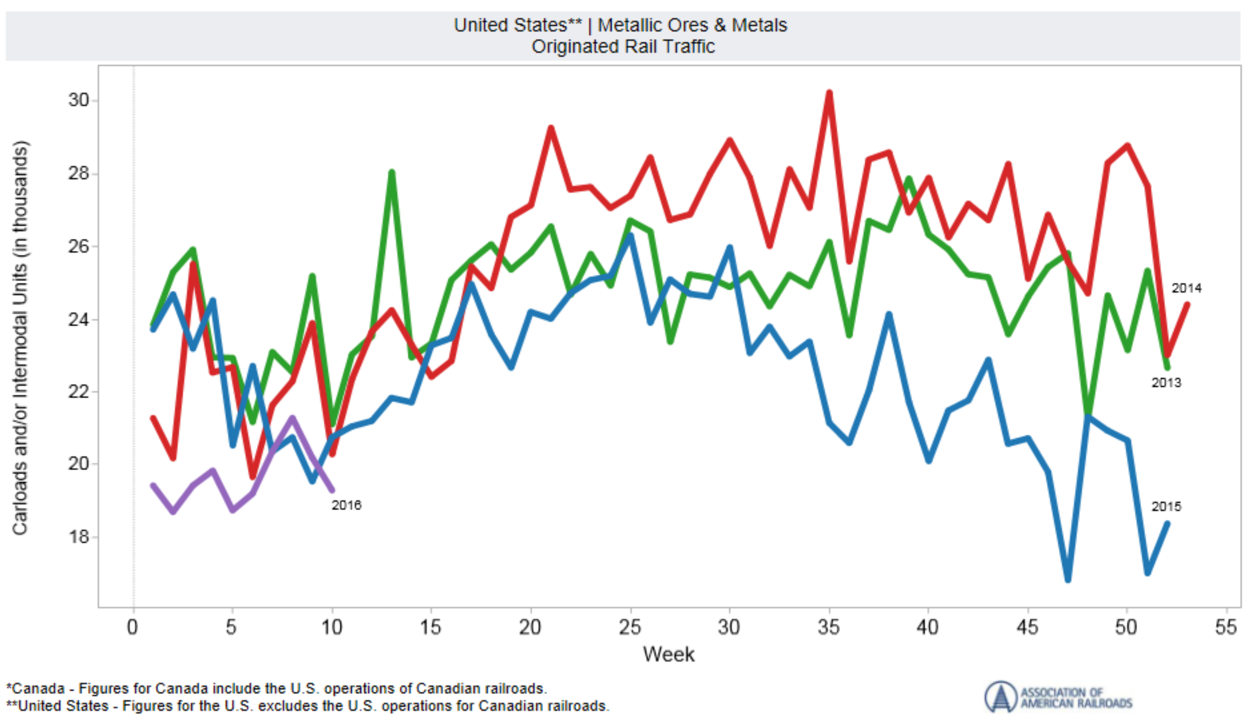
How does this impact railroads?

Good question! Let's look at a few key commodities.

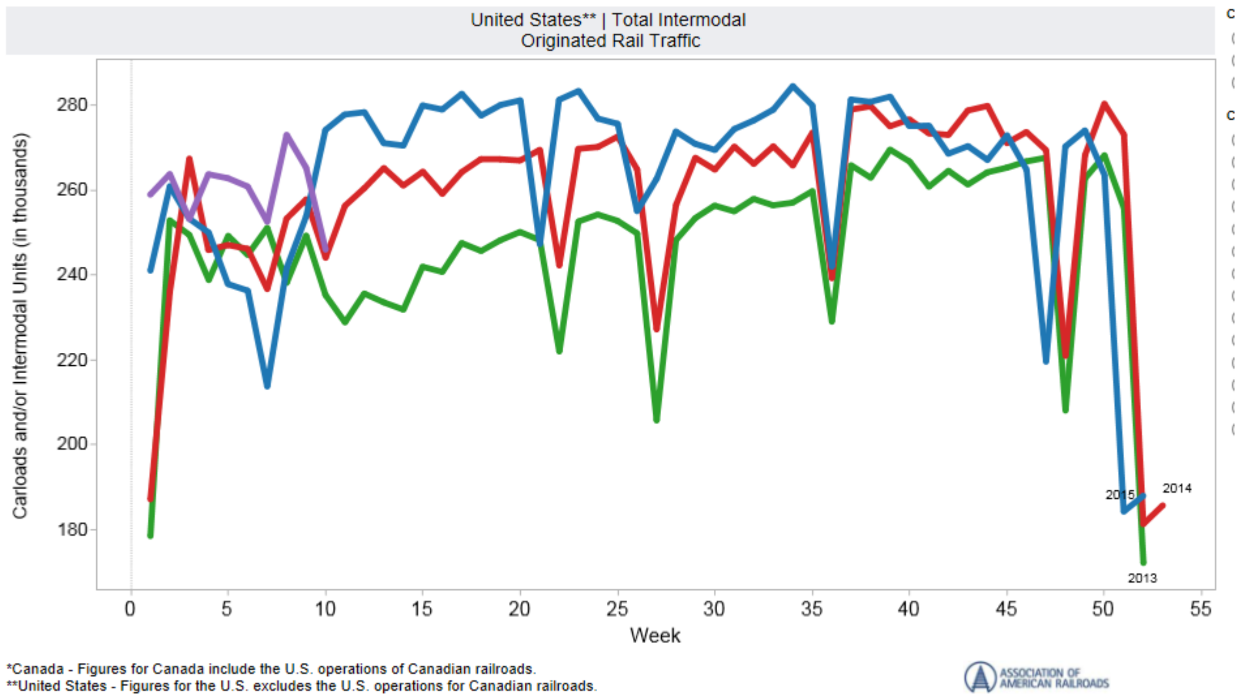
Coal. The impact on coal has not only been heightened by lower exports but also by "the war on fossil fuels" as waged by the current administration of the United States. There are tens of thousands of coal cars parked due to the sudden and drastic downturn in coal originations.



