Tealinc
Specializing in
Rail Transportation Solutions

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

Tealinc Touchbase Newsletter – December 2019

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Cyber Monday… RAIL TUESDAY!

A year in review… "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity …"

Tealinc Equipment - Cyber Monday… RAIL TUESDAY!

It's that time of year for holiday shopping and what better shopping than that of your own private railcars.

Lease, buy, even sell your railcars with Tealinc.

Only a few more weeks before the 2020. It's a great time to secure the rail equipment you need to start the new year off right.

Shop online at www.tealinc.com or email webmail@tealinc.com for all your railcar needs

The Edge with Darell Luther

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity …" (Para. 1, Line, 1, Charles Dickens, Tale of Two Cities). This passage suggests an age of radical opposites taking place across the English Channel, in France and the United Kingdom respectively. It tells a story of contrasts and comparisons between London and Paris during the French revolution.

We have a similar contrast today between railcar loadings reflecting the worst of times for shippers trying to move volumes of bulk products and Class I railroad earnings showing record profits through Precision Scheduled Railroading and yield management actions resulting in higher transport costs and uncertain service for shippers.

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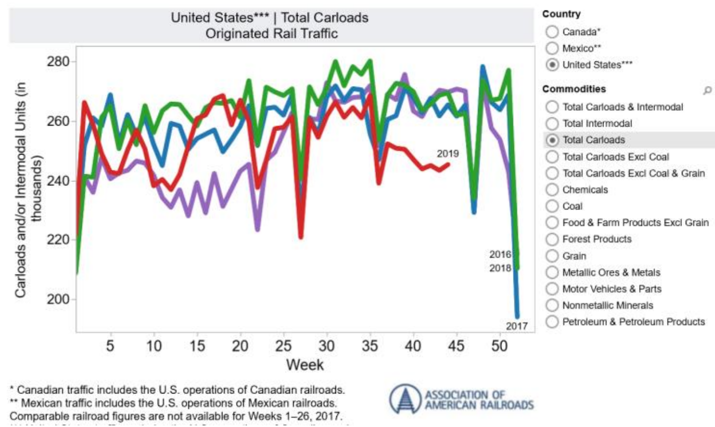
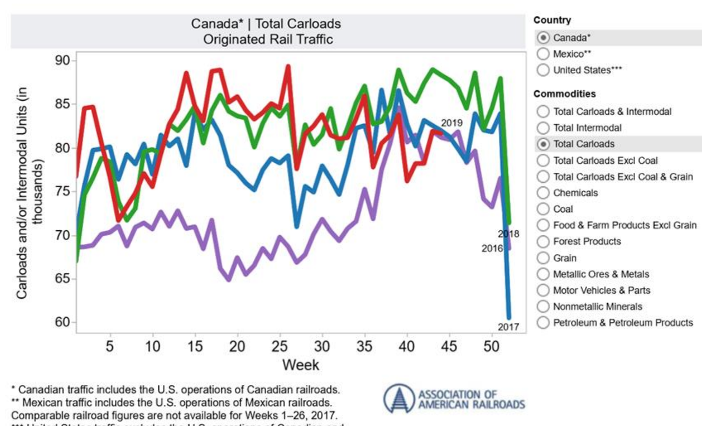
Contrast today between railcar loadings reflecting the worst of times for shippers trying to move volumes of bulk products and Class I railroad earnings showing record profits through PSR and yield management actions resulting in higher transport costs and uncertain service for shippers

The year of 2019 wasn't a record breaker when it comes to U.S. rail traffic. When compared to 2018 total carloads were down (through October 2019) 497,121 rail carloads, a significant hit to any progression in the rail volume business. That's a 4.3% decrease on some 11.58 million total carloads or an average of some 49,700 carloads per month. Certainly, the worst of times if you're a coal company, grain producer or grain processer. The Canadian provinces are faring a bit better with decreases of only 0.1% or some 4,388 rail carloads on total 2019 carloads of 3.599 million.



