Tealinc — *Specializing in* Rail Transportation Solutions

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 –January 2019

In This Issue

- **Tealinc Equipment**
- **Tealinc Industry Events**
- **Tealinc Events**
- **Tealinc's 2019 Scholarship**
- **The Edge**
- **Mechanical Brief**
- **Railroad Traffic**
- **Industrial Inside**
- **Financial Focus**

Tealinc's bulkhead flatcars & open top hoppers

Kristen Kempson promoted to Manager Value Creation- Sales & Marketing

See You at MARS!

2019 Tealinc Scholarship Details

Tealinc Equipment- Bulkhead Flatcars & Open Tops

Tealinc has bulkhead flatcars available. The open car designed of a bulkhead flatcar allows for you to load and unload on either side of the railcar. The bulkheads protect the loads from shifting.

Tealinc also has open top hoppers available. Open top hoppers allow for easy loading of bulk commodities that are not affected by the weather.

Contact Tealinc for pricing options, car specs or to schedule an inspection!

Tealinc People & Places

We are excited to announce that Kristen Kempson has been promoted to Manager Value Creation – Sales & Marketing. **Read the Press Release.**

You can meet Tealinc's Kristen Kempson and Julie Mink at the **Midwest Association of Rail Shippers** (MARS) meeting held January 16-17 at the Westin in Lombard, IL.

Contact Kristen Kempson and Julie Mink direct to line up a meeting.

Tealinc 2019 Scholarship Announced!

Tealinc is now accepting applications for our 2019 scholarship! Applications are due April 1, 2019. **Learn more and download the Scholarship application.**

Tealinc, Ltd.

Specializing in Rail Transportation Solutions

Railcar & Locomotive Leasing and Brokerage

Project Management

Transportation Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327
Specializing in Rail Transportation Solutions for Customers in North America and Around the World
www.tealinc.com

Tealinc

Specializing in
Rail Transportation Solutions

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 –January 2019

Factors that will impact rail in 2019

Capacity crunch, rail rates and flexibility

In 2018 the trucking industry felt the capacity crunch

There is no lack of railcars or track infrastructure in any of the major railroad systems

The Edge with Darell Luther

Greetings! We hope you had a refreshing and pleasant holiday season and are now ready for another challenging year. I usually have words of wisdom that are of a larger magnitude in January and this year is no different. In preparing for this column I thought about what key factors will most impact the fundamentals of rail shipments in 2019. My list includes:

- Is the Industry getting set up for a Capacity Crunch?
- Rail Rates - where are they going?
- Flexibility - is it necessary?

I discuss in these topics how the changes, primarily at the railroad industry level, are going to impact the shipper and receiver. I'm not bashing the railroads. They are an industry with a significant amount of economic demands being place upon them by Wall Street and in kind they need to respond to their stockholders. The Railroads customers (you) need to be aware of how these changes and directional shifts could impact you.

Capacity Crunch. The trucking industry felt the capacity crunch in 2018. Leading factors were driver shortages, hours of service rules, autonomous trucks and major metropolitan expansion negatively effecting delivery times and increasing costs for the last mile network. Rail (railroads) in its pursuit of actions that drive down operating ratios are experiencing the same factors in a little different way.

There are little or no lack of railcars (possibly sans qualified tank cars and specialty cars), locomotives or track infrastructure (for the most part) in any of the major railroad systems in the US, Canada and Mexico. Skilled, trained personnel may be a different topic; however, there is a lack of wanting to employ

There is a lack to employ assets before they are necessary, which leads to capacity crunch for shippers and receivers

Rail rates on the rise in 2019

I surveyed several shippers and determined that rail rates between 2018 and 2019 have increase from a range of 4.5% to a medium of closer to 11%

assets before they are necessary and even then, railroads wait until there seems to be a lot of screaming at a congressional or Surface Transportation Board level before enlisting stored assets. If you're running to the tune of Wall Street, it's not a bad plan. If you're a shipper or receiver though the capacity crunch can make it rough to do business. Consider that there are as of December 2018, according to the Association of American Railroads, in storage 22,226 coal gondolas, 13,533 open top hoppers, 4,390 mill gondolas, 19,943 flat cars, 9,947 equipped gons, 95,698 covered hoppers, and 18,214 equipped hoppers (rapid discharge cars). Does that sound like a capacity crunch to you? That's an operating ratio crunch.

