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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 –February 2018

In This Issue

Visit us at:
www.tealinc.com

Tealinc is now accepting scholarship applications!

New year is starting off at a rapid pace

Tealinc 2018 Scholarship Reminder

Tealinc is now accepting applications for our 2018 scholarship! Tealinc, Ltd. is an adamant supporter of post-secondary education providing over $30,000 in scholarships at the local and national level over ten years.

Applications are due March 30, 2018.

Learn more and download the Scholarship application here.

Equipment Update

We've got multiple new railcar listings on our website! Haven't checked us out lately? **Visit our website** to view railcars available for sale or lease including:

- **Covered Hoppers**
- **Open Top Hoppers**
- **Gondolas**
- **Flatcars**
- **Misc.**

Visit our website or contact us directly for more information regarding the private rail equipment you're looking to buy, lease or sell. Need help analyzing your rail fleet for efficiency, best practices for loading / unloading, developing a new business line or pattern? We do that too!

Contact Tealinc today for all your rail transportation needs!

The Edge with Darell Luther

The new year is off and running at a torrid pace. It's as if the economy wants to recover and do well. Look at the financial markets, the DOW broke 26,000. The indexes that measure growth and health of the economy and railcar loadings adjusted to those commodities (grain and energy) not tied directly to economic growth and you'll see nothing but positive results. Even the energy related

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products are doing a bit better than historical results. Grain conversely for the US rail market is primarily an export product. We're good at raising grain here in the US sufficient to feed our people and animals so for grain shipments to do well you need drought and famine in other parts of the world and an undervalued currency here. Something that is not lined up for this year so far.

2017 railcar loads were 2.9% better than 2016

Railcar loads for 2017 ended up at 13,478,126 about 2.9% better than 2016 but not as good as the previous four years prior to that time. Adjusted for coal carloads the total was 9,057,195 non-coal railcar loads. These railcar loads represent the basic health of the rail transport economy showing narrowly better than 2016 and better than two of the previous four years. The number of railcars in storage continues to make slight declines but is pointedly tied to coal, petroleum products and grain movements, as coal, petroleum products and grain grow or decline so do the railcars in storage.

Number of railcars in storage continues to slowly decline

Oil price is gaining strength

Oil Price Recovery and Drilling Upside *Oil Price ($/barrel)*

Source: http://www.macrotrends.net/1369/crude-oil-price-history-chart

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The price of oil is showing some strength landing the price of West Texas Intermediate crude at $63.42 per barrel on January 22, 2018. It's been recovering since marking a low of $46.32 per barrel in June 2017, the highest its been since November 2014. The price is certainly a lot healthier than the recessionary price slide that began in June of 2008 that didn't stop free falling until January of 2009.

Baker Hughes Rig Count

Oil rig counts have experienced a 26% gain over the past year

The total rig count as of January 19, 2018 was 936 rigs which is up 242 from the same time last year. Orange triangles are directional or horizontal gas and blue triangles are either directional, horizontal or vertical oil rigs. (source: https://us.gis.connect.bakerhughes.com/rigcountweb/default2.aspx). This is a 26% gain over the past year, significant to say the least.

Modifying the well drilling process during the recession period has extended well life for surviving producers and suppliers

The recessionary period drove significant modification to the overall well drilling process in use of proppant and the mesh size of frac sand. Rethinking the process and cost of production and production inputs along with potentially extended well life wasn't a bad thing for surviving producers and suppliers. Lowering costs of transportation via pipeline is also helping those captive to rail for their oil and gas investment returns. Additionally, the development of brown sand in the Permian

Basin has the potential to further lower production and sand transportation costs. For white sand producers this isn't necessarily great news, but the jury is still out on the brown versus white sand debate.

Electronic Logging Directive

Another impact that is coming to bear that will help rail shipments but not the overall transport industry is the Electronic Logging Directive (ELD) for truckers. ELD was effective December 2017 and we're just getting a feel for the impact it will bear on long haul and regional carriers. The limitations of the ELD are projected to take from 5% to 10% of the trucking capacity off the road simply by reducing actual time hauling commodities. Couple that with an already existing driver shortage and the impact is noteworthy. Where are driverless trucks when you need them?