A graphic recap, courtesy of the Association of American Railroads, for the United States and Canada are to the right. 2019 is depicted in red for good reason!

Year to date through October 2019 there are 11,721,870 railcar loads. Of the 497,121 decrease in railcar loadings the largest commodity groups contributing to the deficit railcar loadings are coal with a miss of 290,789 railcar originations at 30.9% of the total railcar loads, followed at distant second by grain and grain mill products racking up a loss of 89,890 railcar loadings at 14.7% of the total railcar loads. In third place is nonmetallic minerals comprised largely of frac sand hitting a minus



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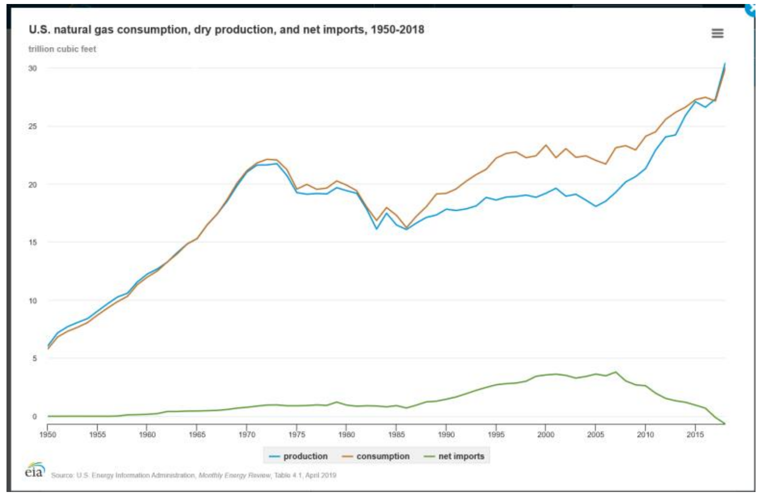
71,153 railcar loadings at 13.8% of the total railcar loads. In fourth place is chemicals and petroleum products with losses of 69,798 railcar loadings comprised mostly of petroleum products holding a 17.8% loss of the total railcar loads. In fifth place is metallic ores and minerals showing a loss of 66,518 railcar loadings or 8.7% of the total of the railcar loads. All together these commodity groups represent approximately 86% of the total railcar loads.



What's causing the losses? The number one loser in originated railcar loadings is coal

What's causing the losses? The number one loser in originated railcar loadings is coal. The losses in coal have been in play since the increased natural gas drilling as an offshoot of crude oil drilling (fracking) in Texas Pennsylvania, Oklahoma, Ohio and Louisiana representing 65% of the natural gas production. The addition of a number of new pipelines that can easily transport natural gas has also added to the reach of natural gas to be used as a fuel to replace coal at many generating stations. In fact, there is so much natural gas being produced the US became a net exporter of natural gas in 2017 for the first time in 60 years.

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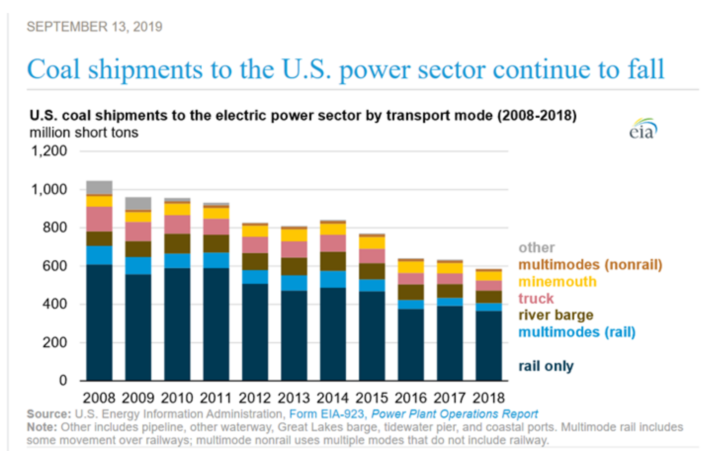
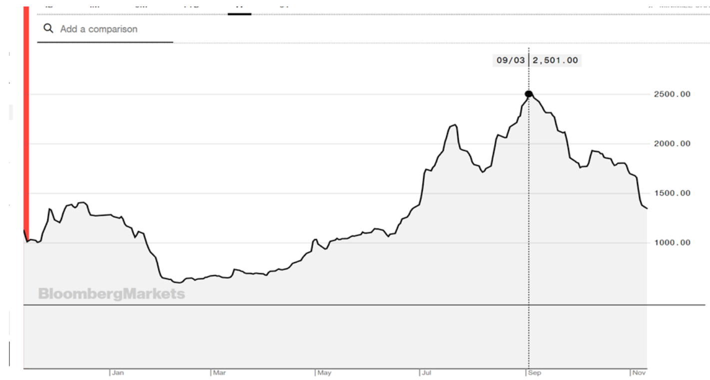


