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We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

Tealinc Touchbase Newsletter –December 2017

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Market indicators lead us to a cautiously positive 2018 outlook

Tealinc Update

Happy Holidays! As we close out the year, we've got a few groups of railcars ready for your 2018 shipments. Call us if you have a need for covered hoppers, open top hoppers or any other cars for that matter!

In case you missed it, we published our **wish list to Santa**. If you've got idle equipment in storage, have new cars (or new to you!) delivering in 2018 or no longer want to own railcars, why not call Tealinc, Ltd.?

We're eager to work with you before or after the holidays!

The Edge with Darell Luther

We wish you and your family good tidings and happy holidays this season!

The year is fast approaching closure. It's that time when you're probably working like mad to bring in or ship out those final shipments, process that last bit of raw product or close the final year end deal. It's also the time to finalize your goals for 2018 and revise any long term strategies to plan for a successful transition into a new year.

In the rail business in the United States we see market indicators that lead us to a cautiously positive outlook for 2018. According to the Association of American Railroads (AAR) railcar loadings through the end of October are up by some 332,000 or roughly 10.8% when compared to the prior year data for the same timeframe. Albeit coal, petroleum and grain have fallen off in the last few weeks, they're ahead of the game on a year to date basis. The only long term sustained losses year over year are lumber and forest products and motor vehicles and parts.

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More operating costs equals a higher operating ratio

When you look at the macro railroad operating trends (http://www.railroadpm.org/home/RPM/Performance%20Reports/) you'll also note that when it comes to moving traffic the railroads have pretty much leveled out over the past year. Their terminal delays and mile per hour numbers don't really change much short of the hurricanes in the south where terminals were affected. This doesn't mean that they'll not improve velocity in certain corridors and track lanes. It does mean that the railroads are probably operating at a maximum cost benefit level where they could logically increase train speeds but economically it doesn't make sense. Keep in mind more operating costs means a higher operating ratio and that's taboo in the financial stakeholder world.

Railroads are becoming more competitive with trucks within the shorter distance haul

Railroads are also getting more competitive with trucks within the shorter distance haul, e.g. sub 200 to 300 miles. The average length of haul for railroads for 2014 – 2016 has hovered in the 1,000 to 1,020 mile range. Railroads are good at hauling big trains long distances. So why the statement about trucks being less competitive in their niche area? Consider all the challenges facing the trucking industry that drives up their costs. The first thing I'd have to say is "last mile" congestion. If you need to run 1,000 tons of surface aggregate 100 miles in southern California it becomes a matter of time versus distance very quickly. Considering it takes about 4 trucks to haul one railcar worth of product that move would take a total of 10 railcars but would require 40 trucks. The next issue that's become prevalent in the last few years is driver shortages. There simply aren't enough truck drivers willing to obtain their CDL and accreditations necessary to keep up with truck driver demand. The last big issue that the industry will begin to face in December 2017 is Electronic Logging Device (ELD) use. No more stretching those hours!

The transportation world is not static, nor should your planning efforts

So how does this fit into my opening paragraph? The transportation world is not static, and your planning efforts should not be either. The old adage, "because we've always done it this way" shouldn't be in your team's vocabulary. Consider taking a deep look into your transportation options with a wide enough view that

Take into consideration your transportation options with a broad view that allows you to contemplate options that are not apparent

you can contemplate those options that aren't readily apparent. It may take a capital investment to save longer term operating costs or an operating investment to save long term capital costs. Be resourceful; look for ways to go beyond clear solutions. Plan, define benchmarks, goals and objectives that set your management and operations apart from others in the same playing field and if feasible build a little flexibility in your operation, so you have modal choices.

We're fortunate enough to have the opportunity to work with several customers that are taking or have taken a "deep" look into their management and operations processes. Results have been phenomenal. We extend the same invite to you as you plan for 2018. Call on us!

Darell Luther is the founder and CEO of Tealinc, Ltd. You may contact Darell directly in his office at (406) 347-5237 or via email at darell@tealinc.com.

