



# Specializing in Rail Transportation Solutions

We are a railcar lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

## Tealinc Touchbase Newsletter –May 2019

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Price reduction- open top hoppers & bulkhead flatcars

Tealinc’s 2019 Scholarship recipients announced

The Edge: Operating Ratios

### Tealinc Equipment **\*\*Price Reduced-Open Top Hoppers & Bulkhead Flatcars\*\***

We have reduced our pricing on our open top hoppers and bulkhead flatcars for quick placement!

If you’re interested in learning more about leasing, purchasing or trading these cars, contact [Julie Mink](mailto:julie@tealinc.com) at [julie@tealinc.com](mailto:julie@tealinc.com) or 720-733-9922

Looking to buy, sell, lease or trade railcars?



Contact us or check out our [website](#) for current equipment listings!

### Tealinc’s 2019 Scholarship Recipients Announced

We received and reviewed multiple applications from talented students and we are excited to announce the two recipients for our 2019 Scholarship Program. You can read their biographies on our [website](#) or follow the links below to learn more.

Congratulations to this years’ hardworking recipients:

- [Andrew Beeler](#)
- [Emma Blakely](#)

### The Edge with Darell Luther

Precision Schedule Railroad continues to produce amazing operating and financial results for the railroads. If you’re an investor you can’t help but wonder when the ride slows down (maybe never). Look at Canadian Pacific Railroad results



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**BNSF continues to balance service, cost, investment and growth without being in an operating ratio contest**

**Service interruptions are causing shippers to seek private rail equipment**

**Contact Tealinc to find your private rail equipment and to learn more about our Rolling Stock Management Agreement**

breaking records on revenue and earnings and it's been a long time since PSR was installed at that railroad. It works if you're chasing operating ratio. CSX, UP, NS and many regionals and shortlines are following suit. Why not, Wall Street is rewarding the rush to operating ratio reduction.

However, one railroad continues to balance service, cost, investment and growth without being in an operating ratio contest with the others – the BNSF. You've got to hand it to Warren Buffet he's a long term investor and BNSF has treated his portfolio just fine (<http://www.berkshirehathaway.com/letters/2018ltr.pdf>)

I used to hold numerous operating, fleet management, marketing and financial positions at BNSF so I have a little insight on their working operations. That doesn't mean they're any easier to work with than any other railroad, but they deep down are interested in your business as is any other railroad. The BNSF though has a different, more well-balanced growth plan. The onslaught of PSR is having a legitimate impact on the shipment of many products as service schedules are figured out. We have visited with a good number of shippers that have had significant service changes as the result of PSR implementation most to the detriment of their ability to meet their rail shipment needs. It's more than a decrease in miles per day traveled by a railcar. It's actual revamping of switching services severely impacting shipper or receiver's ability to ship and receive their products. In many cases service interruptions are causing shippers to search out their own private equipment so they can control at least one part of the logistics process. We welcome your call or email if you find yourself needing a little research or a fleet of private railcars.

We're extremely busy here at Tealinc with railcars being renewed under lease, purchasing railcars to lease out to our customers, consulting projects and not surprisingly we're seeing consistent interest in our Rolling Stock Management

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**If you are experiencing equipment delays or need help understanding complex operating rules-[Tealinc can help!](#)**

Agreement services. As rail shipments continue to get jostled around and experience significant delays and the operating rules get more complex a little insight and expertise is proving to our customers to be extremely helpful.

We look forward to earning your business.

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](mailto:darell@tealinc.com).

**Incompatible metals:  
Aluminum vs. Steel**



This month I thought it would be a good idea to review the importance of using correct materials when repairing a railcar. When repairs are being made to a railcar it is important that the repairing party knows what materials they're working with, what materials were on the car originally and the correct repair procedures according to the repair material being used.

**Aluminum cars require the use of aluminum parts or else the car will experience metal deterioration**

Through Railinc – DDCT I recently received a notification that a Tealinc owned railcar, leased to a Tealinc customer and actively managed by Tealinc, had been bad ordered for dissimilar metals used for repair. In order to evaluate the car we had the car sent to a home shop so we could take a closer look. Once the car arrived at the repair shop, we had the car inspected and pictures taken in order to determine the reason for the bad order and understand what the necessary repairs entailed.

After reviewing the pictures, it was discovered that without our knowing it, temporary repairs had been made to the car using the wrong material. Since this was an all-aluminum bodied car, any repairs made should have been with

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**Mixing metals can create oxidation which lead to metal failure**

**Failure to railcar safety applications such as ladders and ladder treads can be critical**

**Metal failure is not always visible to the naked eye**

aluminum parts; however, we discovered that when repairs were made, the repairing party had used steel parts.



