Touchbase

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Under the term of the Short Line Railroad Rehabilitation Investment Act, a short line must invest $1 for every 50 cents in credit

"These investments will allow our short lines to continue to growth their business, serve their customers and grow the American economy."

Reflectorization update

Railroad & Policy Updates

The proposed Short Line Railroad Rehabilitation Investment Act has advanced in the Senate, as the bill to extend the 45G tax credit picked up a majority of sponsors, the American Short Line and Regional Railroad Association (ASLRRA) announced October 30, 2015.

The Senate bill (S.637), which would allow short lines to earn tax credits for infrastructure investment, now has 51 senators signed on to sponsor the bill. The House legislation (H.R. 721) secured a majority of 218 co-sponsors several months ago. The House bill currently has 246 sponsors, ASLRRA officials said in a press release.

Under the legislation's terms, a short line must invest $1 for every 50 cents in credit up to a credit cap equivalent to $3,500 per mile of track.

"The 45G credit is a bipartisan effort which allows small railroads to invest more of what they earn into our rail infrastructure. Both of these bills now have among the highest number of co-sponsors of all the tax bills introduced in this Session of Congress," said ASLRRA Chairman Ed McKechnie. "These investments will allow our short lines to continue to growth their business, serve their customers and grow the American economy."

The tax credit, which had been in place since 2005, expired Dec. 31, 2014.

Meanwhile, President Obama [on October 29, 2015] signed into law H.R. 3819, the Surface Transportation Extension Act of 2015, the president's press secretary announced.

The bill features a short-term extension of federal funding of surface transportation programs, and extends the deadline for railroads to implement positive train control (PTC) technology by three years to Dec. 31, 2018, and until 2020 under certain circumstances.

Surface transportation funding was set to expire Oct. 29. The previous PTC deadline was Dec. 31 of this year.

Read the entire article:
http://www.progressiverailroading.com/federal_legislation_regulation/news/ASLRRA-notes-progress-of-45G-tax-credit-bill-Obama-signs-PTC-extension--46296?email=julie@tealinc.com&utm_medium=email&utm_source=prdailynews&utm_campaign=prdailynews10/30/2015

Mechanical Brief with Steve Christian

In a previous article, I wrote about the U.S. Department of Transportation - Federal Railway Administration (FRA) enactment of rules to reduce highway-rail grade crossing accidents by the application of “retroreflective material" to the sides of all rail freight rolling stock. The initial application of reflectors on all equipment is required by November 28, 2015.

Also, in my previous article I noted that Part 224.111 (Renewal) states that "regardless of condition, retroreflective sheeting required under this part must be replaced with new sheeting no later than ten years after the date of initial installation."

"Regardless of condition, retroreflective sheeting required under this part must be replaced with new sheeting no later than ten years after the date of initial installation"

During the spring and summer, I had heard some talk in the industry that the Association of American Railroads (AAR) has been involved in studies to determine if the 10 year renewal requirement could be extended. Since Tealinc and our customers are directly involved in the outcome of this, I endeavored to discover the facts. I heard some verbal confirmation that indeed, efforts were underway. However, no one I contacted had any details or written documentation to explain what was happening.

I finally found the help and information that I was seeking at a source that I have always avoided, the FRA. Let me explain my reservations in contacting the FRA. When I worked for a couple of Class I railroads, the mere mention of the FRA would make me nervous. The FRA, in my railroad years, was the uncontrollable force that could totally ruin your day. They could take track, railcars and locomotives out of service until you corrected defects. They could also assess fines which prolonged the pain. I felt I was powerless to prevent it. They always seemed to find something. In hindsight, I am certain that was the wrong attitude. However, everyone that I worked with on the railroad felt the same way.