Mechanical Brief with Steve Christian

Railcar inspection preparation

I have written several times about the methods that I employ in inspecting railcars. One step that I have not mentioned in past articles is the preparatory work that I perform before I see the cars. As with most things, the more effort you put in preparation, the better end result. To begin with, I always ask if maintenance records are available. Any records are helpful, but the best is usually Railroad and Contract Shop BRC's (billing repair cards). It is especially useful if the records are in the AAR 500-byte format. In that case, we can take that data and put it into spreadsheet form. I will then make several sorts by car numbers, job codes applied, why made codes and repair locations. A wily old crusty car knocker (like me) can read through this information and paint a mental picture of the work that went into these cars and where it was performed. This information provides the basis for more in-depth study of the maintenance history of the cars. Based on my past experiences, I can usually determine what is normal and what is not for that particular car in that

Inspecting railcar requires a lot of preparation, which leads to a better result

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Maintenance records from the railroad and contract shop help paint a picture of the type of work performed previously on the cars

UMLER files are pertinent part of the inspection process as well

EHMS offers insight to any unsolved issues with cars pertaining to air brake tests & reflectorization dates

particular service.

Next, I run each car's UMLER files on the Railinc website to check the official records of the cars. Among the items that I note include:

- Prior ownership in UMLER. If the present reporting marks and numbers don't bring back memories of the cars from my shop days, the former marks and numbers may.
- I also check to see if the cars are qualified for 40 or 50 year service. I also make sure that it confirms the end of service date listed in UMLER.
- I always note the Gross Rail Load (GRL)/Weight and compare it to the Qualification for Inc GRL and the Journal Size. Cars that have a 286,000 lbs. GRL are either Code 1 or Code 2. Code 1 cars are built to the latest AAR Specification M-286 and have 6 ½"x 9" journals. Code 2 cars were built to AAR Specification S-259 and have 6 ½"x12 journals. Code 1 cars have unrestricted interchange while Code 2 cars can be restricted to a lesser weight at the discretion of the serving railroad.
- Sometimes you can detect inconsistencies in UMLER that can only be unwound when you inspect the car.

On the same Railinc website, I always check the Equipment Health View to see if there are any unresolved issues with the cars. These include:

- If any of the cars are due or overdue for an Air Brake Tests. It also tells you when and where the last test was performed.
- The date when the reflectorization was applied.
- Any EQUIPMENT HEALTH MANAGEMENT SYSTEM issues, if any, and the status of them. These include:
  - Wheel Impact Load Detector (WILD) alerts and the level of severity
  - Truck Hunting Detector (THD) alerts and level of severity
  - Acoustic Bearing Detector (ABD) alerts level of severity
  - Brake Health (Body and Truck) alerts
  - Line of Road Failure No Cause Found (LORF NCF) Data Summary-

refer to the August 2017 Mechanical Brief for my complete article on this topic.

- Any Early Warning Notices have been issued that include these cars. It also notes the level of urgency to inspect or remediate.
- Damaged and Defective Car Tracking incidents that are still outstanding. This reveals any open issues that pertain to following AAR Rules:
    - Rule 1- CARE OF FREIGHT CARS
    - Rule 95- HANDLING AND/OR DELIVERING LINE RESPONSIBILITY
    - Rule 96- OWNERS RESPONSIBILITY
    - Rule 102- DEFECT CARDS
    - Rule 107- HANDLING OF DAMAGED AND DESTROYED EQUIPMENT
    - Rule 108- CARS REQUIRING EXTENSIVE REPAIRS

Early Warning & DDCTS are vital to check

Once you are armed with all this background information, you should put together an individual inspection sheet for each car which targets those individual specifications and issues. Include any issues found in the background search on the forms so they can be targeted and addressed during the inspection. They are especially accurate when a wily old crusty car knocker (**like me**) does the inspection.

Tealinc has many years of mechanical knowledge. Contact Steve Christian with any questions regarding your railcar equipment health

As always, Tealinc stands ready to put our varied and extensive knowledge and experiences to work for you.