Federal legislation has also put a damper on coal emissions generation causing a steady decline over the past decade in the coal shipped by rail to

The coal rail transportation business is basic core business for the railroads

generators which in turn caused a noteworthy decommissioning of coal fired power plants. The coal rail transportation business is basic core business for the railroads. This business consists of shipping approximately 28,500 unit trains of railcars loaded with coal each year, from consistent origins to consistent destinations. This is a Class I railroads base business which pays for significant amounts of infrastructure costs.



The grain complex is a little different in that everyone has to eat either a whole or processed grain (corn, wheat, rice, soybean) or feed something (pigs, cows, chickens) on a worldwide basis. Often countries will have different production and consumption requirements on a year over year basis. In the U.S. this year we've seen severe weather events that have hampered U.S. grain production ability. Continuous summer and late fall rains in the eastern and western corn belt growing regions has caused a lot of flooding making it difficult to plant and harvest corn and wheat. This leaves a lot of production in question. This in turn impacts price of corn and wheat where local demands take precedence over world markets. The sweet spot market for U.S. rail is corn and soybean exports to the gulf, east coast or pacific northwest and Mexico.

As frame of reference, the U.S. for trade year 2019/2020 is the number one exporter of corn at 50 million metric tons and Brazil is the next highest at 38 million metric tons with Japan at 16.5 million metric tons

The U.S. is currently showing a trade reduction in corn of 1.5 million metric tons for trade year 2019/2020. This loss of capacity appears to have been filled with Brazilian corn showing an increase of 3.0 million metric tons and Japanese corn showing an increase of .5 million metric tons likely being shipped to China displacing some U.S. shipments. As frame of reference, the U.S. for trade year 2019/2020 is the number one exporter of corn at 50 million metric tons and Brazil is the next highest at 38 million metric tons with Japan at 16.5 million metric tons. U.S., Brazil and China lead in production statistics. Of the three U.S. and Brazil are net exporters and China is a net importer using more corn locally than it grows.

(source USDA)

On the petroleum front we're seeing a rise in the number of crude oil trains but a decrease in drilling inputs being supplied by rail. The primary drilling input being impacted is frac sand. When oil dropped from the high \$90 to \$100 dollars per barrel to the \$35 - \$40 per barrel dollar range the costs of inputs got a lot of scrutiny. The price of fine white sand coupled with long hauls from Minnesota and North Dakota to the Permian Basin and Bakken suddenly became a focus of many exploration companies. The resulting action was the discovery that local brown sand would suffice in the replacement of a large percentage of fine white sand in the drilling process. Hence a shift from a primarily rail served industry to a truck served industry.

The scrap market has challenges in both the domestic and international business sectors

The scrap market has challenges in both the domestic and international business sectors. Domestically auto makers have just recently unraveled a months' long labor dispute causing disruption to their production abilities. Internationally the largest importers of scrap (Turkey and China) have their own challenges. One centered around a war and the other trade tariffs.