Limitations of electronic logging directive for truck driver's projects to take 5%-10% of trucking capacity off road

Planning & Execution

I often feel like the preacher on the pulpit! To set your company up to be successful, long-range planning coupled with shorter term goals and plans with proper execution are key. Having a five or ten-year long-range plan that translates into one to five-year strategies that are appropriately executed spell success.

Consider the hurdles in rail and truck transportation?

A long-term plan coupled with short term goals and proper execution are key to your company's success

There are challenges co-existing in the rail world. It is complex and there's a lot of effort required to finesse your way through the potential pitfalls and speed traps of rail rates, setting up and managing electronic requirements, properly scheduling shipments with an irregular rail world to minimize exposure to demurrage and detention, obtaining railcar and locomotives or other means of moving railcars on your property and the ever-ongoing challenge of anticipating new and improved rail rates and service changes.

The truck transportation world is seemingly easier to weave your way through but

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Contact Tealinc today! We can help you weave your way though the complex world of rail and truck transportation.

Do you know what *The Hook* is in regards to railroad slang?

The hook is the locomotive crane that ran along the tracks to pick up derailed cars and locomotives

Derailments used to take several days or

consider the ELD rules and regulations and impact on your business. Availability and rates are going to be mirror opposites.

At the risk of repeating the obvious, a dynamic plan and flawless execution will pay dividends in the long run. We've become somewhat of a master at weaving our way through the complexities of rail and truck transportation and welcome a visit with you about our services and offerings.

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

I recently had a pleasant lunch with a friend who has deep railroad roots like I do. I believe he was is a second-generation Chicago Northwestern railroader. My roots include three generations with the Burlington and one at the Rock Island. I don't know exactly how we got around to the subject, but we ended up talking about "The Hook." The Hook was railroad slang for the locomotive crane that ran down the railroad tracks to derailments to pick up the derailed cars and locomotives.

Locomotive cranes were strategically located on the railroads, so they could respond quickly and from different directions. When a long stretch of single track was torn up they would dispatch a locomotive crane to each side of the derailment and pickup wrecked equipment and lay track panels until they met in the middle. Whenever a train derailed, a state of emergency was basically called, and measures were put in place to get the derailment cleaned up so that the line could be reopened. Sometimes, derailments took several days or even weeks to clear. Trains would be diverted over other lines and sometimes even competing railroads until normal service was restored.

weeks to clear and was considered very dangerous work

Not only was derailment cleanup work lengthy, it was also very dangerous. Both of us knew railroad employees who were injured doing this work. In those days something was always found for them to do so that they could stay employed at the railroad until retirement. I knew a couple of old heads who had nasty facial scars and dented skulls that ended their working days at a desk.

The Hook was eventually replaced by Cats with side booms. What used to take days or even weeks was accomplished in hours. The loss of revenue from delayed or diverted revenue traffic was greatly reduced. Safety was greatly enhanced and what was once a railroad carman's job became contractor's work.

Improvements to all aspects of railroading has occurred over the years which has led to the reduction of wrecked railcars

While the method of picking up wrecks has evolved tremendously, the frequency of derailments has been reduced by huge improvements in track and roadbed, locomotives, railcars and the monitoring of the conditions of all aspects of railroading. Since I am a car knocker, I will address the changes in monitoring railcar condition.

Hot boxes used to be the most cited cause of a derailment

In the old days, hot boxes were the most commonly cited cause for derailments. Prior to roller bearings on railcars and locomotives, the axle outside of the wheel plates (the journal) was turned and polished. A solid babbitt plated brass bearing was on top of the journal and the bottom of the journal turned on an oil-soaked lube pad. Oil would be added at inspection points when there was no standing oil in the box. If the box went dry and/or contaminants entered the box, the resulting friction would cause the bearing and journal to overheat. Sometimes the heat would increase to a point where the steel got red hot and seized up the bearing causing a derailment. To help find these conditions before they escalated to that point, they created crude sensors that would alert the crew of overheating so that they could set the car out of the train. Roller bearings greatly reduced derailments due to hot boxes. Bearing and seal technology advances along with better hot box detectors have pretty much eliminated this as a cause of derailments.

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Various equipment detectors have helped eliminate derailments

Railcar component defects are generally caught and fixed before a catastrophic failure would occur

Technology plays a huge role in predicting and detecting mechanical failure; however, nothing can replace a well-trained and experienced rail employee.

Let Tealinc manage your railcar fleet!