In the picture to the left, you can see where the repairs that were made whereby the repairing party replaced part of the end sill with steel angle instead of aluminum. If you're not familiar, aluminum and steel are not incompatible metals. Anytime two dissimilar metals come into contact, you run the risk of creating a corrosive environment whereby one of the

metals becomes sacrificial to the other. This could and most likely will lead to problems. In this case, plain steel was used with aluminum which can causes a galvanic reaction that consumes the metals where the two interface. In the event two dissimilar metals must be used, electrolysis can be used to prevent accelerated galvanic corrosion. Not only is this applicable to the materials being used, it also applies to the fasteners that will be used to secure the two items together.

In the picture to the right you will see an example of the two metals reacting to each other where galvanic corrosion has taken place. Dissimilar metals reacting to each other will eventually lead to a metal failure.



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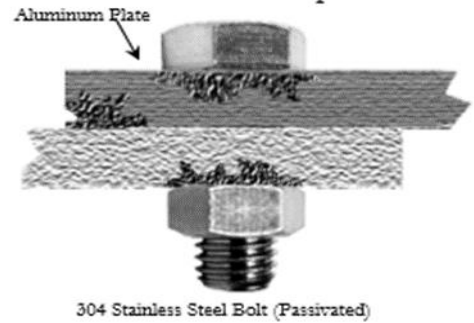
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**Be sure your railcars are being properly repaired and the correct parts are being used**

**Have a mechanical question? [Ask Dan!](#)**

**April 2019 carloads down .9% compared to April 2018**

This is especially critical when making repairs to safety appliances. End ladders and ladder treads are constantly in use and safety is always a priority. The picture to the right is an illustration of the metal deteriorating below the surfaces. This may not be visible to the naked eye and a failure may occur without any indications from the surface.



When a repairing party is making repairs to your railcars, make sure they know the correct repair procedures. These procedures should include understanding the metals they are working with and ensuring that they are compatible with each other. If you need help further analyzing your repairs, developing a scope of work for program work and inspecting repairs to ensure they are done correctly, please call on Tealinc. We stand ready to assist you!

*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](mailto:dan@tealinc.com).*

### Railroad Traffic

The Association of American Railroads (AAR) today [May 1, 2019] reported U.S. rail traffic for the week ending April 27, 2019, as well as volumes for April 2019.

U.S. railroads originated 1,041,544 carloads in April 2019, down 0.9 percent, or 9,130 carloads, from April 2018. U.S. railroads also originated 1,056,146 containers and trailers in April 2019, down 3.9 percent, or 42,832 units, from the same month

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**Commodities that experienced a gain were petroleum & petroleum products, coal & metallic ores**

**Carloads that experienced a decline were crushed stone, sand & gravel, grain and motor vehicles & parts**

**“Rail traffic in April was significantly improved compared with March, in part because railroads affected by severe flooding in the Midwest were able to return their operations more toward normal”**

last year. Combined U.S. carload and intermodal originations in April 2019 were 2,097,690, down 2.4 percent, or 51,962 carloads and intermodal units from April 2018.

In April 2019, six of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with April 2018. These included: petroleum & petroleum products, up 11,758 carloads or 29.5 percent; coal, up 5,732 carloads or 1.8 percent; and metallic ores, up 1,161 carloads or 5.0 percent. Commodities that saw declines in April 2019 from April 2018 included: crushed stone, sand & gravel, down 10,750 carloads or 10.1 percent; grain, down 4,605 carloads or 4.7 percent; and motor vehicles & parts, down 3,875 carloads or 5.4 percent.

“Rail traffic in April was significantly improved compared with March, in part because railroads affected by severe flooding in the Midwest were able to return their operations more toward normal,” said AAR Senior Vice President of Policy & Economics, John T. Gray. “It appears that some of the economic uncertainty that was prevalent earlier in the first quarter has dissipated, although concerns about trade issues may still be having an impact on rail volumes. However, as long as the economy continues to show life, it’s reasonable to think that rail traffic volumes will continue to improve in the coming months.”

Excluding coal, carloads were down 14,862 carloads, or 2.0 percent, in April 2019 from April 2018. Excluding coal and grain, carloads were down 10,257 carloads, or 1.6 percent.