The AAR and Texas A&M Transportation Institute have been conducting testing and evaluation... and are requesting that the 10 year renewal period be extended by at least 3 years

Overcoming my FRA paranoia, I contacted the FRA Region 6 office and was very impressed with the level of help that they provided. Through the FRA, I found that the AAR had sent a "Waiver Petition from 49 C.F.R. § 224.111: Renewal of Reflectorization Material on Rail Freight Rolling Stock" to the FRA on September 22, 2015. I have read the waiver petition and found that the AAR and Texas A&M Transportation Institute have been conducting testing and evaluation on 920 railcars and 120 locomotives. They are requesting that the 10 year renewal period be extended by at least 3 years to allow them to complete this work.

In my discussions with the FRA, they made it quite clear that this is not a done deal. The FRA regional offices are being asked to comment on the waiver and report back to Washington so that they can make their final decision. The regulation, as it stands now, still contains the requirement to renew the reflectors at 10 years.

My personal observations of many railcars, indicates that reflectors are capable of being effective well over 10 years in most cases. However, the effective life of reflectors on coal cars that are subjected to thaw sheds is another matter. I have seen many reflectors that have been literally "cooked." The surface of the decal is bubbled up and the color is noticeably dull. I suspect that certain types of lading that routinely come in contact with reflectors will also have an effect on their effectiveness as well. I know that AAR Field Manual Rule 66 mandates that reflectors will be inspected when Single Car Air Brake Tests are performed and defective reflectors will be addressed at that time. There are many things to consider when the FRA rules on the waiver.

The regulation, as it stands now, still contains the

requirement to renew the reflectors at 10 years.

If you wish to look at this in more detail you can do so by going to **www.regulations.gov**. It can be found under Docket Number FRA-2015-0105.

As always, Tealinc stands ready to employ our varied knowledge and talents to work for you.

Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. You may contact Steve directly out of our Nebraska office at (308) 675-0838 or via email at ***steve@tealinc.com****.*

Railroad Traffic

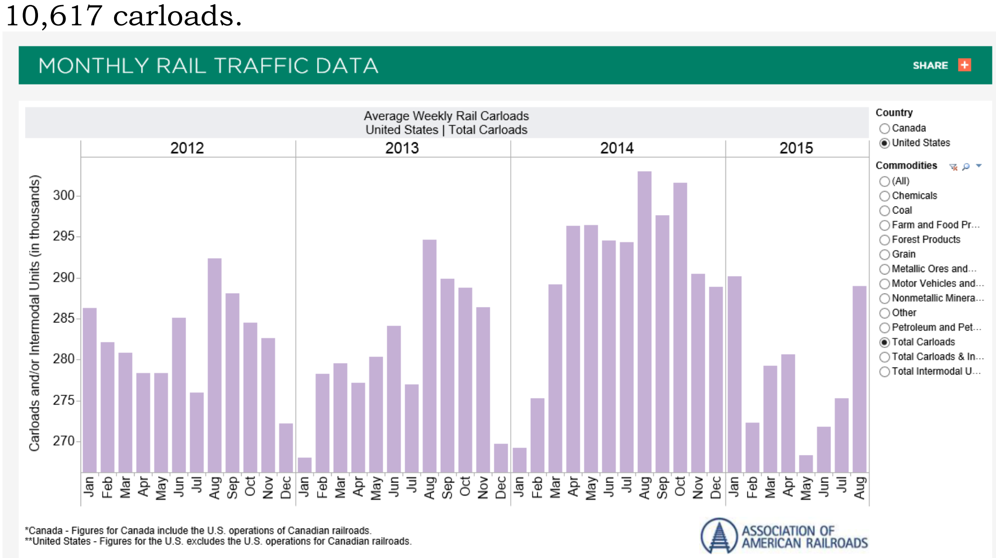
September U.S. carload traffic down 4.9 percent year over year

The Association of American Railroads (AAR) reported [October 7, 2015] weekly U.S. rail traffic, as well as volumes for September 2015 and the first nine months of 2015.

