



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 – September 2019

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Tealinc - we solve rail transportation challenges

“I see potential for rail transportation growth”

Tealinc Equipment & Services




Reason to Call Tealinc, Ltd.:

- ✓ Large Portfolio of Used Railcars
- ✓ Realtime Tracking and Repair Support
- ✓ Rail Logistics Support & Consulting
- ✓ Flexible Pricing Options
- ✓ Quick Turnaround
- ✓ Exceptional Customer Service

Call us today! We'd be happy to discuss your rail needs!

New to Rail or Not Sure if Rail is Right for You? We have over 115 years of rail experience. We handle the details so you don't have to which will allow you to concentrate on your core competencies. Schedule a call today!

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The Edge with Darell Luther



First the glum news... we're in a transportation slump. Rail carloads continue to trend lower. The total US carloads as reported by the AAR shows the U.S. average railcar loadings per week trending down 5.3% through July 2019 when compared to the same month prior year. The last five consecutive months has shown this trend of decreasing rail carloads showing negative gains in all months but January. Annual carloads continue to decline with the on-going downturn in coal traffic and grain and a slump in intermodal. Coal continues to

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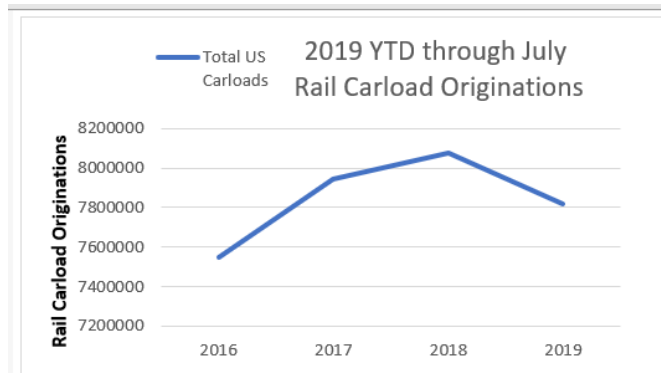
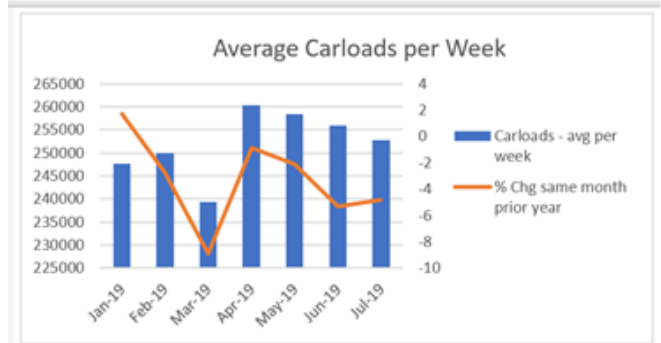
Annual carloads continue to decline with the on-going downturn in coal traffic and grain and a slump in intermodal

Headwinds that are likely to continue into the foreseeable future.

struggle against political headwinds and natural gas pricing. Headwinds that are likely to continue into the foreseeable future.

Grain is subject to world markets, currency valuations and political gamesmanship. Big picture plain and simple, grain is taking a beating. Since 2006 there's been little recovery in carload gains. And trade isn't getting any more stable. China responded to the trade war on Monday, August 5, 2019, the Yuan tumbled to the weakest level since the financial crises and asked state-owned companies suspended imports of US agricultural products (source: US Bank) driving yet another nail in the coffin of grain export market prospects.

When one looks at the options to rail transportation such as barge and truck markets' one sees the same kind of dynamic although not entirely for the same reason. Yes, demand for transportation of all kinds is down but the most recent nail in the coffin for the trucking world seems to be insurance costs and insurance requirements. This on top of a plate full of issues already in place such as ELD,



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Despite the downturn and trade war induced decrease in bulk commodity shipments I see potential for rail transportation growth

So where does a railroad get its new business? Either it's a greenfield operation, expansion of existing business or a new customer who has never been on rail.

For the past 17 years, our team at Tealinc has instrumental in bringing new business to rail

When railcars are utilized we're

driver shortages, safe parking, etc. This greatly affects the smaller trucking companies and independent drivers and adds additional costs to running a trucking company. The perfect storm to test your mettle to weather, poor demand and higher cost of operations. It all seems like a real challenge. Barges generally haul a lot of bulk commodities such as coal, coke, grain, minerals, etc. Note the business impact we're seeing in rail for these bulk commodities... not a pretty picture.

So where does a railroad get its new business?

Despite the downturn and trade war induced decrease in bulk commodity shipments I see potential for rail transportation growth. So where does a railroad get its new business? Either it's a greenfield operation, expansion of existing business or a new customer who has never been on rail. About a month ago I wrote an [article on rail demand](#) and if the railroads would have the capacity to meet a surge in pent up demand. Sounds pretty optimistic doesn't it?