This capacity (operating ratio) crunch will make rail service even more challenging for 2019. Be sure to adjust as appropriate.

Rail Rates. Rail rates are going up. I could end this section right now with that statement. Let me give you some examples. I have been working on a project for the past nine months that finally came to fruition with the shipment of a few test railcars. Three times during the project I confirmed rail rates and they remained steady throughout the nine months. As with most rail rates, they were in tariff form subject to 30-day increases. There are very few contracts in the rail industry. The shipper began movement with a few carloads to their customer on December 7, 2018. The shipment moved quickly and was at destination on December 27, 2018. A new rate came into effect January 1, 2019. I called the railroad sales person (third that I'd talked with throughout the process) and asked why the rate had increased by 37% from 2018. I received what I took as the standard response, "our costs have gone up by that amount and we think it will handle the traffic". Hard to believe their costs have gone up 37%! This is an extreme example but during our business dealings I surveyed several shippers and determined that rail rates between 2018 and 2019 have increase from a range of 4.5% to a medium of closer to 11% with a few outliers closer to those which

Tealinc Touchbase Newsletter –January 2019

Railroads initial and systematic push for Precision Schedule Railroading continues to place more responsibility on the shipper and receivers of rail freight to absorb fluctuations in the shipping schedule

One important ramification to shippers and receivers are that they now must build in a cushion to have the ability to ship, receive, store and manage railcars at their physical locations- flexibility is key!

occurred to our customer. Precision Scheduled Railroading must also have a section about yield management that isn't publicly discussed. As the old saying goes you can only count on death and taxes and we should add rail rates to go up.

Flexibility. Do you know how to spell "accessorial charges"? That's the $100,000 question. Railroads initial and systematic push for Precision Schedule Railroading ("PSR") continues to place more responsibility on the shipper and receivers of rail freight to absorb fluctuations in the shipping schedule. Railroads want to deliver your railcar on time, every time. Not too early and certainly not late. Just right.

The absorption point in the rail system used to be the myriad of flat switching and hump yards across the nation. Now with PSR those yards that are not necessary to the success of getting a railcar from point a to point b are being mothballed or even eliminated from the rail networks across the US and Canada. One would think that's good for service – right? Naturally one would have to agree that it was – BUT – there are a few ramifications.

One important ramification to shippers and receivers are that they now must build in a cushion to have the ability to ship, receive, store and manage railcars at their physical locations. Consider that PSR schedules drive out operating costs and with that goes the ability to have flexibility in railcar movements. During the times of lots of yard activity there was enough room to absorb extra shipments, anomalies of the shipping cycle, plant shut downs or fast ramp ups. Not to say these inefficiencies are good. It's more along the lines of absorption points for more or less railcars to support the cycles of normal business won't exist on the railroads. Therefore, shippers and receivers will need to add railcar capacity and the requisite logistics infrastructure to be the shock absorber of the rail system.

Tealinc

Specializing in
Rail Transportation Solutions

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 –January 2019

Railroads cannot require a company to put in extra tracks, switches or capacity changes, however they can impose ordered by not used fines, penalties & inappropriate billing charges

You'll pay for it one way or the other. Let's suppose as a miner, manufacturer, agriculture processer, trader, reseller, importer, exporter, etc. that you don't have the infrastructure requirements necessary to be the absorption point for extra railcars. Can the railroad serving your facility require your company to put in extra track, switches or capacity changes to offload timelier or load timelier or to take extra equipment either ordered thru the railroad or private railcars controlled by you? No, they can't. They can however impose ordered by not used fines, private storage, demurrage penalties, inappropriate billing charges, etc. It really becomes a choice as to where you put your money – capital or operating.

We look forward to earning your business in 2019!

With all the announcements of PSR or variations of the PSR model and the pressure of Wall Street on the railroads to gaze inward to the investor power house community the process at least at this point isn't overly shipper or receiver friendly. Consider cost benefit tradeoffs between capital investments and more operating costs. We appreciate your business in 2018 and look forward to being of service in 2019. Feel free to give us a call or send an email if you have something you'd like to discuss.

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****.*

What I've learned about Tealinc: a company focused on critical issues that drive our customers profitability

Mechanical Brief with Dan Madden

While this section of the newsletter is typically a mechanically focused piece, I find it important since I joined the Tealinc team in November 2018 to share my experience with you and what I have learned about Tealinc thus far and its mission.

