Touchbase

December 2007

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www.tealinc.com

CSX announces update to mileage calculator software coming

BNSF winter Open Top Loading Rules effective December 1

Railroad Updates

Effective January 1, 2008, CSX Transportation will upgrade from ALK Technologies' PC*Miler Rail Version 13 to Version 14. The new version includes an updated station listing and a new Fuel Surcharge Router option.

CSXT will begin using the new PC*Miler Rail Fuel Surcharge Router (FNII), instead of the PC*Miler shortest non-familized router (SNII), to calculate fuel surcharge mileage. This change will apply to all local and interline prices containing mileage HDF (highway diesel fuel) fuel surcharge.

The PC*Miler Rail Fuel Surcharge Router option uses each railroad's specific routing criteria for its mileage segments to determine mileage-based fuel surcharge calculations.

Between November 5, 2007 and December 31, 2007, the ShipCSX Mileage Look-Up Tool will display both Version 13 and Version 14 rail miles.

Visit the CSX at:
www.csx.com

Winter Loading Practices Effective December 1, 2007

BNSF's Open Top Loading Rules require that shippers of lumber on flatcars and bulkhead flatcars comply with certain loading practices during the winter months to ensure the safe and secure movement of shipments during that time. These practices help guarantee that loads will not slide or shift laterally during transit.

This year, the period of time covered by these rules is **December 1, 2007, through April 15, 2008.** The required changes to your loading procedures during this period are as follows:

· All ice and snow is to be removed from railcar decks prior to placement and prior to securing the bearing pieces. This is for all loads, regardless of car type and securement.

· All flatcar and bulkhead flatcar loads of lumber and panel products not secured to the car with banding, cable, chains or web straps must include stub stakes and guide rails as an added protection to counter the adverse effects of snow and ice on the restraint systems. Specifically, this applies to shipments loaded per the AAR Open Top Loading Rules Manual, Section 5, Figures 32, 58, 58A, 59, 60, 61, 62, 63, 64, 65, 66, 67, 70, 71, 110, 111, and 112.

Find additional advisements for the BNSF at:
www.bnsf.com

AAR Updates

The American Association of Railroads (AAR) published to its website the following article originally published in the Financial Times discussing the impacts re-regulation will have on the railroad industry.

Four of the five Class I's say "fewer new investments will be justifiable if any of the four bills to regulate rates being debated in Congress becomes law"

The article claims that accelerating investment in US railroads' capacity could come to a halt if proposed legislation to re-regulate many of the railroads' prices is brought into force, the chief executives of three of the top five US railroads have warned.

The chief executives of CSX Corporation, Union Pacific and BNSF - all among the five large US-based Class I railroads - have told the Financial Times that fewer new investments will be justifiable if any of the four bills to regulate rates being debated in Congress becomes law.

Most US rail rates were deregulated in 1980, in response to a financial crisis at many railroads exacerbated by the previous system of federal oversight.

Railroads have invested heavily in capacity in recent years following a surge in traffic caused by the growing popularity of coal for power generation, expanding wheat production and growing imports of shipping containers from Asia.

Some rail customers back the bills which would cap freight rates and increase competition

The increased demand and need to pay for investments has pushed up many freight rates, although the Association of American Railroads says they remain about half the level they were before rail deregulation in real terms. Railroads plan to invest about $10 billion in new capacity this year.

However, some rail customers back the bills - which would cap freight rates and increase competition - because they say consolidation has given more operators monopoly power over certain customers.

The controversy has fed into a debate about how the government can best encourage increased use of the US's railroads to relieve pressure on highway networks

The controversy has fed into a debate about how the government can best encourage increased use of the US's railroads to relieve pressure on highway networks.

Jim Young, chief executive of Union Pacific, the US's largest railroad by revenue and network size, said he had told legislators that the company would change the size of its network to suit its returns.

"I said: 'The government needs to be careful because you're making decisions that determine how much business you want moving on the railroads long term,'" Mr Young said. "If they make the wrong decisions and we restrict that growth, they are going to have to figure out how to handle it on the highway."

Matt Rose, BNSF's chief executive, said a legislative restriction on earning potential would force capital out of the industry.

Read more about the impact re-regulation may have on the railroad industry by visiting the AAR at:

http://www.aar.org/newsroom/rereg_2007.asp

The only big point of dispute among railroads is over the likelihood that the legislation will succeed.