For the past 17 years, our team at Tealinc has instrumental in bringing new business to rail. We often displace or complement truck business and we frequently get to help start a new business' transportation plan. Doing so often times requires us to sign up to manage the operations once we've gotten our client set up which allows and requires us to participate and monitor progress. This business ranges from long haul unit train and manifest business to short haul unit train and manifest business.

The reality remains: railcar loadings are in a years long slump. At the same time, most railroads grow from existing business which, if you look at any number of indexes you can easily see that number isn't flourishing. Often times railroad growth can mean poaching business from competitors. This doesn't happen too often since most rail competition is duopolistic and it's easy enough to wield

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completing our commitment to provide value to our customers by leasing, buying, selling and trading equipment

If you're new to rail touch base with us, we'd be happy to answer your questions or engage in a project with you

Intense preparation for a railcar inspection is as important as the inspection itself

discipline in those markets. Growth can also come from poaching business from truck where there is still a bucket full of opportunity or from new business located along rail lines requiring exemplary customer service.

Here at Tealinc, no matter how we're supporting your business and shipping objectives, we enjoy bringing business to rail. When railcars are utilized we're completing our mission by creating value to our customers by leasing, buying, selling and trading equipment and that's also a strong business line for us. I believe there's pent up demand for more rail business that will require more focus on the customer and less on meeting Wall Street's requirements. In the long run it should yield returns that meet or exceed Wall Streets' expectations. Will it fix the complete slide that's occurred over the past few years? No. It should though provide a better foundation for all involved

If you're new to rail feel free to touch base with us, we'd be happy to answer your questions or engage in a project with you.

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 Dan Madden



It's often said that the key to success is preparation. Preparation is something successful people do and the preparation for an event is as important as the event itself. Athletes prepare, sports teams prepare, airline pilots prepare, professional speakers prepare. Before I go out into the field to inspect railcars, whether for new or existing railcars in the Tealinc fleet, inspecting railcars for Tealinc or customer purchase or lease or inspecting railcars on a consulting assignment to support customer business and

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In fact, there are many long hours and many late nights put in gathering the information needed to complete the inspection and reporting requirements, reviewing UMLER, EHMS and maintenance records and making notations for missing or concerning issues

Tealinc’s pre-inspection processes ensure I cover all the needed materials and requirements to complete a thorough inspection

shipping needs, I spend a great deal of time preparing. I always prepare and make a plan on the task that I need to accomplish during my inspections.

During my pre-inspection process I make sure I gather all that the information that is available to me prior to my actual inspection of the equipment. My first step in the process is to make sure I have all of the equipment numbers that I will be inspecting and then I identify where the equipment is located. After I know where the equipment is located, I establish an on-site contact to ensure I can safely inspect the cars, I complete any insurance or waiver documentation required and I make arrangements to have an escort attend the inspection (where needed) for safety requirements.

Once I have confirmed the availability of the equipment for the inspection, I run and review all available reports. There are several options for gathering data that I use and I make sure I take advantage of all available sources that will support my data collection processes. Preparing for the inspections is not always fun. In fact, there are many long hours and many late nights put in gathering the information needed to complete the inspection. My preparation includes:

- Reviewing manufacturer specs
- Pulling, saving and reviewing UMLER records
- Pulling, recording and reviewing EHMS records, issues and warnings, and
- Reviewing maintenance records and making notations for missing or concerning issues

During the preparation it’s important to focus on what the records are telling me and to focus on the details – even the minor details. The hours I spend in this phase count. I use those hours wisely to prepare a positive pre-inspection platform for the group of cars I will be inspecting.

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Looking to lease railcars? We'll split the inspection costs with you and share our thorough inspection report with you. Contact us to get started.

I know that if I do all the right steps above, I will be ready for the inspection and once I'm on-site I'll be ready to look for issues identified during my preparation to include potential componentry failures or stresses, fatigued parts and other areas of concern identified during my pre-inspection preparation. Tealinc's pre-inspection processes ensure I cover all the needed materials and requirements to complete a thorough inspection and I know the report that I prepare will be detailed and thorough for Tealinc internal review and/or for our customers review.

Tealinc's Team is well versed in supporting our customers equipment, mechanical and maintenance needs. These processes and the knowledge and support we provide ensures our customer service success. We look forward to focusing on your specific project needs!

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.

Railroad Traffic

The Association of American Railroads (AAR) reported [on August 7, 2019] U.S. rail traffic for the week ending August 3, 2019, as well as volumes for July 2019.

U.S. railroads originated 1,264,100 carloads in July 2019, down 4.8 percent, or 64,406 carloads, from July 2018. U.S. railroads also originated 1,314,333 containers and trailers in July 2019, down 6.1 percent, or 84,878 units, from the same month last year. Combined U.S. carload and intermodal originations in July 2019 were 2,578,433, down 5.5 percent, or 149,284 carloads and intermodal units from July 2018.