Tealinc

Specializing in Rail Transportation Solutions

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 –January 2019

Under Tealinc's model every customer is important, every issue is important and every opportunity to assist our customer is taken with the upmost consideration

Tealinc's business success requires an unwavering commitment to the customer operations

I am looking forward to learning and working with the Tealinc team and move our customers success to new levels being built on the foundations that Tealinc has established

Tealinc is a highly professionally company that is driven to provide detailed management opportunities to its customers and their rolling stock fleets and assistance in their day to day operations and create value to our customers

Under Tealinc's model every customer is important, every issue is important and every opportunity to assist our customer is taken with the upmost consideration to provide timely, consistent and accurate resolutions to any issue that arises.

Tealinc's staff has a wide variety experiences and expertise and they have all contributed to the knowledge I have gained during my time with the company. We take the time to identify and build relationships with key peers, mentors and advisors. The inner network provides support, direction and an increased number of people to assist in the operations.
Tealinc's business success requires an unwavering commitment to the customer. This commitment encompasses a mindset of understanding the customers world and understanding the customers wants and needs provides the business with greater opportunities and improves the transportation network of our customers.

Using the habit of adaptability allows the business to respond to circumstances and be flexible to the changes and expectations of our customers. This creates more time to focus on critical issues that drive our customers profitability and use of time.

I am looking forward to learning and working with the Tealinc team and move our customers success to new levels being built on the foundations that Tealinc has established.

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.

Tealinc, Ltd.

Celebrating 17 Years of Excellence

Specializing in Rail Transportation Solutions

Railcar & Locomotive Leasing and Brokerage

Project Management

Transportation Consulting

Tealinc

Specializing in Rail Transportation Solutions

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 –January 2019

December 2018 carloads up 2.9% compared to December 2017

Commodities that experienced a gain in December 2018 included coal, petroleum & petroleum products and chemicals

"U.S. freight rail traffic in 2018 was positive for the most part. Intermodal set a new annual record for the fifth time in the past six years, while carloads of chemicals and crushed stone, sand, and gravel set new annual records"

Railroad Traffic

The Association of American Railroads (AAR) today [January 3, 2019] reported U.S. rail traffic for the week ending December 29, 2018, as well as volumes for December 2018.

U.S. railroads originated 1,021,978 carloads in December 2018, up 2.9 percent, or 29,139 carloads, from December 2017. U.S. railroads also originated 1,096,116 containers and trailers in December 2018, up 5 percent, or 52,115 units, from the same month last year. Combined U.S. carload and intermodal originations in December 2018 were 2,118,094, up 4 percent, or 81,254 carloads and intermodal units from December 2017.

In December 2018, 12 of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with December 2017. These included: coal, up 12,382 carloads or 3.8 percent; petroleum & petroleum products, up 10,875 carloads or 26.5 percent; and chemicals, up 3,349 carloads or 2.7 percent. Commodities that saw declines in December 2018 from December 2017 included: crushed stone, sand & gravel, down 3,116 carloads or 4 percent; metallic ores, down 1,402 carloads or 5.3 percent; and stone, clay & glass products, down 938 carloads or 3.4 percent.

"U.S. freight rail traffic in 2018 was positive for the most part," said AAR Senior Vice President of Policy and Economics John T. Gray. "Intermodal set a new annual record for the fifth time in the past six years, while carloads of chemicals and crushed stone, sand, and gravel set new annual records. Petroleum products also had a mild resurgence. For the year, 13 of the 20 commodity categories we track saw increased carloads. On the negative side, coal continued to suffer in 2018 from market forces that favor natural gas and renewables for electricity

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 –January 2019

Carloads & intermodal in 2018 increased 3.7% compared to 2017

The lumber industry does not expect a 2019 recession

The lumber industry expects Spring 2019 to start off very well

generation. What happens in 2019 will depend on how the domestic and global economies hold up and the policies – particularly monetary and trade – that come out of our legislative and executive branches."