Other factors leading to the down railcar loading market are world impacting such as Brexit and tariff and trade wars with Mexico, Canada, Europe and possibly most importantly China. Closer to home the yield management efforts of Class I railroads called Precision Schedule Railroading has deterred rail traffic that doesn't fit just right or has more rigorous requirements.

The railroad industry is going through substantial changes living in its' own little recession when it comes to railcar loadings

On the positive side the Baltic Dry Index has been relatively steady over this past year with strength being shown roughly in the third quarter. The Conference Board Leasing Economic Index has held steady for the latter half of 2019 hovering between 111.7 and 112.1. Purchasing Managers Index is down a bit at a five month average of 47.8 (50+ is good), Non-manufacturing Index of 52 to 56 (50+ is good), Industrial Output at 109.0 to 109.9, Capacity Utilization near the 77.7 range, Employment hold steady around 3.6%, Consumer Confidence ranging from 89 to 100 percent, and Inflation at roughly 1.4%. For you (us) non-economist the best summary I can garner is the economic health of the United States isn't bad but it isn't great either.

We anticipate these challenges to continue until some order is made in the country the encourages bulk commodities to be transported by rail in large volumes

Yet the railroad industry is going through substantial changes living in its' own little recession when it comes to railcar loadings. The entire year of 2019 there have been consistently 310,000 to 364,000 railcars in storage. They fall in line with the impacted railcar loadings numbers shared above.

We anticipate these challenges to continue until some order is made in the country the encourages bulk commodities to be transported by rail in large volumes. Where's the next coal market, crude oil market, frac sand market? An additional challenge we'll face in 2020 is that it's an election year. One of two things happen in an election year. The incumbent puts a program in place that jump starts or breathes new life into the economy or nothing gets done because no political person is focused on the economy! Batten down the hatches!

Goodbye 2019 - Hello 2020.

We look forward to working with you and 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****.*

Mechanical Brief with Dan Madden

How can two different railcar inspectors look at the same railcar and one inspector will see a defect and the other will not?

If you've had any involvement with inspecting, repairing, maintaining or reviewing maintenance and repairs for your owned or leased railcar fleet, you may wonder how two different railcar inspectors can look at the same railcar and one inspector will see a defect and the other will not. There can be several reasons for this. In my experience knowledge is king when it comes to inspecting inbound railcars.

For those who own, lease and/or manage railcars and the bad order events, inspections and lease turnback for those railcars, working with a railcar repair shop can either be a great experience or a frustrating experience.

When rail equipment arrives at a repair shop it will be inspected by the shop's

Knowledge is king when it comes to inspecting inbound railcars

One of the most common reasons for an increased estimate or invoice is that when the railcar gets into the shop there is a different set of eyes looking at the railcar

"What steps can you do at the shop level to educate your inbound inspectors that will assist them in performing a higher quality and accurate inspection?"

inbound inspector. That inspector is expected to find every defect on the railcar and report it back to the customer in the form an estimate of repairs. (For more information on repair track and shop rules, contact me.)

From the perspective of the railcar owner, lessee, or responsible maintenance party, this estimate is expected to be what it should cost to repair the car and return it back into service.

This is where things can take a turn for the worse. Once the responsible maintenance party gives approval to make the repairs the railcar is brought into the shop to start and make repairs. Keep in mind this may not happen immediately depending on shop space and level of priority.

Now let's assume that two days after the railcar is brought into the shop and considered under repair, the responsible maintenance party might receive an email with a revised estimate. At that moment the responsible maintenance party may ask "why am I getting this estimate", "why wasn't this seen on the inbound inspection", "how could you not see this when you first looked at the railcar". These are valid questions and I'm sure every shop has heard them and every responsible maintenance party has asked them.