July 2019 carloadings down from July 2018

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Carloadings of petroleum & petroleum products; and metallic ores up; coal, crushed stone, sand & gravel and primary metal products, down

“Rail traffic in July, as in many other recent months, was held back by declines in three of the largest rail traffic segments, coal, grain, and intermodal”

Total U.S. carload traffic for the first seven months of 2019 was down 3.2 percent

In July 2019, six of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with July 2018. These included: petroleum & petroleum products, up 6,465 carloads or 11.5 percent; all other carloads, up 2,866 carloads or 9.9 percent; and metallic ores, up 2,456 carloads or 7.7 percent. Commodities that saw declines in July 2019 from July 2018 included: coal, down 43,954 carloads or 10.3 percent; crushed stone, sand & gravel, down 6,350 carloads or 5.1 percent; and primary metal products, down 4,884 carloads or 9.9 percent.

“Rail traffic in July, as in many other recent months, was held back by declines in three of the largest rail traffic segments, coal, grain, and intermodal,” said AAR Senior Vice President of Policy and Economics John T. Gray. “Despite a summer heat wave of historical proportions, very low prices for natural gas have seriously weakened the seasonal demand for coal-generated electrical power. These same low natural gas prices appear to have allowed chemical production to pretty much hold steady even in the face of the uncertainty around foreign trade which has been the source of much of the recent growth in chemical production. With fifty percent of rail intermodal business which is overseas – including international trade, both imports of consumer and intermediate manufacturing components and exports such as food products – trade policy uncertainty continues to drag down this traffic segment. Export grain movements are also facing increasingly serious headwinds from threats to trade policy stability.”

Excluding coal, carloads were down 20,452 carloads, or 2.3 percent, in July 2019 from July 2018. Excluding coal and grain, carloads were down 16,794 carloads, or 2.2 percent.

Total U.S. carload traffic for the first seven months of 2019 was 7,816,318 carloads, down 3.2 percent, or 259,574 carloads, from the same period last year; and 8,238,594 intermodal units, down 3.7 percent, or 314,125 containers and trailers,

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Crude steel production in July increases year over year

China's crude steel production for July was 5 percent more than it produced in July 2018

from last year.

Visit the AAR at:

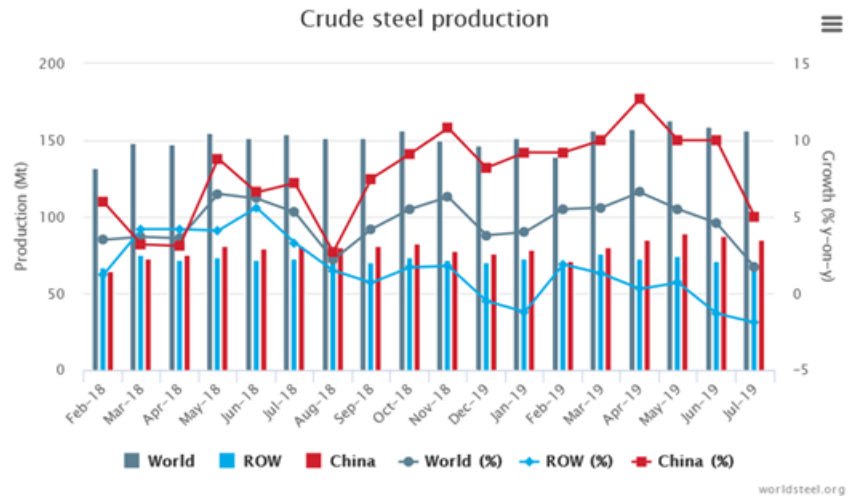
<https://www.aar.org/news/rail-traffic-for-july-the-week-ending-august-3-2019/>

Industrial Inside

Nearly 157 million metric tons of crude steel were produced in July by the 64 countries reporting to the World Steel Association (Worldsteel), Brussels, an increase of 1.7 percent compared with July 2018.

China's crude steel production for July was 85.2 million metric tons, or 5 percent more than it produced in July 2018. The country produced 2.3 million metric tons more steel in the previous month.

Of the other Asian nations that report to Worldsteel, India produced 9.2 million metric tons of crude steel in July, an increase of 1.7 percent compared with July 2018 and nearly on par with the 9.3 million metric tons it produced in June of this year. Japan and South Korea both saw their crude steel production decrease



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The U.S. saw a modest gain in production of 1.8 percent compared with July 2018, having produced 7.5 million metric tons of crude steel in July

relative to July 2018, with Japan making 0.4 percent less at 8.4 million metric tons, while South Korea’s 6 million metric tons was a decrease of 2.1 percent compared with July 2018. In June, these countries produced 8.8 million metric tons and 6 million metric tons, respectively.