Total U.S. carload traffic for the first four months of 2019 was 4,237,153 carloads, down 2.5 percent, or 109,930 carloads, from the same period last year; and 4,532,603 intermodal units, down 1.4 percent, or 62,724 containers and trailers, from last year.

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**China defies Trump with new round of tariffs on U.S. goods**

**U.S. has already raised tariffs on \$200 billion Chinese imports**

**China’s finance ministry has plans set to set import takes from 5%-25% starting June 1, 2019**

Total combined U.S. traffic for the first 17 weeks of 2019 was 8,769,756 carloads and intermodal units, a decrease of 1.9 percent compared to last year.

Visit the AAR at: <https://www.aar.org/>

### Industrial Inside

China said on Monday [May 13, 2019] it would impose higher tariffs on a range of U.S. goods including frozen vegetables and liquefied natural gas, striking back in its trade war with Washington after U.S. President Donald Trump warned it not to.

The move widely expected after the United States last week raised tariffs on \$200 billion in Chinese imports, heightened fears the world’s two largest economies were spiraling into a no-holds-barred dispute that could derail the global economy. China’s finance ministry said it plans to set import tariffs ranging from 5% to 25% on 5,140 U.S. products on a revised \$60 billion target list. It said the tariffs will take effect on June 1.

“China’s adjustment on additional tariffs is a response to U.S. unilateralism and protectionism,” the ministry said. “China hopes the U.S. will get back to the right track of bilateral trade and economic consultations and meet with China halfway.” The White House and U.S. Trade Representative’s office did not immediately respond to requests for comment.

Global equities tumbled, with MSCI’s gauge of stocks across the world on pace for its biggest one-day drop of 2019. Major Wall Street stock indexes were down about 2.5%. China’s yuan currency fell to its lowest level since December.

“It’s clear that there is a lot of nervousness around the U.S.-China trade negotiations and concern that it’s really deteriorating pretty significantly, and

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**China tried to delete commitments from a draft agreement that its laws would be changed to enact new policies on issues from intellectual property protection to forced technology transfers**

**U.S. tariffs caused China to impose taxes on soybeans, beef and pork**

that’s impacting all areas of markets,” said Kristina Hooper, chief global market strategist at Invesco in New York.

Earlier on Monday [May 13, 2019], Trump told China not to intensify the trade dispute and urged its leaders, including President Xi Jinping, to continue to work to reach a deal. “China should not retaliate-will only get worse,” Trump said on Twitter.

“I say openly to President Xi & all of my many friends in China that China will be hurt very badly if you don’t make a deal because companies will be forced to leave China for other countries,” he wrote.

The U.S. president, who has embraced protectionism as part of an “America First” agenda, stepped up his verbal attacks on China on Friday after two days of high-level trade talks in Washington ended with the two sides in an apparent stalemate. op White House economic adviser Larry Kudlow said on Sunday there was a “strong possibility” Trump will meet Xi at a G20 summit in Japan in late June. Trump has accused China of renegeing on commitments it made during months of trade negotiations, which Beijing has denied.

China tried to delete commitments from a draft agreement that its laws would be changed to enact new policies on issues from intellectual property protection to forced technology transfers. That dealt a major setback to the talks.

In the middle of the negotiations last week, Trump hiked tariffs on Chinese goods to 25% from 10%. The move affected 5,700 categories of Chinese products including internet modems, routers and similar devices.

Trump has since ordered U.S. Trade Representative Robert Lighthizer to begin the

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**Economists and industry consultants, maintain that it is U.S. businesses that will pay the costs and likely pass them on to consumers**

**Consumer spending accounts for more than two-thirds of U.S. economic activity**

process of imposing tariffs on all remaining imports from China, a move that would affect another \$300 billion worth of goods.

U.S. tariffs last year triggered retaliation by China, which imposed 25 percent levies on \$50 billion worth of U.S. products including soybeans, beef and pork and lower tariffs on a list of \$60 billion in goods.

Beijing said on Monday [May 13, 2019] it would “never surrender” to external pressure, and its state media kept up a steady drum beat of strongly-worded commentary, reiterating that the door to talks was always open, but vowing that China would defend its national interests and dignity.

In a commentary, state television said the effect of the U.S. tariffs on the Chinese economy was “totally controllable.”

“It’s no big deal. China is bound to turn crisis to opportunity and use this to test its abilities, to make the country even stronger.”

Trump has said he is in “no rush” to finalize a deal with China. In a tweet released after Beijing’s latest retaliation, he again defended the move to hike U.S. tariffs and said there was no reason why American consumers would pay the costs.