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

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Year-end OT-5 review

It is worth noting that Railinc has made a recent change to the OT-5 applications

Need help with your fleet OT-5 filings? Contact Theo Mink directly

Railcar Management with Theo Mink

The end of 2017 is upon us and will come much more quickly than we want it too… We all have our list of administrative details that need to be cleaned up prior to the beginning of the New Year and I am here to add one more item to yours (*sorry*!). Now is a good time to review OT-5. Pull up your active OT-5 applications in Railinc and cross reference your list of car numbers, servicing carriers (Railroads), and locations. Be sure to update the application with any additions as soon as possible as the applications will need to be re-submitted and the applicable servicing carries will need to approve.

It is worth noting that Railinc has made a recent change to the OT-5 applications that now requires the inclusion of Storage Type (Internal or External), SPLC, Company Name, Contact Name, Contact Phone Number and Email, Storage Capacity and if an Agreement Exists for each location listed on the application. It is extremely helpful to have this information prior to beginning/ editing the application.

Although not confirmed, I have heard rumors that several railroads will be conducting OT-5 audits in the near future. These audits could result in extra costs or movement delays for applications that are inaccurate or not up to date. With this type of information circulating it seems that the end of the year would make a great time to review your OT-5. If you need help understanding, filing or reviewing your fleet's OT-5 applications, we're here to help. Contact me with any questions.

Theo Mink is the Manager Value Creation-Customer Support for Tealinc, Ltd. You may contact Theo directly at (303) 944-6952 or via email at theo@tealinc.com.

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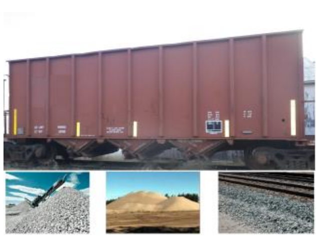
Intermodal traffic had strong gains in November which could set a new annual record this year

Crushed stone, sand & gravel, chemicals, and metallic ores experienced a gain from November 2016 to November 2017

Need railcars to ship aggregate? Tealinc has cars for you!



Railroad Traffic

The Association of American Railroads (AAR) today [December 6, 2017] reported U.S. rail traffic for the week ending December 2, 2017, as well as volumes for November 2017. Intermodal rail traffic remains on pace to set a new annual record in 2017 with strong gains in November and last week marking the best rail intermodal week in history, surpassing multiple records set earlier this year.

U.S. railroads originated 1,307,521 carloads in November 2017, down 0.9 percent, or 11,442 carloads, from November 2016. U.S. railroads also originated 1,369,160 containers and trailers in November 2017, up 3.8 percent, or 50,029 units, from the same month last year. Combined U.S. carload and intermodal originations in November 2017 were 2,676,681, up 1.5 percent, or 38,587 carloads and intermodal units from November 2016.

In November 2017, 12 of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with November 2016. These included: crushed stone, sand & gravel, up 16,402 carloads or 14.8 percent; metallic ores, up 5,810 carloads or 22.8 percent; and chemicals, up 5,465 carloads or 3.6 percent. Commodities that saw declines in November 2017 from November 2016 included: coal, down 22,560 carloads or 5 percent; grain, down 16,311 carloads or 12.7 percent; and petroleum & petroleum products, down 3,877 carloads or 7.2 percent.

"U.S. rail carload traffic in November, like in October, had both a glass-is-half-empty and a glass-is-half-full feel to it," said AAR Senior Vice President John T. Gray. "It's half empty because total carloads were down for the month, and railroads of course are concerned with their total level of business. However, the commodities that were the main reason for the decline in total carloads in November — coal, grain, and petroleum products — saw declines for reasons that don't have much to do with the state of the economy. So, the half-full feel comes from the fact that many traffic categories that are more sensitive to the economy

"U.S. rail carload traffic in November, like October, had both a glass-is-half empty and a glass-is-half-full feel to it. It's half empty because total carloads were down for a month, and railroads of course are concerned with their total level of business.

U.S. Ag exports soar to third-highest level on record

did relatively well in November, which is a good sign for the economy going forward. The fact that intermodal grew solidly in November and will almost certainly set a new annual record in 2017 is a good sign as well."

Excluding coal, carloads were up 11,118 carloads, or 1.3 percent, in November 2017 from November 2016. Excluding coal and grain, carloads were up 27,429 carloads, or 3.7 percent.

