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Tealinc Touchbase Newsletter –December 2018

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Need open top hoppers? Tealinc is offering free rent on its steel rapids!

Tealinc will buy your idle assets! Contact Tealinc before or after the holidays!

Tealinc 2019 Scholarship- Stay tuned for details!

Steel Bodied Open Top Hoppers - Free Three Months' Rent!

- 4000 Cube
- Steel Bodied
- 286K GWR
- Rapid Discharge Gates

Free 3 months' rent- with long term commitment

Contact Kristen Kempson to discuss options and for lease and/or sale pricing!

Email: kristen@tealinc.com

Phone: (708) 854-6307

Tealinc Holiday Equipment Wish List

Tealinc's wish this holiday season is to acquire your idle railcars. We are looking for covered hoppers, flatcars, gondolas & open top hoppers. Contact us today with your list of equipment.

Wishing you a safe & happy holiday season from all of us at Tealinc!

Tealinc 2019 Scholarship – Coming Soon!

Students – get paid $500 per hour! That's right Tealinc scholarship takes about two hours to complete and the potential payoff is $1,000 towards your higher education! Don't miss out on this opportunity to earn a scholarship championing your accomplishments. For more information check out our website at http://www.tealinc.com/news-education/tealinc-scholarship/. We have historical winners listed and have details up on the 2019 scholarship program.

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Reflection on another year of steady growth

First, thanks for our customers and our team!

The final numbers for 2018 are not in yet, but it appears 2018 rail traffic is slightly up compared to prior years

The Edge with Darell Luther

In the interest of our readers valuable time we find it helpful to provide snippets of information, news and education. If there is a topic you wish addressed, please let us know and we'll do our best to provide the facts about the topic or worst case an opinion about it.

Thank you!

Thanksgiving is generally the time of year to give thanks but for me it's more centered around year end when I get time to reflect on the year. I want to take a moment here to say thank you to all our customers for your business this past year. May your business be profitable, enjoyable to conduct and may you and all your employees / partners remain healthy. Also, thanks to the team here at Tealinc for being fully engaged in providing exemplary customer service, focusing on our goals and objectives and sticking to the strategy.

Railcar Loading Statistics – another steady growth year!

It's about time to wrap up another year. Railcar loads from the Association of American Railroads (AAR) for the year aren't in yet, but it appears from the most recent data that, in general, traffic is up a bit from prior years. For the first 46 weeks ending November 17, 2018 rail traffic is at 12,110,985 carloads or a gain of approximately 1.8% over 2017. The growth has been steady since 2016 which was an anemic year for railcar loadings with gains beginning in 2016 and continuing into 2017/2018. It's good to see steady growth pointing to an economy that's getting healthier over time.

Precision Scheduled Railroading (PSR)

As growth continues railroads face more service challenges particularly when

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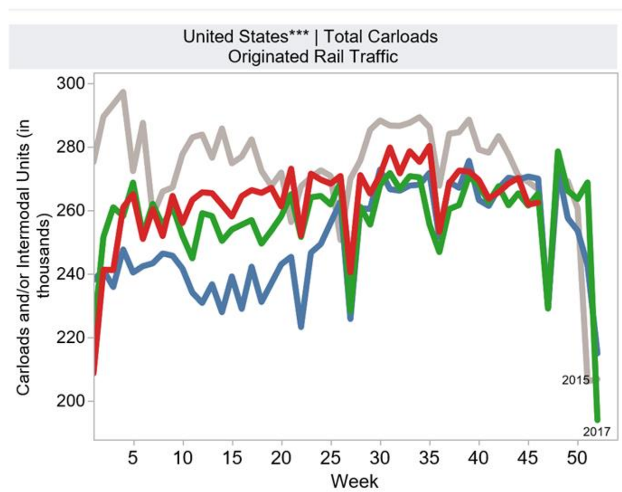
Railroads face service challenges as growth continues

Precision scheduled railroading is a requirement from a railroad's perspective and necessary from a shipper's perspective

balancing operating ratio's with service parameters. The new buzz is Precision Scheduled Railroading (PSR) introduced years ago by the late Hunter Harrison used at the CN, CP and being implemented at the CSXT. Norfolk Southern (NS) is one of the latest adoptees of this program announcing in October that they will follow some semblance of the PSR program. Union Pacific announced earlier this year they'd do likewise and Kansas City Southern announced after the NS that they would adopt portions of the PSR program. The focus is operating ratio which is an investor lead effort requiring better returns for the shareholder. The challenge has been how to implement such efforts while keeping service to the customer consistent and rate increases reasonable.