Economists and industry consultants, however, maintain that it is U.S. businesses that will pay the costs and likely pass them on to consumers. Consumer spending accounts for more than two-thirds of U.S. economic activity.

**Read the full article at: <https://www.reuters.com/article/us-usa-trade-china/china-defies-trump-with-new-round-of-tariffs-on-u-s-goods-idUSKCN1SI0B8>**

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**Market pricing in a 2019 Fed cut and bets emerge for even more**

**The rate on the January fed funds futures contract implies that the central bank’s benchmark will fall to 2.075% by the end of 2019**

**“It’s not about whether or not the Fed sees policy shifts, that is, as much as it’s looking at global growth woes, or increased market volatility.”**

### Financial Focus

Amid worries about the U.S.-China trade spat and the economy, traders are more convinced a quarter-point Federal Reserve rate cut is coming this year. Some appear to be betting on the possibility of more.

The rate on the January fed funds futures contract implies that the central bank’s benchmark will fall to 2.075% by the end of 2019. This is more than 25 basis points below where the effective fed funds rate stood Friday [May 10, 2019], showing traders are fully pricing in a quarter-point reduction. The implied rate on the contract ended last week at 2.15%.

In the eurodollar options market, a bet cropped up on Monday [May 13, 2019] suggesting that as many as three quarter-point cuts could be in the works this year. A call structure position has emerged that targets 50 to 75 basis points of reductions by mid-October, according to information from a Chicago trader, who asked not to be identified because they’re not authorized to speak publicly. The premium on the bet appeared to be around \$2.5 million.

This is happening as China threatens retaliatory tariffs on some American imports - an escalation in the trade war with U.S. President Donald Trump. The clash is fueling concern about economic growth, prompting a key part of the U.S. yield curve to invert again -- a sign to many that the risk of a recession has increased.

While “China/U.S. trade ripple effects certainly affect the Fed’s outlook, I think this is more of a macro move,” said Todd Colvin, senior vice president at futures and options broker Ambrosino Brothers in Chicago. “It’s not about whether or not the Fed sees policy shifts, that is, as much as it’s looking at global growth woes, or increased market volatility.”

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**Fed Chairman Jerome Powell included uncertainty around unresolved trade negotiations as one of many cross currents that posed risks to the Fed’s outlook**

### Primed to Cut?

Futures now pricing fed funds to drop by at least 25 basis points by year-end



At his press conference following this month’s Federal Open Market Committee meeting on May 1, Fed Chairman Jerome Powell included uncertainty around unresolved trade negotiations as one of many cross currents that posed risks to the Fed’s outlook. He added that the risks had moderated somewhat.

Yields on 3-month Treasuries are again higher than those on 10-year notes, an atypical relationship that also briefly occurred in March. The move back toward this rate inversion picked up steam about a week ago when Trump said he’d increase tariffs on Chinese goods. On Monday [May 13, 2019], the yield on 2-year Treasuries touched 2.17%, approaching the 2019 low of 2.16% set on March 27.

Learn more at: <https://www.bloomberg.com/news/articles/2019-05-13/market-odds-of-fed-easing-rise-as-china-u-s-spat-clouds-outlook>

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### Union Pacific implements Unified Plan 2020

January 1, 2019 – “Not  
prepared for service”  
tariff was started

\$400 per car, per  
occurrence would  
apply if the railroad is  
unable to deliver or  
pick-up rail cars due to  
a customer’s action

### Railroad & Policy Updates

Union Pacific has been focused on implementing Unified Plan 2020 in order to provide more reliable service to our customers. Our customers play a critical role by being prepared for service so that our crews can deliver and pick-up rail cars within customer facilities in a timely manner. Union Pacific took steps to encourage this behavior by sharing the Be Prepared for Service reference material with our customers on November 5, 2018. We also notified customers of our new "Not Prepared for Service" tariff (UP 6004 Item 9055) that became effective on January 1, 2019. This tariff initially stated that a charge of **\$400 per car, per occurrence**, would apply if the railroad is unable to deliver or pick-up rail cars due to a customer’s actions. Since the inception of the tariff January 1, Union Pacific has been charging on a per occurrence, rather than a per car fee. The application of the per occurrence billing is generating a positive trend toward aligning behaviors that produce a more reliable service product, with a greater percentage of cars being accessible and ready to pick-up from (and deliver into) industry.

Visit the Union Pacific press release at:

<https://www.up.com/customers/announcements/CustomerNews/allcustomernews/CN2019-30.html>

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