Mr. Young said he was taking it seriously, while Michael Ward, chief executive of CSX, said he thought the consequences would be so damaging that the legislation would fail.

Read the entire article at:
http://www.aar.org/pubcommon/documents/pub_arts/FT_Investments_111307.pdf

Railroad Traffic

North American intermodal volume reaches second-highest quarterly level, IANA says

Declining imports from Asia and sluggish domestic traffic demand took a toll on third-quarter intermodal volume, which decreased 2.2 percent compared with third-quarter 2006's total. But the decline notwithstanding, intermodal volume "held its own" in the quarter, according to the Intermodal Association of North America's (IANA) quarterly *Intermodal Market Trends & Statistics* report.

Total North American volume reached the second-highest level ever at 3,618,617 units, trailing only third-quarter 2006's 3,699,544 units. Domestic container volume jumped 10 percent to 919,085 units and all domestic equipment inched up 0.1 percent to 1.4 million units compared with third-quarter 2006 totals. The domestic gains helped offset a 13.5 percent decrease in trailers to 526,887 units and 3.7 percent drop in international container volume to 2.2 million units.

"The domestic container gains are especially noteworthy because they were achieved at a time when long-haul truck capacity was abundant, retail sales, as well as other economic indicators, were weak and key industries, such as construction, were slumping"

"The domestic container gains are especially noteworthy because they were achieved at a time when long-haul truck capacity was abundant, retail sales, as well as other economic indicators, were weak and key industries, such as construction, were slumping," said Thomas Malloy, IANA vice president of member services and business development, in a prepared statement.

Overall, international intermodal traffic fell 3.7 percent and domestic volume rose 0.1 percent in the quarter, reflecting a "change from recent years, when international traffic consistently rose at a rate of 6 percent or more, while domestic business increased at a slower pace," IANA said.

Through 2007's first nine months, total intermodal volume decreased 0.9 percent to 10.6 million units compared with volume handled during the same 2006 period.

Read more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=11657

U.S. Rail Carload, Intermodal Traffic Down in October

U.S. railroads originated 1,686,928 carloads of freight in October 2007, down 0.3 percent from October 2006. U.S. railroads also originated 1,210,127 intermodal units in October 2007, a decrease of 3.7 percent of trailers and containers from October 2006, the Association of

American Railroads (AAR) reported November 8.

Grain, chemicals and metallic ore carload traffic up; crushed stone and gravel, pulp and paper, and coke down.

Six of the 19 major commodity categories tracked by the AAR saw U.S. carload increases in October 2007 compared to October 2006.

Commodities showing carload gains in October 2007 included grain (up 14.2 percent); chemicals (up 4.0 percent); and metallic ores (up 6.1 percent). Commodities showing carload decreases in October 2007 included crushed stone and gravel (down or 4.6 percent); pulp and paper (down 11.9 percent); and coke (down 14.2 percent). Carloads of coal, which account for approximately 42 percent of total U.S. carloads, were down 0.2 percent in October.

For the first 10 months of 2007, total U.S. rail carloads were down 2.9 percent. U.S. intermodal traffic, which consists of trailers and containers on flat cars and is not included in carload figures, was down 2.2 percent for the first 10 months of 2007 to 10,234,760 units.

"Grain carloadings over the past couple of months have been exceptionally high," said AAR Vice President Craig F. Rockey. "Grain producers are rushing to take advantage of record-high grain prices and strong export markets, and railroads are meeting the challenge."

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Canadian rail carload traffic was up 3.6 percent in October 2007, and down 0.4 percent for the year to date. In October, carload gains for metallic ores (up 26.2 percent) and chemicals (up 7.6 percent), among other commodities, more than offset declines in carloads of lumber and wood products (down 14.4 percent) and grain (down 3.2 percent), among other commodities.

Combined cumulative rail volume for the first 44 weeks of 2007 on 13 reporting U.S. and Canadian railroads totaled 17,837,382 carloads, down 2.4 percent (446,087 carloads) from last year, and 12,296,806 trailers and containers, down 1.3 percent (165,731 units) from 2006's first 44 weeks.