PSR is a requirement from a railroad's perspective and a necessary program from a shipper's perspective. Why might you ask is it a necessary program for Shippers? Railroads are required to increase yields to meet stockholders demands. To do this they can increase rates, reduce costs or do both. Shippers don't like rate increases nor do they enjoy service reductions. It behooves railroads to take a bite out of this yield issue by focusing on both cost reductions, eventual service improvements and rate increases. A little bit of an improvement in each area produces significant results. If operating costs reductions and service improvements aren't focused on, then rail rate increases are

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New rules for demurrage become effective January 1, 2019 – Be sure you understand how this may impact your business

OT5 registration on private owned railcars must be properly registered or you could receive a penalty

Tealinc would be happy to help with interpreting your demurrage rules and/or OT-5 registration
[Contact us today!]

the only method remaining to improve yields. Not a popular standalone method of yield management.

Accessorial Service Management
Railroads continue to squeeze accessorial charges to increase performance of their assets and to insure they know what private railcars are running on their lines. There are two areas that deserve special attention.

The first is demurrage. Most every Class I railroad is changing free days, credits, storage and application of demurrage rules effective January 1, 2019. Be sure and check out your originating or terminating railroads newest demurrage rules prior to 2019 so you're not surprised on how they affect your business. If you need help finding and interpreting the rules give us a call and we can help.

The second area is OT-5 registration. If you're running private railcars on Class I railroads and you don't have OT-5 registration for your railcars you should expect to receive a bill for not having your equipment properly registered with the origin carrier. The days when railroad marketing departments could sign off on private equipment with a handshake are over and a more formal process has been implemented thru Railinc. If you don't have OT-5 registered on your private equipment we suggest you get it done sooner than later. Not only could you face a penalty, but you could also lose the right to run your private railcar on the railroad.

If you need help filing OT-5 or better understanding your demurrage rules and streamlining your rail logistics, let us know and we'll be happy to help.

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.

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Mechanical Brief with Dan Madden

In case you missed our introduction to Dan Madden last month, Dan joined Tealinc on November 12, 2018. Dan joined the Tealinc team with over 29 years of railroad experience and is the new contributor to Tealinc's Mechanical Brief section. Please welcome Dan to the team and we hope you enjoy his debut article!

As a car owner it is critical to know who is repairing your railcar. There are many questions that need to be asked/answered before home shopping a railcar for repairs. Are they M-1003 certified? M-1003 is an AAR certification that requires a shop to meet quality assurance guidelines which allows the shop to preform repairs to railcars, so they are safe to operate on the railroads.

You will also need to understand what type of processes the shop has in place to ensure a railcar is efficiently processed once it arrives to the facility. Once a car has arrived at the shop, how long does it take the shop to notify the car owner/lessee/maintenance party that they have received the car? From that point how long does it take the shop to prepare an estimate and forward that estimate to the owner/lessee/maintenance party for approval? This process should not take more than 3 days. Upon approval how long does it take for the shop to move the car into production? Once in production how many days until car is completed and set out to be released?

All these factors are measured by the cars shop cycle time. The shop cycle time is a measurement that counts the days from the time a car arrives at a shop to the time the car leaves the shop and returns to service. You will also want to visit the prospective shop and do an on-site visit, review records, conduct a walkthrough of the facility and identify the shop labor rate and material markup percentages.

Not all railcar repair shops are created equal

Many questions need to be asked and answered before shopping a railcar for repairs

Understand shop cycle times by inquiring how long your railcar will move through production at a repair shop

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Freight charges for moving railcars can be expensive, it is wise to familiarize yourself with railroad interchanges and charges on their lines

Need help understanding your shop cycle times? Tealinc can help!