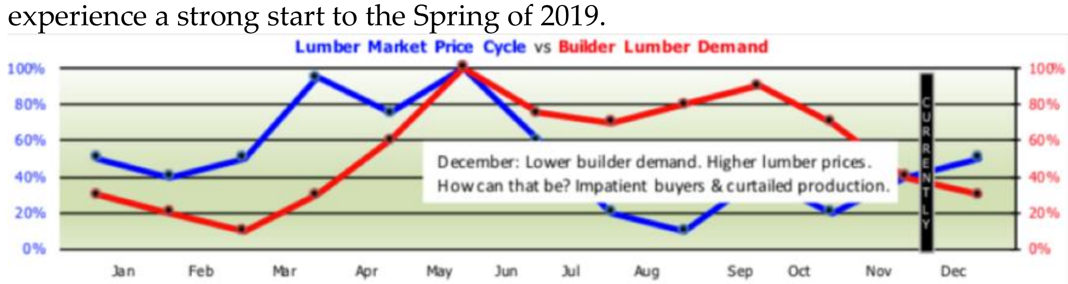
Excluding coal, carloads were up 16,757 carloads, or 2.5 percent, in December 2018 from December 2017. Excluding coal and grain, carloads were up 14,221 carloads, or 2.5 percent.

Total U.S. carload traffic for the first 12 months of 2018 was 13,640,641 carloads, up 1.8 percent, or 238,857 carloads, from the same period last year; and 14,472,849 intermodal units, up 5.5 percent, or 751,217 containers and trailers, from last year. Total combined U.S. traffic for the first 52 weeks of 2018 was 28,113,490 carloads and intermodal units, an increase of 3.7 percent compared to last year.

Visit the AAR at:https://www.aar.org/news/rail-traffic-for-december-and-the-week-ending-december-29-2018/

Industrial Inside

While there are larger perceptions that 2019 may bring a recession, the lumber industry does not seem to agree with this idea, and neither does Charlotte, N.C.-based consultant Matt Layman. In Layman's latest Lumber Market Forecast, he projects that despite his expectations for a slow January, the lumber industry will experience a strong start to the Spring of 2019.



Tealinc, Ltd.

Celebrating 17 Years of Excellence

Specializing in Rail Transportation Solutions

Railcar & Locomotive Leasing and Brokerage

Project Management

Transportation Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327

Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com

Tealinc

Specializing in
Rail Transportation Solutions

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.

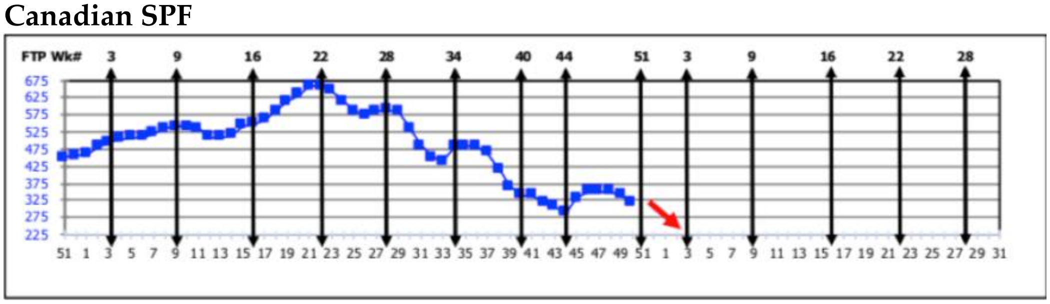
Tealinc Touchbase Newsletter –January 2019

The lumber industry expects Spring 2019 to start off very well, however Layman cautions against the desire for some in the industry to buy four to six months of inventory on the basis of industry optimism. According to Layman, the lumber market will trade indecisively into the penultimate week of 2018, leading to impatient buyers and curtailed production. This will create lower lumber prices during January 2019 and lower builder lumber demand. However, this weak projected month will not be enough to prevent a stronger start to the spring months next year.

Layman's analysis predicts halting rate increases for the market, affordable housing solutions, inexpensive lumber, trade cease fires, and massive nationwide pent-up demand in every region of the U.S. Subsequently, Layman believes that lumber demand will be very strong in Q2 & Q3 compared to a noisy and volatile first quarter. In addition to an overarching look at the lumber market for the short- and long-term, Layman also offers short- and long-term views on different types of lumbers through 2019 in his Market Forecast.

Layman believes that lumber demand will be very strong in Q2 & Q3 compared to a noisy and volatile first quarter

Canadian SPF



In the short-term, Canadian SPF could not muster enough new orders to get even a one-week order file, according to Layman. He believes the Canadian SPF market will remain vulnerable to noise and despite the declining market in the U.S. lumber market, the audience for the product is larger than ever.