Carload traffic in September totaled 1,417,750 carloads, down 4.9 percent or 72,597 carloads from September 2014. U.S. railroads also originated 1,365,980 containers and trailers in September 2015, up 1.2 percent or 16,272 units from the same month last year. For September 2015, combined U.S. carload and intermodal originations were 2,783,730, down 2 percent or 56,325 carloads and intermodal units from September 2014.

September carloads of grain, misc. carloads, motor vehicles and parts up; carloads of coal, petroleum and petroleum products and primary metals down

In September 2015, six of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with September 2014. This included: grain, up 14.4 percent or 13,447 carloads; miscellaneous carloads, up 33.1 percent or 8,057 carloads; and motor vehicles and parts, up 4.9 percent or 4,239 carloads. Commodities that saw declines in September 2015 from September 2014 included: coal, down 8.2 percent or 46,085 carloads; petroleum and petroleum products, down 15.6 percent or 12,692 carloads; and primary metal products, down 18.9 percent or 10,617 carloads.



U.S. carload traffic for the first 9 months of 2015 down 4.4 percent

Excluding coal, carloads were down 2.9 percent or 26,512 carloads in September 2015 from September 2014.

Total U.S. carload traffic for the first nine months of 2015 was 10,880,686 carloads, down 4.4 percent or 495,827 carloads, while intermodal containers and trailers were 10,417,267 units, up 2.5 percent or 249,869 containers and trailers when compared to the same period in 2014. For the first nine months of 2015, total rail traffic volume in the United States was 21,297,953 carloads and intermodal units, down 1.1 percent or 245,958 carloads and intermodal units from the same point last year.

"Once again, U.S. rail traffic in September was down mainly because of declines in carloads related to energy and steel"

"Once again, U.S. rail traffic in September was down mainly because of declines in carloads related to energy and steel," said AAR Senior Vice President Policy and Economics John T. Gray. "Intermodal continues to do well while results vary for other commodity categories. As we head into the fall shipping season, railroads are confident they will be able to handle reliably and safely the traffic their customers send their way. Now, we just need a bit more cooperation from the economy."

Visit the AAR at:
https://www.aar.org/newsandevents/Press-Releases/Pages/2015-10-07-railtraffic.aspx

Industrial Inside

Crude oil continued lower [the week of October 19, 2015] as the market rejected prices above the $50 level on active month NYMEX crude oil futures. With both WTI and Brent now comfortably below $50 and prospects for commodities looking shaky at this point, these markets could be in for more losses in the sessions ahead. Technical action points lower in crude, as momentum is certainly negative. Fundamentals are also negative from both a macro and micro economic perspective.

Crude oil supplies are enormous; huge inventories weigh on price

These days, the world is awash in crude oil. In the United States, the Energy Information Administration reported on October 21, 2015 that crude oil inventories rose by 8 million barrels for the week ending on October 16, bringing total stockpiles to 476.6 million barrels. The prior week inventories rose by 7.6 million barrels. These are the highest inventory levels since April 2015. The stockpiles of U.S. crude oil rose for the fourth consecutive week. Over recent weeks, there have been some massive builds in U.S. crude inventories.

Brent crude has also been weak as OPEC members continue to pump record amounts of the energy commodity. [During the week of October 19, 2015] markets received two signs of a continuation of the global economic weakness that weighs on the demand side of the fundamental equation. ECB President Mario Draghi said that European interest rates are likely to move lower in December and signaled that quantitative easing could continue beyond the September 2016 deadline for the program. While lower interest rates are not necessarily bearish for commodity prices, including oil, economic lethargy is certainly a negative factor for demand.

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On October 23, 2015 the Chinese government cut domestic interest rates for the sixth time in 2015. The government continues to combat stagnant growth in the Asian nation with a number of economic tools including monetary policy. It is likely that economic numbers due out in the near future will show continued pressure on the Chinese economy. Economic weakness in China is negative for crude oil demand as the Chinese are the world's largest consumers of commodities by virtue of the size of their population. Recent data has pointed to China transitioning from a manufacturing-based economy to a consumer-based economy.