November 2018 carloads experienced a decline for the first time in 9 months

November 2018 down 0.2% compared to November 2017

Another consideration when selecting a repair shop is the transportation cost to move the car to a repair facility. Moving empty cars through interchanges can be expensive so it is important to be familiar with the railroads and their charges across those lines and the interchange points to the car's destination.

Additional questions to ask: What is the safety record at the shop? Do employees have adequate PPE (Personal Protective Equipment) provided to them to safely make repairs? Does the shop have procedures in place to perform confined entry repairs and what type of fall protection does the shop have in place? Workplace injuries result in lost productivity, quality disruptions and damages the company's employee morale which directly affects car cycle times and time out of service. Be sure you're familiar with a railcar shops processes, procedures and policies before selecting to move forward with that shop. If you need some advice on how to best select a shop or need help better maintaining and managing your railcar fleet, Tealinc stands ready to assist you! Just call on us!

Dan Madden is the Manager Value Creation-Operations for Tealinc, Ltd. You may contact Dan directly in his office at (541) 653-8074 or via email at dan@tealinc.com.

Railroad Traffic

The Association of American Railroads (AAR) today reported U.S. rail traffic for the week ending December 1, 2018, as well as volumes for November 2018.

U.S. railroads originated 1,032,067 carloads in November 2018, down 0.2 percent, or 2,418 carloads, from November 2017. U.S. railroads also originated 1,100,815 containers and trailers in November 2018, up 2.5 percent, or 27,142 units, from the same month last year. Combined U.S. carload and intermodal originations in November 2018 were 2,132,882, up 1.2 percent, or 24,724 carloads and intermodal units from November 2017.

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Commodities that experienced a gain included petroleum & petroleum products, all other carloads, and primary metal products

"… it would be prudent to keep an eye on forward-looking economic indicators. It's much too soon to sound an economic alarm, but there is uncertainty, especially regarding trade policy, that is causing volatility in markets railroads serve."- AAR Senior Vice President John T. Gray

In November 2018, nine of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with November 2017. These included: petroleum & petroleum products, up 11,674 carloads or 29 percent; all other carloads, up 2,920 carloads or 13.7 percent; and primary metal products, up 2,636 carloads or 7.9 percent. Commodities that saw declines in November 2018 from November 2017 included: crushed stone, sand & gravel, down 12,090 carloads or 12.8 percent; motor vehicles & parts, down 3,704 carloads or 5.5 percent; and coal, down 2,840 carloads or 0.8 percent.

"Rail traffic was not as strong in November as in other recent months. Total carloads fell for the first time in nine months, in part because of lower carloads of frac sand, while intermodal grew only modestly," said AAR Senior Vice President John T. Gray. "November might just be a temporary correction as rail customers rebalance inventories. However, it would be prudent to keep an eye on forward-looking economic indicators. It's much too soon to sound an economic alarm, but there is uncertainty, especially regarding trade policy, that is causing volatility in markets railroads serve."

Excluding coal, carloads were up 422 carloads, or 0.1 percent, in November 2018 from November 2017. Excluding coal and grain, carloads were up 2,140 carloads, or 0.4 percent. Total U.S. carload traffic for the first 11 months of 2018 was 12,618,663 carloads, up 1.7 percent, or 209,718 carloads, from the same period last year; and 13,376,733 intermodal units, up 5.5 percent, or 699,102 containers and trailers, from last year. Total combined U.S. traffic for the first 48 weeks of 2018 was 25,995,396 carloads and intermodal units, an increase of 3.6 percent compared to last year.

View the full report: https://www.aar.org/news/rail-traffic-for-november-and-the-week-ending-december-1-2018/

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US ends its reliance on foreign oil for the first time in 75 years

Shift to net exports is a dramatic result of unprecedent boom in American oil production

Industrial Inside

America turned into a net oil exporter last week [week of November 26, 2018], breaking almost 75 years of continued dependence on foreign oil and marking a pivotal -- even if likely brief -- moment toward what U.S. President Donald Trump has branded as "energy independence."

The shift to net exports is the dramatic result of an unprecedented boom in American oil production, with thousands of wells pumping from the Permian region of Texas and New Mexico to the Bakken in North Dakota to the Marcellus in Pennsylvania. While the country has been heading in that direction for years, this week's dramatic shift came as data showed a sharp drop in imports and a jump in exports to a record high. Given the volatility in weekly data, the U.S. will likely remain a small net importer most of the time.