Another cause of derailment was dragging equipment. In the days of hanger brake beams, it was not uncommon to have a brake beam drop down and cause a derailment. Other railcar parts can be dislodged or fail and drop down on the roadbed and trigger a derailment as well. To solve this, dragging equipment detectors were developed.

In recent times the railroads have developed wheel impact load detectors, truck hunting detectors and acoustic bearing detectors. I questioned the validity of each one when they were first introduced but as time went on I became a believer. Railcar component defects are caught and remediated long before a catastrophic failure would occur. While all these changes have taken place, I believe that derailments have lessened in frequency and severity.

It appears to me that as time has gone on, technology is playing a larger and larger role in predicting and detecting mechanical failure. I am concerned that the human element is being deemphasized in the process. No matter how good the technology gets, there is still a need for the vision, experience, knowledge and intelligent reasoning from a well-trained human being. I hope I never see the day when the human element is totally lost. As railroad employment continues to decrease, I fear we are heading in that direction. I have been labeled as a dinosaur in certain respects. In this respect I wear the label proudly.

Now I remember how we got on the subject of "The Hook." It was triggered by the great lunch we were having. The best T-Bones I ever ate were devoured at derailment sites. Whenever "The Hook" was called out I knew I was going to get a fat paycheck and good eating.

Let Tealinc employ our many years of experience and various talents to help you manage your fleet. You will even have a well-fed dinosaur at your disposal!

Steve Christian is the Manager Value Creation-Operations for Tealinc, Ltd. You may

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Railroad Traffic

The Association of American Railroads (AAR) today [February 7, 2018] reported U.S. rail traffic for the week ending February 3, 2018, as well as volumes for January 2018.

U.S carloads in January 2018 down 3.4% compared to January 2017

U.S. railroads originated 1,217,405 carloads in January 2018, down 3.4 percent, or 42,431 carloads, from January 2017. U.S. railroads also originated 1,310,141 containers and trailers in January 2018, up 3.5 percent, or 44,183 units, from the same month last year. Combined U.S. carload and intermodal originations in January 2018 were 2,527,546, up 0.1 percent, or 1,752 carloads and intermodal units from January 2017.

Crushed stone, sand & gravel, chemicals, petroleum & petroleum products, and lumber & wood products experienced a gain compared with January 2017 while coal, motor vehicles & parts and grain all declined

In January 2018, eight of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with January 2017. These included: crushed stone, sand & gravel, up 3,498 carloads or 3.8 percent; petroleum & petroleum products, up 3,196 carloads or 6.4 percent; and lumber & wood products, up 1,167 carloads or 8.0 percent. Commodities that saw declines in January 2018 from January 2017 included: coal, down 25,083 carloads or 5.8 percent; motor vehicles & parts, down 8,372 carloads or 10.1 percent; and grain, down 6,917 carloads or 5.8 percent.

"Recent stock market gyrations remind all of us that, when it comes to things related to the economy, conditions can change quickly. For now, though, rail volumes are not flashing strong warning signs," said AAR Senior Vice President John T. Gray. "In January, intermodal picked up where it left off last year, when it set a new annual record, and several carload categories showed gains for the month. To be sure, we could do without January's sharp fall in motor vehicle and coal carloads, among others, but we're hopeful that the basic economy remains on

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aggregate?

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Oil hits one-month low after U.S. data showed a build in inventories and record high crude production

"U.S. weekly oil production registering 10.25 million bpd in today's report has unsettled the market – the impact of which is manifested as weakening oil prices" said Abhishek Kumar

a firm footing and that the recent turmoil in the markets simply represents an adjustment to potential interest rate changes."

Excluding coal, carloads were down 17,348 carloads, or 2.1 percent, in January 2018 from January 2017. Excluding coal and grain, carloads were down 10,431 carloads, or 1.5 percent.

Visit the AAR at:
https://www.aar.org/newsandevents/Press-Releases/Pages/2018-02-07.aspx

Industrial Inside

Oil prices fell to a one-month low on Wednesday [February 7, 2018] after U.S. data showed a build in inventories and record high crude production, raising worries of more selling that could expose speculators with big bets on upward momentum in crude prices.

U.S. West Texas Intermediate (WTI) crude CLc1 fell $1.60, or 2.5 percent, to settle at $61.79 a barrel. WTI hit a low of $61.33, the lowest since Jan. 5. Volumes were heavy, with more than 957,000 front-month futures trading, far more than the average of 634,000 contracts over the last 200 days.