OPEC members and the Russians are continuing to pump and sell as much crude as possible onto the international market, which is yet another negative factor for price. The final approval of the deal with Iran that will ease sanctions just means more crude oil finding its way to the market.

Meanwhile, as inventories grow in the United States, there are signs that production will fall soon.

The price of crude oil looks like it has more room on the downside given the current state of market structure and momentum

At this juncture, the price of crude oil looks like it has more room on the downside given the current state of market structure and momentum. However, the one bright spot [during the week of October 19] was a shift in product inventories and a rise in crack spreads from low levels.

The truth about crude oil prices is that while fundamentals and technicals still favor downside price action, all that can change as we come closer to the December 4 biannual meeting of OPEC, the oil cartel. Last year OPEC said to the world, let it fall. The powerful producers in the cartel stated that they did not care if the price of oil fell; in fact, they welcomed a price that would curtail U.S. production from shale and build future market share for themselves.

Now, one year later, the cartel will meet again with many of its members suffering economic hardship and widespread cheating going on as members sell above the quota levels. The cartel has looked the other way as the production ceiling of 30 million barrels per day has been ignored and current production is running over 1.5 million barrels higher. That number is likely to increase now that sanctions on Iran have eased.

As one of the most political commodities in the world, any one of a number of events can turn the price of crude oil on a dime

As one of the most political commodities in the world, any one of a number of events can turn the price of crude oil on a dime. I expect increased volatility as we get closer to the OPEC meeting. The high odds play is that the cartel will not change policy and that they will remain on the same path in an effort to hand out more pain in the U.S. oil patch. That opens up the potential of a real price spike if they surprise the market with a production cut. While crude oil is likely to continue to drift lower, uncertainty surrounding the December 4 get together will prevent it from making new lows below $37.75 per barrel basis the active month NYMEX futures contract.

Keep your eyes on crude oil market structure, particularly processing spreads and the forward curve in the weeks ahead. These spreads could yield important clues as to short- and medium-term direction for the energy commodity. For a handle on the longer-term prospects, we will have to wait for the word from OPEC.

Read the entire article at:
http://seekingalpha.com/article/3601716-crude-oil-supplies-are-enormous

Financial Focus

Policymakers at the Federal Reserve have declined to raise interest rates yet again, to no one's great surprise. Barring a massive showing of economic strength, October was never really seen as an option for policy change. Instead, this month's meeting served as a place-setter for the final rate showdown of 2015, coming in December.

Fed too spooked to hike rates

In a somewhat unusual move, Fed policymakers on the Federal Open Market Committee, or FOMC, released their usual carefully worded statement but this time spelled out what would need to happen for a rate hike to come at the December meeting.

No rate hike means that the benchmark federal funds rate remains targeted at a record-low level between 0 and 25 basis points, or 0%-0.25%. Ultralow interest rates from the Fed keep a tight lid on CD and savings account rates while also pushing down the cost of consumer borrowing.

Fed's eyes are on jobs, China and the dollar

Interest rates have idled near 0 since December 2008, and the Fed would like to break the seal on a rate hike this year. That is, if the economic data cooperate.

"In determining whether it will be appropriate to raise the target range at its next meeting, the Committee will assess progress -- both realized and expected -- toward its objectives of maximum employment and 2 percent inflation," policymakers say in the statement released following the meeting.

The Fed's latest vote for inaction comes amid weaker U.S. hiring, economic trouble signs from China and challenges posed by the strong U.S. dollar.

"The Committee continues to see the risks to the outlook for economic activity and the labor market as nearly balanced but is monitoring global economic and financial developments," the statement says.

Murkiness in the economic picture

The fact is that the economic numbers are somewhat open to interpretation. For instance, the last employment report was considered a setback.