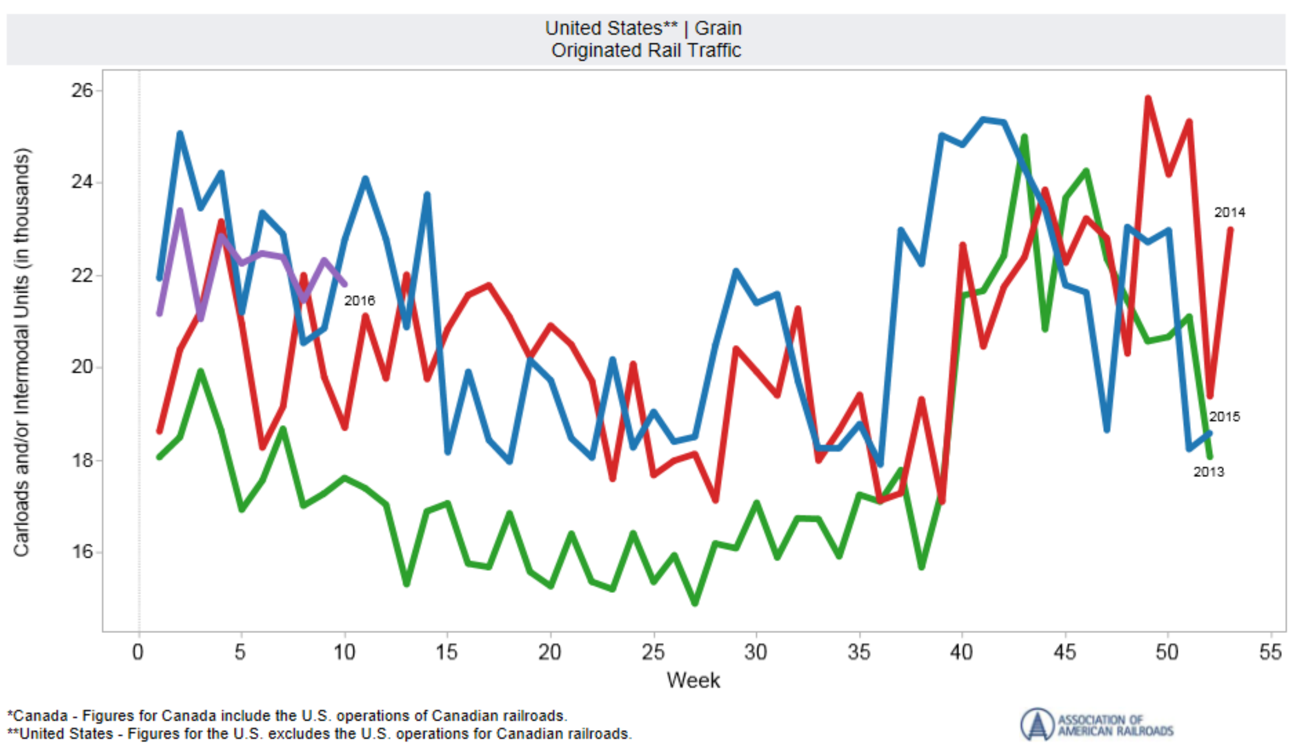
Metallic Ores & Metals. The ores and metals business began its decline in mid-year 2015 and continues to tread water at current low rates of origination. The export market has been most affected by middle-east conflicts, and Asian currency and economic health issues. Ask anyone in the scrap, recycling or minerals and ores business how they're doing and the answer will probably support the trends as shown on this chart.



Intermodal. One winner in the rail transport, BDI e.g. cheap(er) ocean shipping rates and currency imbalance is the consumer. And most consumer goods are shipped in intermodal containers. Railroads do a great job of handling containers and from a traffic standpoint it's a win for rail.



Grain. Grain is interesting in that it's a supply driven market. If there's a large supply of corn, for instance, then the price per bushel of corn goes down and if the producer can afford to he/she sets on the production or a good portion of it until prices go up or they need to pay bank operating loans. Although the grain chart below shows strength in 2016 note 2015 originations. Correlate this with the currency chart above and one will see strengthening dollar indices resulting in the producer holding on for better prices until it becomes financially impossible to not ship. Let's go back to corn since it represents about 40% to 45% of a railroads grain shipments. In marketing year (9/1-8/31) there were about 16.7 mmt of corn exported (as of March 10, 2016: source; USDA FAS). Not outstanding when a marketing year prior the amount was 20.7 mmt. Note the correlation to the currency chart.



Transportation capacity be it ocean, rail, or barge, relative cost of goods and services and the value of the dollar in relation to foreign currency all play critical roles in the amount of bulk commodities transported in this country. It seems at times the variables are endless and complicated. We truly play in a global market even if we only ship locally. Need help sorting it out? Give us a call or send us an email.

We look forward to earning your business!