Visit the AAR at:
http://www.aar.org

Industrial Inside

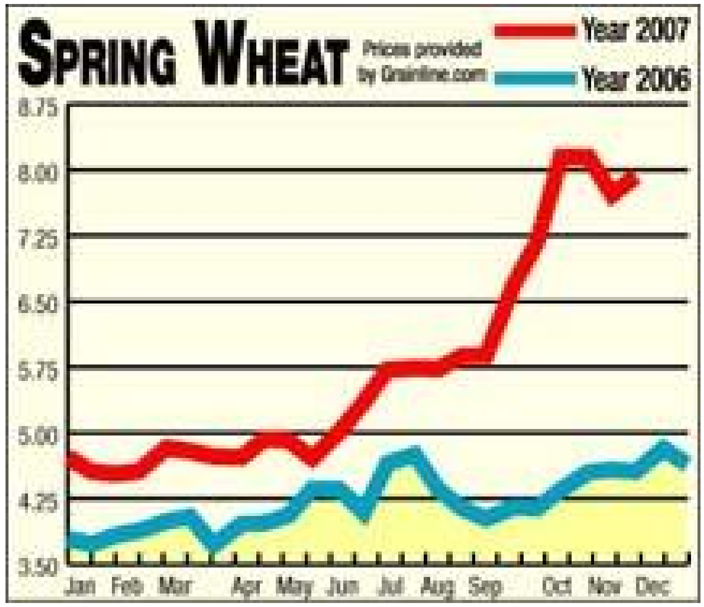
Spring wheat market shows volatility, but not excitement

The spring wheat market has shown some volatility of late, but that doesn't necessarily mean there's been a lot of excitement.

"It depends on the day," said Erica Peterson, marketing specialist for the North Dakota Wheat Commission. "There's not much excitement lately. Prices will bounce up and down from day to day. The gains are evened out by the losses."

Peterson said the market was trading at levels it was at about two weeks ago with Minneapolis December futures prices at \$8.10 to \$8.30.

“For the last six weeks or so the market has been in a down trend due largely to a lack of supportive news,” Peterson aid. “The Minneapolis futures are doing better than Chicago and Kansas City. Spring wheat futures (in Minneapolis) are at a 60 to 70 cent premium over Chicago and Kansas City.”



New crop futures are fairing a little better and are holding steady to slightly higher, she added.

USDA raised its world wheat production estimate up to 22.2 billion bushels in its latest supply and demand report

“The market knows it has to keep new prices higher in order to get acres for 2008,” she said.

Local cash prices for hard red spring wheat have improved slightly over the past couple weeks because “the basis has been more in our favor recently,” according to Peterson. Prices ranged from $7.70 to $8.10 with an average of $7.90.

As far as any “new” news, the USDA raised its world wheat production estimate up to 22.2 billion bushels in its latest supply and demand report which came out Nov. 9 which was due to increased production in Argentina and China and world stocks were also increased to 4 billion bushels, but that's still the lowest ending stocks number in over 30 years, Peterson noted. Meanwhile, the U.S. portion of the supply and demand numbers had very few changes.

Japan recently bought 13 million bushels of wheat while India is in talks of purchasing

“The only thing USDA did was raise its import estimate by five million bushels,” Peterson said. “That's attributed to the fact we're expecting higher spring wheat imports from Canada. Because of that change, the ending stocks level went up by five million bushels. That was considered bearish by the market because, prior to the report, most analysts were expecting stocks would decrease,” she added.

Export numbers in the USDA report didn't change because of the slower sales pace and there's been no new news on new big tenders, according to Peterson, although Japan recently bought three million bushels of wheat. India is talking of tendering for 13 million bushels,

Some concern of dryness and above average temperatures in some of the hard red winter wheat growing regions of the U.S. At this point, however, it's too early to tell if the crop has sustained much harm

Federal Reserve battles recession fears; optimists forecast federal funds rate close to 3.75 percent or lower by next summer

"Inflation is not an issue for 2008"

but Peterson said there's a lot of speculation over whether or not that will really happen. "And if it does, it most likely won't be U.S. wheat," she said.

In other news, Peterson said there is some concern of dryness and above average temperatures in some of the hard red winter wheat growing regions of the U.S. At this point, however, it's too early to tell if the crop has sustained much harm.

"There's also speculation that acres may not have been up as much as expected in some areas due to a lack of high quality seed," Peterson said.