"Recent job growth numbers in the U.S. have been weaker than expected. The unemployment rate has fallen over recent years, but much of that rate decline is due to discouraged workers, those no longer looking for work," says Robert R. Johnson, president and CEO of The American College of Financial Services in Bryn Mawr, Pennsylvania.

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The central bank didn't seem to like the look of the recent jobs report either. "The pace of job gains slowed and the unemployment rate held steady," the statement notes.

But the jobs market may not be down for the count.

"The numbers that came out in September were disappointing, but the report dealt with job numbers for September and August. The jobs report

discouraged workers, those no longer looking for work"

"I don't believe that the Fed is in a position to raise rates in the near term and that the likely scenario is that they will not move on rates until March or April of 2016"

is notoriously unreliable in the summer, and other job market indicators show no evidence of softening," says Bernard Baumohl, chief global economist at The Economic Outlook Group.

Inflation, the second pillar of the Federal Reserve's mandate, has been increasing only slightly. An inflation reading closely watched by the Fed was up 1.3% year over year in August, a long way from the Fed's 2% goal. September's reading comes out at the end of this week.

So how about a December rate hike?

Federal funds rate futures offer an indication of when market participants believe the central bank will raise interest rates. The probability of a rate hike in December was only around 30% going into this week's meeting but jumped to close to 50% following the Fed's announcement, according to the CME Group. The futures market says the likelihood of a rate increase next year is much higher.

But Baumohl insists: "The odds are still high that the Fed will finally begin to lift rates before the year is out."

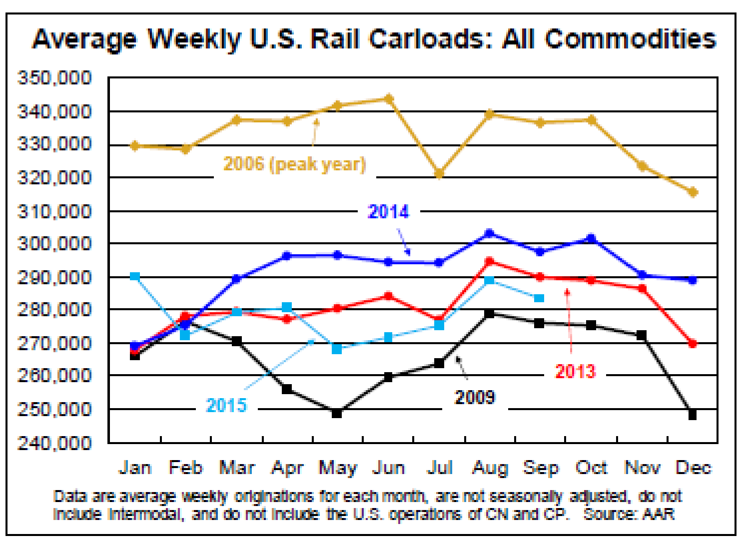
Johnson isn't convinced. "I don't believe that the Fed is in a position to raise rates in the near term and that the likely scenario is that they will not move on rates until March or April of 2016," he says.

Federal Reserve Board Chair Janet Yellen will testify before Congress on Dec. 3. Her testimony could clarify the central bank's view of the economy at that point. The final meeting of the year will wrap up on Dec. 16, and Yellen is scheduled to hold a news conference afterward.

Learn more at:
http://www.bankrate.com/financing/federal-reserve/fed-too-spooked-to-hike-rates/