Brent crude futures LCOc1 fell $1.35, or 2 percent, to $65.51 a barrel.

U.S. WTI prices have slid for four straight sessions, down 6 percent in that time.

U.S. crude inventories USOILC=ECI rose 1.9 million barrels last week, according to the U.S. Energy Information Administration. [EIA/S] This was less than expected, but that was in part because of a surprising increase in refining activity that boosted fuel inventories headed into the seasonally slow spring.

Higher output could undercut prices, analysts said, noting that official estimates for U.S. production gains were recently increased.

OPEC efforts to reduce supply, puts the U.S. in line to potentially overtake Russia as the world's largest producer

However, U.S. crude production also rose, hitting 10.25 million barrels per day (bpd), a record if confirmed by more reliable monthly data, which lags by a couple of months.

"U.S. weekly oil production registering 10.25 million bpd in today's report has unsettled the market – the impact of which is manifested as weakening oil prices," said Abhishek Kumar, senior energy analyst at Interfax Global Gas Analytics in London.

A recent rebound in drilling rig activity boosted production after futures prices extended a rally to three-year highs earlier this month. Higher output could undercut prices, analysts said, noting that official estimates for U.S. production gains were recently increased.

Hedge funds and other speculators had a record long position in crude futures as recently as late January. These positions have been trimmed, but are still largely arrayed in favor of rising oil prices.

"Bullish sentiment that was built on OPEC cuts and geopolitical unrest is slowly fading away as recognition of U.S. production surpassing 10 million bpd sinks in, which also puts Saudi Arabia and Russia at risk of losing further market share," wrote analysts at Drillinginfo.com, in commentary after the EIA figures.

The Organization of the Petroleum Exporting Countries and other producers, including Russia, have cut production since January 2017 to force down global inventories. These cuts have been somewhat offset by rising U.S. oil production C-OUT-T-EIA, with output up 1 million bpd in the last year.

The EIA expects U.S. output to reach an average of 10.59 million bpd in 2018 and 11.18 million bpd by 2019, accelerating earlier estimates. That should drive more

U.S. exports, putting the country in line to potentially overtake Russia as the world's largest producer.

The futures market is in backwardation where prompt oil prices exceed those for future delivery, suggesting investors expect demand to outpace supply. However, front-month contracts fell further on Wednesday than further-dated futures, suggesting the EIA data dented that bullish view.

Read the entire article at:
https://www.reuters.com/article/us-global-oil/oil-hits-one-month-low-after-u-s-inventory-build-idUSKBN1FR075

Financial Focus

Janet Yellen's Fed era ends with unanimous vote of no rate hike

Officials said inflation "is expected to move up this year and to stabilize"

Federal Reserve officials, meeting for the last time under Chair Janet Yellen, left borrowing costs unchanged while adding emphasis to their plan for more hikes, setting the stage for an increase in March under her successor Jerome Powell.

"The committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate," the policy-setting Federal Open Market Committee said in a statement Wednesday [February 7, 2018] in Washington, adding the word "further" twice to previous language.

The changes to the statement, collectively acknowledging stronger growth and more confidence that inflation will rise to their 2 percent target, may spur speculation that the Fed will pick up the pace of interest-rate increases. Officials also said inflation "is expected to move up this year and to stabilize" around the goal, in phrasing that marked an upgrade from their statement in December.
At the same time, the Fed repeated language saying that "near-term risks to the economic outlook appear roughly balanced."