Total U.S. carload traffic for the first 11 months of 2017 was 12,479,958 carloads, up 2.9 percent, or 356,660 carloads, from the same period last year; and 12,945,869 intermodal units, up 3.7 percent, or 467,141 containers and trailers, from last year.

Total combined U.S. traffic for the first 48 weeks of 2017 was 25,425,827 carloads and intermodal units, an increase of 3.3 percent compared to last year.

Visit the AAR at:

https://www.aar.org/newsandevents/Press-Releases/Pages/2017-12-6-railtraffic.aspx

Industrial Inside

WASHINGTON, D.C., U.S. — U.S. agricultural exports in fiscal year 2017 reached $140.5 billion, up 8% from fiscal 2016 and the third-highest level on record, according to the U.S. Department of Agriculture. The U.S. agricultural sector also recorded an annual trade surplus of $21.3 billion, up nearly 30% from $16.6 billion a year ago.

"U.S. agriculture depends on trade," said U.S. Secretary of Agriculture George "Sonny" Perdue. "It is great to see an increase in exports and we hope to open additional markets to build on this success. I'm a grow-it-and-sell-it kind of guy. If American agricultural producers keep growing it, USDA will keep helping to sell it around the world."

According to the USDA, China finished the fiscal year as the United States' largest export customer, with shipments valued at $22 billion, followed by Canada at $20.4 billion. U.S. agricultural exports to Mexico reached $18.6 billion, up 6% from last year, while exports to Japan increased 12%, to $11.8 billion. Rounding out the top 10 markets were the European Union ($11.6 billion), South Korea ($6.9 billion), Hong Kong ($4 billion), Taiwan ($3.4 billion), Indonesia ($3 billion) and the Philippines ($2.6 billion).

The USDA said U.S. bulk commodity exports set a volume record at 159 million tonnes, up 11% from fiscal 2016, while their value rose 16% to $51.4 billion. Leading the way in exports was soybeans, which reached a record 60 million tonnes, valued at $24 billion. Exports of corn, wheat and cotton all grew as well, the USDA said, with the value of wheat exports up 21%, to $6.2 billion, and corn exports up 6%, to $9.7 billion.

Exports account for 20% of U.S. farm income, the USDA said.

Read the entire article:
http://www.world-grain.com/articles/news_home/World_Grain_News/2017/11/US_ag_exports_soar_to_thirdhig.aspx?ID=%7b40D4C0C4-4621-4541-9E59-B6E18E7B8695%7d&cck=1

"U.S. agriculture depends on trade… It is great to see an increase in exports and we hope to open additional markets to build on this success."

According to the USDA, bulk commodity exports set a volume record at 159 tonnes

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Financial Focus

The final month of the year dawns for investors who have seen many markets set a dizzying pace in terms of performance. With one eye on 2018, investors still have to negotiate a series of events before trading volumes endure their customary dip with the arrival of the holiday season.

Here's what investors will be watching during the final weeks of 2017.

Federal Reserve tops investors' checklist for December

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The U.S central bank is expected to raise interest rate another quarter point

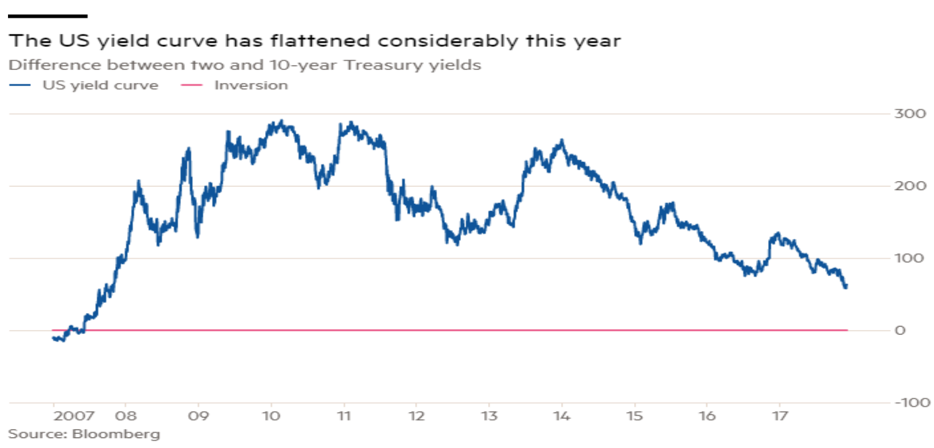
Fed's September forecasts indicated that most policymakers expect to lift the interest rate corridor another three times in 2018