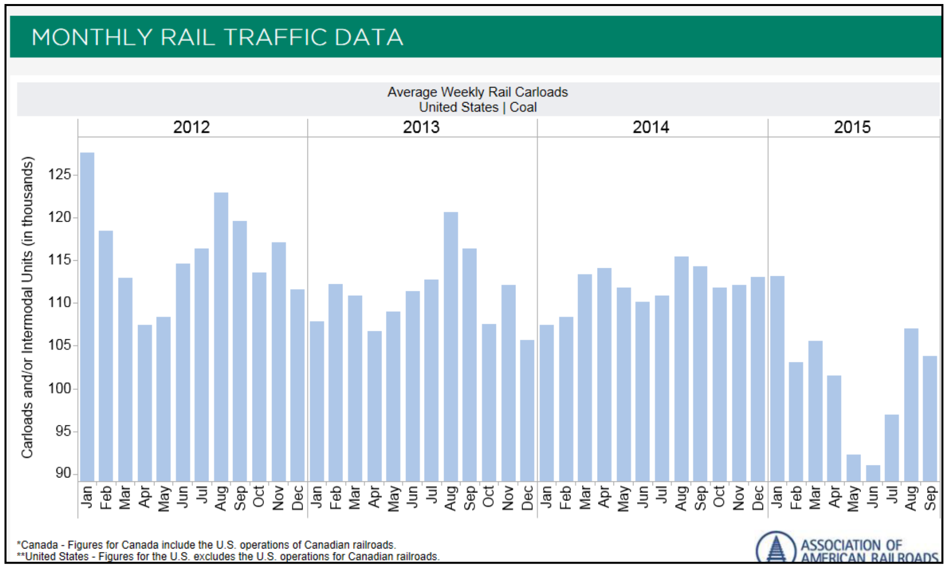
The Edge

November begins the cycle of budget planning for those of you who are on a calendar year basis for your fiscal year. It's always an interesting guess (mostly educated we hope) on what the new-year will bring into play. Of one thing we're certain: there's a lot of uncertainty across all commodity types. While we can't predict many of the outcomes, particularly in an election year, we certainly can raise awareness in the transportation sector.

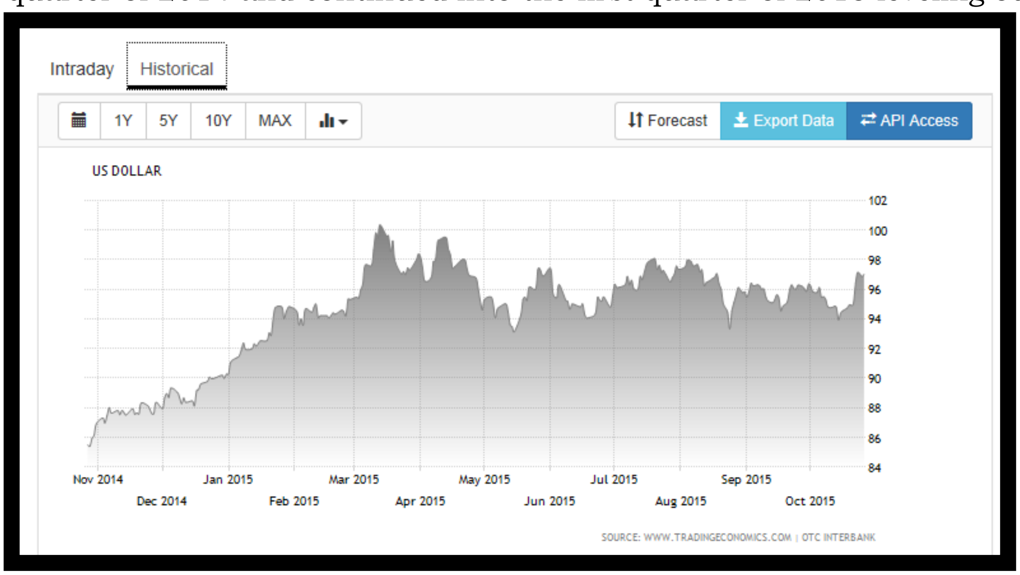


Current Situation. The United States has balanced itself from a supply and demand point on a worldwide basis. Supplying many raw materials (grain, coal, scrap metal, ores, oil, etc.) to other nations while fulfilling its' demand for finished goods (clothing, some automobiles, consumer goods, etc.) from these same and other nations. When it comes to actual manufacturing we've unwisely given much of it away. Note the average weekly U.S. Rail Carload chart above showing all commodities. Trends indicate seasonality and levels that are between a recessionary year (2009) and a recovery year (2013) but in either case not exuberant at any level.