Canadian SPF market will remain vulnerable to noise and despite the declining market in the U.S. lumber market

Tealinc, Ltd.

Celebrating 17 Years of Excellence

Specializing in Rail Transportation Solutions

Railcar & Locomotive Leasing and Brokerage

Project Management

Transportation Consulting

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327

Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com

Tealinc

Specializing in Rail Transportation Solutions

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 –January 2019

While local sales remain strong, western U.S. lumber producers have had prices pressured by the Canadian Dry Doug Fir, which has impacted peripheral markets.

Western U.S. Dry Fir Lumber

While local sales remain strong, western U.S. lumber producers have had prices pressured by the Canadian Dry Doug Fir, which has impacted peripheral markets.

Green Douglas Fir Lumber

According to Layman, price has not been an excuse for the GDF market for some time. And while builders may like for the current prices to get locked in for the year, underlying strength in the market "may get buried while those constructing a recession have their way for a couple more months."

Read the entire article at: https://www.prosalesmagazine.com/news/the-lumber-industry-does-not-expect-a-2019-recession_o

Dollar slides on bets of Fed pausing US rate hikes

"Fed Chair Powell's comments… helped support the impression that the Fed tightening cycle may slow or pause in the coming months"

Financial Focus

The dollar weakened on Monday [January 7, 2019], pressured by growing expectations the U.S. Federal Reserve will either pause or halt its interest rate hike cycle, with the euro and Swiss franc leading gains among its rivals.

Even after last week's strong U.S. jobs data for December, market watchers believe the world's biggest economy is losing momentum. Recent comments by Fed Chairman Jerome Powell have added to expectations the central bank may adopt a more cautious outlook.

On Friday [January 4, 2019], Powell told the American Economic Association that the Fed is not on a preset path of rate hikes and that it will be sensitive to the downside risks markets are pricing in. "Fed Chair Powell's comments Friday that policymakers were flexible and 'listening carefully' to financial markets helped

Tealinc, Ltd. | 1606 Rosebud Creek Road | Forsyth, MT 59327

Specializing in Rail Transportation Solutions for Customers in North America and Around the World

www.tealinc.com

support the impression that the Fed tightening cycle may slow or pause in the coming months," said Shaun Osborne, chief FX strategist at Scotiabank in Toronto.

He added that Fed funds futures continue to price in the small risk of a rate cut over the coming year, with roughly eight basis points of easing implied in the January 2019-January 2020 spread early on Monday.

In mid-morning trading, the dollar index was down 0.54 percent at 95.66, not far from a 2-1/2-month low of 95.68 hit last week. Money markets have priced out a U.S. rate hike this year and are even pricing in a small probability of a rate cut in 2020.

The Fed raised rates four times in 2018. Waning expectations of a U.S. rate hike boosted the euro, which rose 0.76 percent to $1.1478. The Swiss franc also gained sharply versus the dollar, which fell 0.72 percent to 0.9791 franc.

The dollar outperformed other currencies in 2018 on the back of a Fed being the only major central bank hiking rates. If it stays on hold in 2019, other currencies such as the euro might benefit.

The FX options markets is showing euro risk reversals - a gauge of calls to puts and a market sentiment gauge on the currency - have steadily climbed to their highest levels in more than six months as investors bet on more upside for the single currency.

News over the weekend of a Chinese policy stimulus, meanwhile, helped lift sentiment and boost commodity-focused currencies such as the Australian dollar, gaining 0.27 percent to $0.7131. Financial markets are also optimistic about a

Money markets have priced out a U.S. rate hike this year and are even pricing in a small probability of a rate cut in 2020

The dollar outperformed other currencies in 2018 on the back of a Fed being the only major central bank hiking rates

Tealinc

Specializing in Rail Transportation Solutions

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 –January 2019

meeting of U.S. officials and their counterparts in Beijing this week, the first face-to-face talks since U.S. President Donald Trump and Chinese President Xi Jinping agreed on Dec. 1 to a 90-day truce in their trade war.

Learn more at: https://www.cnbc.com/2019/01/07/forex-markets-the-fed-sino-us-trade-china-monetary-policy-in-focus.html

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

We look forward to earning your business!

Tealinc, Ltd.

Celebrating 17 Years of Excellence

Specializing in Rail Transportation Solutions

Railcar & Locomotive Leasing and Brokerage

Project Management

Transportation Consulting