On a global focus, Australia and Argentina have started harvesting their wheat crops. As expected, Australia is seeing very low yields due to ongoing very dry conditions while Argentina, on the other hand, has had better than expected production and will start exporting its crop at the completion of harvest. But Argentina also raised its tariff on wheat exports from 20 to 28 percent.

"A lot of the market focus is still on the amount of acres for the 2008-2009 crop year," Peterson said. "Everyone has heard acres are supposed to be up in the U.S., and European Union acres are expected to be up five percent. Right now it's a wait and see situation to see what actually gets put in the ground."

Financial Focus

With oil prices approaching $100 and the yield on the benchmark 10-year U.S. Treasury note briefly dipping below 4 percent Wednesday, Ben Bernanke and his fellow Federal Reserve policymakers find themselves in a serious quandary.

On the one hand, the spike in oil prices could clearly be viewed as a sign of inflation. So that's a good argument for the Fed to keep its key federal funds rate unchanged when it has its next meeting on December 11, some economists say.

However, the spike in oil has the potential to lead to higher gas prices at the pump as well as steeper home heating costs this winter. With that in mind, $100 oil might be more of a tax on consumers and could weaken the economy.

"The economy is on the brink of a recession," said Mark Zandi, chief economist with Moody's Economy.com, an independent research firm. "Hand wringing about inflation is misplaced. The Fed should be focused on growth. Inflation is not an issue for 2008."

Freddie, Fannie seek a few billion

Falling bond yields also paint a gloomier picture of the economy, one of weakness. Bond yields typically fall when the economy is slumping. The yield on the 10-year has slipped from about 4.7 percent in mid-

October to its current level. And the subprime mortgage crisis appears to be getting worse.
Several financial institutions, ranging from big mortgage lenders such as Washington Mutual and Countrywide Financial to more diversified banks like Citigroup, Wachovia and Bank of America, have been hit hard by rising delinquencies and mortgage investments gone sour.

The mortgage woes have also led to problems at prominent investment banks such as Merrill Lynch as well as Fannie Mae and Freddie Mac, the two government sponsored enterprises which play an important role in the home buying process since they are the largest purchasers and guarantor of residential loans.

The housing market may not turn around anytime soon – fed lowered its economic growth forecast for 2008

The housing market may not turn around anytime soon either. To that end, the Fed lowered its economic growth forecast for 2008 Tuesday, citing weakness in housing.

Cleveland: Foreclosure's perfect storm

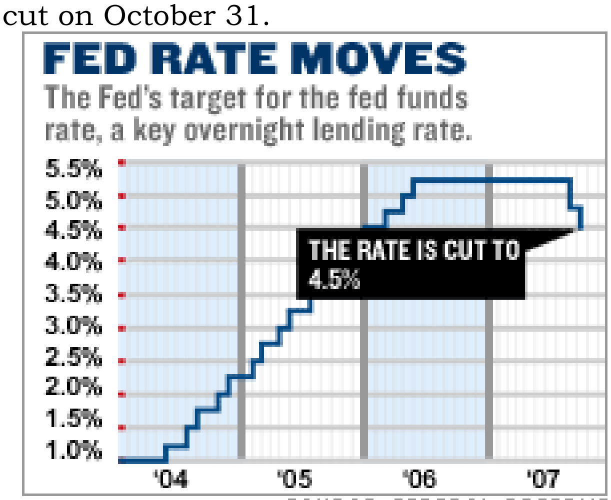
Treasury Secretary Henry Paulson told *The Wall Street Journal* Wednesday that he expected the potential number of mortgage defaults in 2008 to be "significantly bigger" than this year. This surprised some market observers since Paulson had previously been more upbeat about the outlook for next year.

"This is a significant change coming from Paulson given his optimism previously," said Ken Kim, an economist with Stone & McCarthy Research Associates, a fixed income and economic research firm based in Princeton.

Wall Street now expects the Fed to cut rates by at least a quarter of a percentage point on December 11

As such, Wall Street now expects the Fed to cut rates by at least a quarter of a percentage point on December 11. What's more, investors are pricing in an 8 percent chance that the central bank will lower rates by a half of a percentage point, to 4 percent, according to fed funds futures listed on the Chicago Board of Trade.