Coal Railcar Originations. So what's effecting the rail world today? The number one rail carload generator on railroads, which is coal, is the most affected mostly by a political agenda and not by any true measure of supply and demand. In studying the chart to the right, one can only surmise that coal railcar loadings are suffering tremendously. Notice traffic in May and June were off tremendously and reports tell us that U.S. production was at its lowest level since 1987 in mid-2015. That kind of hit is hard to take for one industry and rail has surely taken a beating because of it.



Strong Dollar. Note the chart below of the U.S. Dollar index. Generally the higher the index the stronger the dollar in relation to other currencies. The dollars' strength ran up in the fourth quarter of 2014 and continued into the first quarter of 2015 leveling out at very strong numbers.



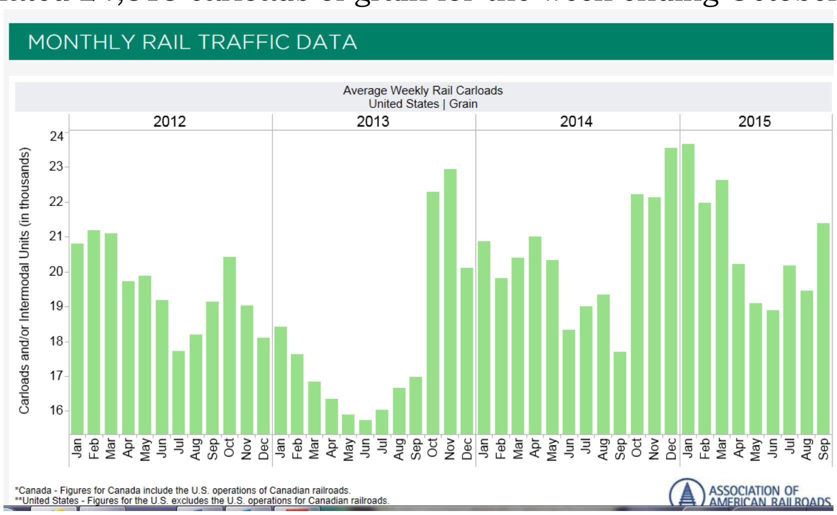
This strong dollar makes it more expensive for other countries to buy U.S. goods which in turn decrease exports for the U.S. For example scrap market pricing which eventually results in a large number of export tons has been hurt by the dollars relationship to currency valuations in Asia and Turkey both major scrap importing regions of the world.

China. The superpower is continuing to have economic health issues. China's central bank cut interest rates in October for the sixth time in less than a year. The one-year benchmark deposit rate was lowered by 25bps to 1.5% while the reserve requirement ratio was also cut by 50bps to 17.5% for China's biggest lenders. The world's second largest economy stepped up monetary easing to combat deflationary pressures and a slowing economy. Fresh stimulus considerations out of China, Japan and Europe could complicate U.S. monetary policy as the Federal Reserve is one of the only major banks still considering a rate hike. (Source: US Bank).

Grain Shipments. Grain shipments from a macro sense are pretty steady as she goes! The harvest of small grains and feed grains appears to be about on pace with expectations not setting any records but healthy nonetheless. The good thing about grain is people and animals have to eat and the U.S. being the breadbasket of the world is a major supplier of grains to the world. Following is a snapshot from the grain transportation report supplied by the USDA and after that a chart of grain originations from AAR statistics.

- Export Sales. For the week ending October 8, unshipped balances of wheat, corn, and soybeans totaled 31.1 mmt, down 29 percent from the same time last year. Net weekly wheat export sales of .460 mmt were up 60 percent from the prior week. Net corn export sales were .599 mmt, up 15 percent from the prior week, and net soybean export sales of 1.48 mmt were down 16 percent from the past week.