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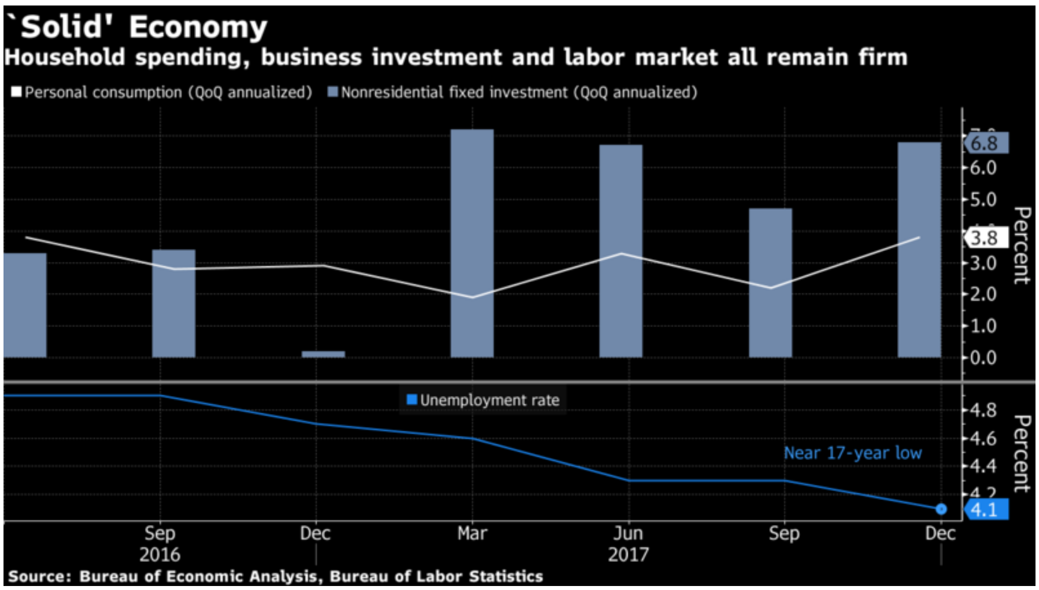
Fed officials have penciled in three rate moves this year in quarterly forecasts

"Gains in employment, household spending and business fixed investment have been

"It opens the door to four hikes for them, but I don't think they have walked through it," said Michael Gapen, chief U.S. economist at Barclays Plc in New York. "It closes the door to two hikes." Fed officials penciled in three rate moves this year in quarterly forecasts they updated last month, according to their median projection.



With her term ending later this week after President Donald Trump chose to replace her, Yellen is handing the reins to Powell, who has backed her gradual approach and is widely expected to raise interest rates at the FOMC's next meeting for the sixth time since late 2015. Fed officials are hoping to keep a tight labor market from overheating without raising borrowing costs so fast that it would stifle the economy.

"Gains in employment, household spending and business fixed investment have been solid, and the unemployment rate has stayed low," the Fed said, removing

solid, and the unemployment rate has stayed low," the Fed said

previous references to disruptions from hurricanes. "Market-based measures of inflation compensation have increased in recent months but remain low."

With a gradual pace of rate increases, policy makers want to nudge inflation back up to their 2 percent target, a goal they have mostly missed for more than five years. Even with a brightening outlook for global growth and Fed tightening, financial conditions continue to ease.

Learn more at:
https://www.bloomberg.com/news/articles/2018-01-31/fed-leaves-rate-unchanged-as-yellen-departs-sets-up-march-hike

Railroad & Policy Updates

Short-line tax credit extension included in budget bill

The budget bill passed by Congress and signed by President Trump early this morning [February 9, 2018] includes a one-year extension of the short-line tax credit known as Section 45G, the American Short Line and Regional Railroad Association (ASLRRA) confirmed today [February 9, 2018].

The tax credit was extended retroactively for calendar-year 2017 and expired Dec. 31, ASLRRA officials said in an email. The tax credit previously had expired at 2016's end.

"The short-line tax credit extension benefits the 10,000 short-line railroad shippers across the country," said ASLRRA President Linda Bauer Darr in a press release. "The continuation of this credit is good public policy, allowing our industry to do its share toward improving the nation's infrastructure by incentivizing railroads to increase their capital investment. The extension will allow short lines to continue their success story serving rural, industrial and agricultural America."

Congress passed a budget bill to include a one-year extension of the short line tax credit

The tax credit enables regionals and short lines to claim a 50-cent tax credit for each dollar they spend on track rehabilitation and maintenance projects, up to a cap of

Tax credit enables regionals and short lines to claim a 50-cent tax credit for each dollar spent on track rehab and maintenance

$3,500 per mile of owned or leased track.

The tax credit has helped small railroads invest $4 billion in capital infrastructure improvements since it was enacted in 2005, according to the ASLRRA.

The association continues to lobby for a permanent or 10-year extension of the Section 45G provision.

Read the entire article:
http://www.progressiverailroading.com/short_lines_regionals/news/Short-line-tax-credit-extension-included-in-budget-bill--53906

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We look forwarding to earning your business!