"We are becoming the dominant energy power in the world," said Michael Lynch, president of Strategic Energy & Economic Research. "But, because the change is gradual over time, I don't think it's going to cause a huge revolution, but you do have to think that OPEC is going to have to take that into account when they think about cutting."

The shale revolution has transformed oil wildcatters into billionaires and the U.S. into the world's largest petroleum producer, surpassing Russia and Saudi Arabia. The power of OPEC has been diminished, undercutting one of the major geopolitical forces of the last half century.

The shift to net exports caps a tumultuous week for energy markets and politics. OPEC and its allies are meeting in Vienna this week, trying to make a tough choice whether to cut output and support prices, risking the loss of more market share to

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Shale revolution has transformed oil wildcatters into billionaires and the U.S. into the world's largest petroleum producer, surpassing Russia and Saudi Arabia

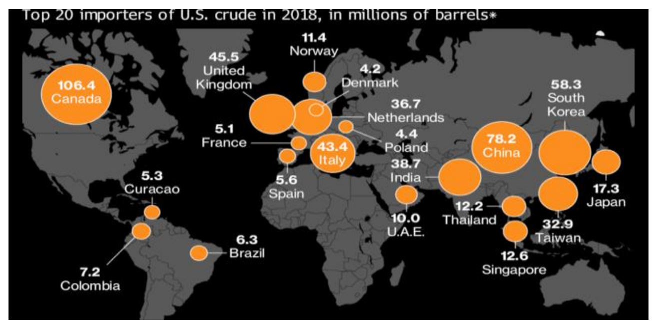
Oil historians that have compiled even older annual data using statistics from the American Petroleum Institute said the U.S. has been a net oil importer since the mid-1940s, when Harry Truman was in the White House

the U.S.

"The week started with Qatar leaving OPEC; then a mysterious U.S.-Saudi bilateral meeting in Vienna; followed by a canceled OPEC press conference, and now the latest news that the U.S. turned last week into a net petroleum exporter," said Helima Croft, commodities strategist at RBC Capital Markets LLC and a former analyst at the Central Intelligence Agency.

The U.S. sold overseas last week [week of November 26, 2018] a net 211,000 barrels a day of crude and refined products such as gasoline and diesel, compared to net imports of about 3 million barrels a day on average so far in 2018, and an annual peak of more than 12 million barrels a day in 2005, according to the U.S. Energy Information Administration.

The EIA said the U.S. has been a net oil importer in weekly data going back to 1991 and monthly data starting in 1973. Oil historians that have compiled even older annual data using statistics from the American Petroleum Institute said the country has been a net oil importer since the mid-1940s, when Harry Truman was in the White House.



© Bloomberg U.S. Shale Boom Goes Global

On paper, the shift to net oil exports means that the U.S. is today energy independent, achieving a rhetorical aspiration for generations of American politicians, from Jimmy Carter to George W. Bush. Yet, it's a paper tiger achievement: In reality, the U.S. remains exposed to global energy prices, still

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U.S. crude exports are poised to rise even further, with new pipelines from the Permian in the works

U.S. imports more than 7 million barrels a day of crude from all over the globe to help feed its refineries, which consume more than 17 million barrels each day

Fed's Powell, in apparent dovish shift, says rates near neutral

affected by the old geopolitics of the Middle East.

U.S. crude exports are poised to rise even further, with new pipelines from the Permian in the works and at least nine terminals planned that will be capable of loading supertankers. The only facility currently able to load the largest ships, the Louisiana Offshore Oil Port, is on pace to load more oil in December than it has in any other month.

The massive Permian may be even bigger than previously thought. The Delaware Basin, the less drilled part of the field, holds more than twice the amount of crude as its sister, the Midland Basin, the U.S. Geological Service said Thursday. While the net balance shows the U.S. is selling more petroleum than buying, American refiners continue to buy millions of barrels each day of overseas crude and fuel. The U.S. imports more than 7 million barrels a day of crude from all over the globe to help feed its refineries, which consume more than 17 million barrels each day. In turn, the U.S. has become the world's top fuel supplier.