- Rail. U.S. Class I railroads originated 24,818 carloads of grain for the week ending October 10, down 1 percent from last week, up 22 percent from last year, and up 27 percent from the 3-year average. For the week ending October 15, average November shuttle secondary railcar bids/offers per car were $172 below tariff, down $22 from last week, and $2,345 lower than last year. Non-shuttle secondary railcar bids/offers were $50 below tariff, down $16 from last week, and $2,200 lower than last year.



- Barge. For the week ending October 17, barge grain movements totaled 760,040 tons, down 14 percent from last week, and up 25 percent from the same period last year. For the week ending October 17, 472 grain barges moved down river, down 14 percent from last week; 893 grain barges were unloaded in New Orleans, up 22 percent from the previous week.

- Ocean. For the week ending October 15, 45 ocean-going grain vessels were loaded in the Gulf, 2 percent more than the same period last year. Sixty vessels are expected to be loaded within the next 10 days, 23 percent more than the same period last year. For the week ending October 15, the ocean freight rate for shipping bulk grain from the Gulf to Japan was $33.25 per metric ton (mt), 1 percent more than the previous week. The cost of shipping from the PNW to Japan was $17.75 per mt, unchanged from the previous week.

Anticipated 2016 Key Indicators

While we can't profess to know all the key indicators that will gage the health of the economy, we do know that there are a few higher level indicators that measure the health of commerce in the United States and the world. In our opinion these indicators or items to watch are important to planning.

On a macro basis.

- **Value of dollar**. The value of the dollar is probably the number one measure of opportunity across world trade. When the cost of the dollar in relation to other world currency is high there is a tendency to constrict spending which results in less U.S. exports. This trend lowers the amount of barges, ships, rail logistics network requirements. In the near term you get better service because there's more capacity available to haul goods. In the long term operating costs get intense scrutiny and any variable cost items such as manpower required for direct operations, leased assets and general and administrative personnel are reduced. Albeit the under pinning network may have plenty of room for transporting your goods there are little excess operating assets available for deployment.

- **Energy businesses.** The energy business which includes coal, crude oil, natural gas and a host of supporting and dependent businesses overall health are significant drivers in the U.S. economies health. As the price of oil fluctuates, so does a significant portion of the economy. While a price of $100 per barrel oil is exorbitant, a $60 - $70 per barrel is healthy.   The price of gas and diesel in this country is more closely tied to refinery capacity than oil prices. Want to decrease the price of fuel? Encourage more refinery capacity by removing or streamlining the legal barriers to entry.
- **Grain business.** The grain business is dependent upon the weather as much as any other factor. If it rains at the right time so seeding, growing and harvesting are all optimally completed there will be large crops of various grain commodities. Large crops of commodities mean lower prices that are affordable to domestic and international destinations. We're in an El Nino year so predicting and determining the impact of weather will be a big factor if you're in this business line.
- **Stone, sand and gravel business.** As long as we get a long term fully funded highway bill that addresses infrastructure issues this business should be steady to positively growing. If not it will continue to scrape along with the private growth of the economy.

On a micro basis.

- **Railroad employment.** Railroads are big business being driven as much by the investment community as by customer requirements. They're in the untenable position of purported to being "wronged" by somebody or some group a good deal of the time. Not by choice but by the nature of their business. Railroads will adjust operating personnel (TY&E) to fit service requirements. This is the front line indicator that operating adjustments are being made. Consecutive with these moves surplus assets or variable leases will be sidelined. A deeper look will include administrative and executive personnel and a cut in maintenance of way personnel.
- **Rail equipment.** More railcars and locomotives will be placed in storage. Railcars stored will again be a measure of economic goods and manufacturing health.
- **Rail pricing.** See the first sentence of Railroad employment. Expect rate increases of five to ten percent unless you've got a contract stating otherwise.

We look forward to earning your business!