The Fed cut its key federal funds rate, an overnight bank lending rate that influences what consumers pay on various types of loans, by a half-percentage point on September 18 and followed that with a quarter-point cut on October 31.



SOURCE: FEDERAL RESERVE

The exports side is what saves us. One of the implications of the Fed cutting

rates would be keeping exports up with a weak dollar

"We're in unchartered territory because of what we are seeing with Fannie and Freddie. It is difficult to assess what the final end point is in this scenario," Marion said. He argues that the Fed could cut rates several times in 2008, bringing them perhaps as low as 3 percent by next summer.

Still, some market observers and economists are debating what the Fed's next move really should be.

Drew Matus, an economist with Lehman Brothers, argues that the Fed should hold rates steady at its December meeting. He said the Fed needs to assert itself to Wall Street and show that it is more concerned about what's going on in the actual economy, not with stock prices.

Fed sees economy slowing in 2008

Lehman's Matus said the weak dollar is actually having some big benefits. In fact, he believes that it might be what keeps the economy from slipping into a recession in 2008. He said that if consumer spending slows in 2008 because of the mortgage crisis and corporations also pull back on spending, robust exports to countries with stronger currencies could be the economy's salvation.

"The exports side is what saves us. One of the implications of the Fed cutting rates would be keeping exports up with a weak dollar," Matus said.

With that in mind, even though Matus does not think the Fed will cut rates in December, he does believe the Fed will lower rates several times next year, perhaps to as low as 3.75 percent.

But Stefane Marion, assistant chief economist with National Bank Financial in Montreal, said that as long as more bad news keeps coming out of financial institutions, the Fed should be even more aggressive.

"We're in unchartered territory because of what we are seeing with Fannie and Freddie. It is difficult to assess what the final end point is in this scenario," Marion said. He argues that the Fed could cut rates several times in 2008, bringing them perhaps as low as 3 percent by next summer.

Learn more at:
http://money.cnn.com/2007/11/21/news/economy/fed_outlook/index.htm?postversion=2007112115

The Edge

Happy Holidays, Merry Christmas and Happy Hanukkah!!!

During the holiday timeframe it's difficult to think of "next year" so soon. However it truly is around the corner and it appears the railroads have been providing advance notification of some changes to come in how they price.

CN has a few changes to their mileage equalization program (tariff CN6544) that will morph beyond the covered hoppers and tank cars to which it now applies. Beginning January 1, 2008 and applicable to all private equipment, if the empty miles exceed loaded miles by 4 percent during a calendar year, a mileage equalization fee of $1.05 CDN per empty mile per private railcar will be applied. If you do a lot of diversions you need to be aware of this change as it will change your cost structure. Also pay attention to any service interruptions that cause rerouting of empties; it will be difficult to sort out empty miles caused by diversions and those caused by service changes.

The BNSF made changes to its private car storage book (6005) effective October 1, 2007. Many of you have been pushing the fall shipping season and probably haven't had a chance encounter with this new set of charges. Basically the storage charge is for constructively placed cars awaiting an order to be spotted. The railroad continues to stress service parameters that recoup their opportunity cost. Rates are $20 per day in less constrained locations and $75 for all other locations. Be sure you have a plan to manage your railcar inventory a lack of one could be costly.

The Union Pacific Railroad have a number of new price changes for industrial products, minerals and non-ferrous metals, construction and consumer products and environmental waste. You may want to visit their site to be sure you're ready for the new year if you're a UP shipper. UP will implement a new Automated Rule One Disposition System that will require the person that issues Rule 1 Dispositions to have a UP Railroad User ID and password. This applies only to private car owners or those that control private cars. If you're in this category contact us and we'll give you the UP contact to sign up.

The NS looks to have similar tactics as the UP (or vice versa) with a number of new commodity price increases. These cover wood pulp, scrap metal, auto shredder residue and scrap substitutes. I'm sure other commodities have similar increases. You may want to look on the NS site and be sure you have all your pricing information up to date.

In 2008, continue to expect more demands from every corner of the railroad to increase velocity, provide better returns and create a more seamless operation. All of these items are good for investors and stakeholders of the industry. Many will be fine with the shipping community (not without a little/lot of pain at first) to figure out how best to utilize the transportation alternatives available.

We "wish you a merry Christmas and happy New Year!"

We look forward to earning your business!