The U.S. saw a modest gain in production of 1.8 percent compared with July 2018, having produced 7.5 million metric tons of crude steel in July. The country made 7.3 metric tons of crude steel in June.

Brazil’s crude steel production for July was 2.4 million metric tons, a decline of 20.7 percent compared with July 2018. July production also declined slightly from the previous month, when it was at 2.8 million metric tons, according to Worldsteel. Turkey also saw its year-over-year July crude steel production decline by double digits in July. At 2.9 million metric tons, the country produced 10.6 percent less crude steel than in July 2018. In June, Turkey produced 2.7 million metric tons of crude steel per Worldsteel. July crude steel production in Ukraine was 1.8 million metric tons, 1.7 percent less than the country produced in July 2018 and slightly more than the 1.7 million metric tons it made in June.

Read the entire article at:

<https://www.fnarena.com/index.php/2019/08/21/material-matters-gold-rises-nickel-shines-iron-ore-suffers/>

Financial Focus

Fed officials are divided over whether the economy needs more rate cuts

A week after a key recession warning flashed for the first time in more than a decade, Federal Reserve policymakers have become increasingly divided over how to weigh signs of strain on the economy against still solid growth.

The policy-setting Federal Open Market Committee (FOMC) was already starkly

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Unemployment levels have held near historic lows for much of the year. Consumer spending, which accounts for more than two-thirds of economic activity, has outperformed expectations

split on the decision to lower its benchmark interest rate by a quarter percentage point in July at its last meeting. Some thought that a larger cut should have been made, minutes out [August 22, 2019] showed, while others were firmly against adjusting at all. "The events since the July meeting will only drive those two factions further apart and present a real challenge for Chairman Powell as he tries to present a united front ahead of the September meeting," Curt Long, the chief economist at the National Association of Federally-Insured Credit Unions, said.

The yield curve inverted last week for the first time since before the global financial crisis in 2007, which sent financial markets sharply lower as investors saw it as a signal of a recession ahead. Business investment and factory activity have weakened in recent months.

But other measures of growth have held up better than expected ahead of the September 18 FOMC announcement. Unemployment levels have held near historic lows for much of the year. Consumer spending, which accounts for more than two-thirds of economic activity, has outperformed expectations.

The minutes said inflation readings, which have come in below target for months, were a main driver behind the July cut. In a Financial Times op-ed on [August 22, 2019], Minneapolis Fed President Neel Kashkari said the FOMC should commit to not raising interest rates until inflation hits 2%. "Absent some surprise reversal in these economic developments, I will argue that we should not only cut the federal funds rate, but that we should also use forward guidance to provide even more of a boost to the economy than a rate cut alone can deliver," he wrote. Kashkari said if policymakers were to preemptively signal that rates would remain low, they might be able to avoid lowering interest rates to zero.

Learn more at: <https://markets.businessinsider.com/news/stocks/trump-economy-interest-rates->

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Major Changes are Being Made to the Loading Authority Application

The Loading Authority portions of AAR Circular OT-5 will be deleted. A new Circular, OT-57, will be published with new requirements

Implementation of the new system is anticipated to be in early 2020

[federal-reserve-split-on-next-move-2019-8-1028467749](https://www.federalreserve.gov/pressrel/2019081028467749.htm)

Railroad & Policy Updates

Major Changes are Being Made to the Loading Authority Application

The Loading Authority portions of AAR Circular OT-5 will be deleted. A new Circular, OT-57, will be published with new requirements. Circular OT-57 will describe a streamlined private car registration process. Railinc is currently developing this new system with the help of the North America Freight Car Association (NAFCA) and the Association of American Railroads (AAR).

- Railroads will no longer approve private cars for loading
- Mechanical data will not be reviewed as part of the registration process
- Commodity information will no longer be required
- Loading point information will no longer be required
- Management tools will be included that will make managing fleets in the new system much easier

The following information will be required in the new system:

- Contact Name, Number and E-mail (registered in FindUs.Rail)
- Storage location(s) (Delivering railroad, FSAC, SPLC, CIF)
- Car initial and number (Uploaded via CSV or entered manually)

Implementation of the new system is anticipated to be in early 2020. Preliminary steps can be taken now.

What You Need to Do

If you are a Controlling Entity for a fleet of private marked railcars in the Loading Authority (OT-5) system, you will need to be registered in FindUs.Rail as a

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Loading Authority (Circular OT-57) contact for your company. This will allow you to be selected and as a contact person in the new system.

Refer to the Add a FindUs.Rail Contact Quick Guide for information on adding and updating FindUs.Rail contacts. If you need assistance entering your contact information in FindUs.Rail, contact Railinc using the information listed below.

Additional information about the registration process will be provided as the development progresses.

Learn more at: www.railinc.com

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 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!

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