The Federal Reserve and the yield curve

The US central bank is widely expected to raise interest rates by another quarter point when it meets on December 13 but investors will be eager to see how much it plans to tighten monetary policy further in 2018. The forecasts could set the tone for global markets running into the end of this year.

The Fed's September forecasts indicated that most policymakers expect to lift the interest rate corridor another three times in 2018, but Fed funds futures indicate that investors think there's less than a 20 per cent chance of that. Some economists think this is far too complacent — JPMorgan's John Normand reckons the Fed will raise overnight borrowing costs four times in 2018 — and if it reiterates its plans then markets could react poorly.

One indicator to watch for investor views on the Fed's plans — and whether they are a good idea — is the "yield curve", the slope formed by Treasury yields of various maturities. The curve has been flattening sharply this year and reflects market expectations of a weaker outlook for the economy and moribund inflation. The 10-year note yield remains where it began the year, around 2.40 percent.



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The outcome of the Republican tax cuts being negotiated are important for bond and equity markets

The outcome of the Republican tax cuts being negotiated are important for bond and equity markets. Although many investors are skeptical they will do anything to boost growth as reflected by the current 10-year Treasury yield, tax cuts would bolster already healthy corporate earnings and provide equities with another fillip running into 2018**.**

Read the full story at:
https://www.ft.com/content/1bb41dda-d5ab-11e7-a303-9060cb1e5f44

Railroad & Policy Updates

STB modifies rules in rate review process

The final rule is in response to Section 11 of the Surface Transportation Board Reauthorization Act of 2015, Pub. L. No. 114-110, 129 Stat. 2228 (2015), which required the Board to assess procedures for expediting court litigation that might be applied to agency rate cases.

The board's final rule addresses comments and suggestions received in response to the NRPM and discusses clarifications and modifications the STB adopted in its final rule

In advance of the initiation of this proceeding, the Board held informal meetings between STB staff and interested stakeholders and issued an Advance Notice of Proposed Rulemaking on June 15, 2016, addressing comments expressed in those meetings and proposing specific amendments to agency regulations. The Board subsequently issued a Notice of Proposed Rulemaking (NPRM) on March 31, 2017, and asked for public comment. The Board's final rule addresses comments and suggestions received in response to the NPRM and discusses clarifications and modifications the STB adopted in its final rule. This rule is not the final action the Board plans to take to improve the Board's rate review processes.

Among other things, the final rule:

- Establishes a 70-day "pre-complaint" period in stand-alone cost cases, beginning when the complainant files a "pre-filing notice" to notify the defendant of the rate and movement it intends to challenge and during

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The final rule establishes a 70-day "pre-complaint" and discusses clarifications and modifications the STB adopted in its final rule

which mandatory mediation would now occur;

- Requires, in stand-alone cost cases, service of the complainant's and the defendant's initial discovery requests simultaneously with the complaint and the answer, respectively;
- Institutes in all rate cases a meet-and-confer requirement prior to the filing of a motion to compel;
- Standardizes certain practices with respect to evidentiary submissions;
- Establishes a new practice of appointing an STB staff person to serve as a liaison for the case and assist the parties with primarily procedural matters.

Read the entire article:
http://www.railwayage.com/index.php/regulatory/stb-modifies-rules-in-rate-review-process.html

Tealinc, Ltd. is dedicated to creating value for our customers. We specialize in Rail Transportation Solutions by buying, selling, leasing, consulting and managing rolling stock fleets and locomotive assets with our customers' long term and short-term requirements in mind. We participate in nearly every industry supported by rail; sell, lease and purchase nearly every type of freight railcar, and provide management and consulting services to both novice and experienced rail shippers.

We look forwarding to earning your business!