"The U.S. is now a major player in the export market," said Brian Kessens, who helps manage $16 billion at Tortoise in Leawood, Kansas. "We continue to re-tool our export infrastructure along the Gulf Coast to expand capacity, and you continue to see strong demand globally for crude oil."

Read the entire article at: https://www.msn.com/en-us/money/markets/us-ends-its-reliance-on-foreign-oil-for-the-first-time-in-75-years/ar-BBQAM92?ocid=spartanntp

Financial Focus

Federal Reserve Chair Jerome Powell injected investors with a strong dose of optimism on Wednesday [November 28, 2018], saying that the central bank's policy rate is now "just below" estimates of a level that neither brakes nor boosts a healthy

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U.S. economy, comments that many investors read as signaling the Fed's three-year tightening cycle is drawing to a close.

Stocks and interest-rate futures jumped, even while economists wrestled to interpret whether Powell intended to send a message or was simply misunderstood.

On their face, the comments were a reversal from early last month, when Powell said the key interest rate was probably still a "long way" from a so-called neutral level and that the Fed might even tighten policy beyond that level. Stocks swooned on those remarks as investors bet the U.S. central bank would need more rate hikes to prevent the economy from overheating.

The possibly dovish shift in language on Wednesday [November 28, 2018] came as President Donald Trump stepped up attacks on Powell, criticizing the Fed's rate hikes as undercutting his economic and trade policies. Trump told the Washington Post just on Tuesday [November 27, 2018] that he is "not even a little bit happy" with the Fed chief.

Powell "gave the market, and presumably President Trump, exactly what he wanted, which was an admission that the previously proposed path of future rate hikes was probably too aggressive and opening to slowing the rate of hikes," said Oliver Pursche, vice chairman and chief market strategist at Bruderman Asset Management in New York.

The Fed has settled into a quarterly rate-hike cycle and is still expected to raise rates again next month, in what would be the fourth hike this year. But signs of a slowdown overseas and nearly two months of market volatility - including another sharp selloff last week - have clouded an otherwise mostly rosy U.S. picture in

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Fed has settled into a quarterly rate-hike cycle and is still expected to raise rates again next month, in what would be the fourth hike this year

which the economy is growing well above potential and unemployment is the lowest since the 1960s.

"We know that things often turn out to be quite different from even the most careful forecasts," Powell said at an Economic Club of New York luncheon on Wednesday [November 28, 2018]. "Our gradual pace of raising interest rates has been an exercise in balancing risks."

Rates "are still low by historical standards, and they remain just below the broad range of estimates of the level that would be neutral for the economy," he added.

COMMUNICATION ERROR?

Factually, Powell's remarks on Wednesday [November 28, 2018] and in October are both true. On Wednesday [November 28, 2018] he referenced a range, and in October he likely referenced a median. The benchmark rate, now at 2.00-2.25 percent, is within a quarter of a percentage point of the bottom of the Fed's range for neutral but is also several quarter-point rate hikes below the mid-point estimate of 3 percent.

The benchmark rate, now at 2.00-2.25 percent, is within a quarter of a percentage point of the bottom of the Fed's range for neutral but is also several quarter-point rate hikes below the mid-point estimate of 3 percent

But markets, especially after the recent selloff, were focused less on such subtleties than on what Powell may have telegraphed about the future path of rate hikes.

"If there has been one certainty of late it is the market's ability to misinterpret Fed Chairman Powell. This was again on display today," RBC Capital Markets chief U.S. economist Tom Porcelli wrote in a note.

Although a December rate hike has been widely expected, the Fed's path next year has been more uncertain, with investors last month expecting two or even three rate hikes in 2019.

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The fed fund futures contract expiring in January 2020, a heavily traded contract that reflects market expectations for where rates will be at the end of 2019, rallied sharply on record volume and pointed to an implied yield of 2.70 percent. It was 2.95 percent earlier this month, suggesting investors have scratched off a full rate hike from their forecasts of Fed policy.

Read the full article at: https://www.msn.com/en-us/money/markets/powell-backs-rate-hikes-says-financial-risks-contained/ar-BBQd03n?ocid=spartanntp

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