The "Why" could have many different explanations. One of the most common reasons for an increased estimate or invoice is that when the railcar gets into the shop there is a different set of eyes looking at the railcar. It could be the quality control, the production line supervisor or the Carmen that is working on the railcar. You see (no pun intended!) everyone see's things a little bit differently and from a different perspective. The shop may be doing work that exposes additional defects or it could be something that was discovered that could have been hidden during the inbound inspection. Since we all see things differently there are going to be things that someone sees as obvious and others will glance over. From a responsible maintenance party perspective this can be frustrating because of the increase of cost to the final repair bill. Responsible maintenance parties should be somewhat flexible when this happen; however, you should also question what the shop is telling you. Typically a 10% difference between the original estimate and the final bill are acceptable in the industry. If the difference is greater than that, you should question the difference.

Personally, when this happens, I look at it as an opportunity to make it an educational impact. I start of course by asking the "Why". I ask for photographic evidence to explain the increased costs. Additionally, because we often utilize the same shops because they may be enroute or we trust the shop overall, I also follow up with the question "What steps can you do at the shop level to educate your inbound inspectors that will assist them in performing a higher quality and accurate inspection?" You will be surprised at the steps a shop will take to satisfy their customers. It is all a positive moment when you are willing to actively engage with a shop to make them better and to ensure your railcars are repaired and maintained properly. The shop will step up and take some sort of corrective actions to their processes to ensure the service they are providing are excelling at a level that supersedes expectations.

You will be surprised at the steps a shop will take to satisfy their customers

From my experience at the shop and when doing a railcar inspection, there are a lot of important things that have to happen before, during and after the inspections. These are imperative for the shop to be aware of and you as the railcar owner, lessee or responsible maintenance party should also be aware of them. They include:

- First and foremost, know the AAR Field Manual rules. There's a lot of information in the field manual and it takes years to know the rules and this will come in time through education and from experience.
- Know the bad order reason before starting the inspection. This is extremely important. The last thing an owner and a repair shop wants is to have a car bad order again for the original bad order defect
- Do the proper research before inspecting a railcar
- Look at the UMLER data to search for open EHMS alerts, Early Warnings, Maintenance Advisory's, Air Brake test dates and additional customer requirement.

Suggestions for the shop: When you are ready to conduct your inspection, here are some key suggestions. Be prepared, stay focused on the task at hand, engage yourself in the situation. The product you produce during this inspection is a direct reflection on you, your shop and your company.

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Contact Tealinc to learn more about the private railcar services we offer including railcar inspections, invoice audits and railcar shop management for all railcars leased through Tealinc

Tealinc has refined our inspection processes to ensure that a railcar inspection is thorough, accurate and all-inclusive of representing a railcar's true condition. Our knowledge has helped in dealing with the railroad, repair shops and other industry contacts. We are committed to providing you the best service for your rail needs.

Our consulting services and Rolling Stock Management Agreement allow us to manage your railcar fleet proactively. We provide on-site inspection services, audit, pay and dispute railcar estimates and invoices, suggest and manage preventative railcar maintenance, engage directly with the shop to minimize out of service time and get your cars back on track. And if problems arise, we are here to assist.

Dan Madden is the Assistant Customer Support & Development Specialist for Tealinc, Ltd. You may contact Dan directly in his office at (541) 653-8074 or via email at dan@tealinc.com.

Iron ore price: World steel production shrinking

US output fell during October, declining 2% in year on year terms

Industrial Inside

The World Steel Association data on Wednesday [November 27, 2019] showed a 2.8% decline in global steel output in October to 151.5 million tonnes with production down across all regions.

The 50-year old industry body estimates that crude steel production in China, which is responsible for more than half the global total, declined 0.6% year on year in October. The decline came on the back of capacity cuts during the country's 70th anniversary celebrations.

China also places curbs on production during the winter months through March, but thanks to surging output earlier in 2019, year to date steel production is still up 7.6% to 746m tonnes.

US protectionism of steel will support US production through rising domestic prices on the back of increasing demand for local steel as tariffs render imported steel far more expensive

US output also fell during October, declining 2% in year on year terms to 7.4m tonnes. Given the nearly 40% drop in steel prices in the country over the past year as the effect of anti-dumping measures against China fade, production declines have been modest.

The US has also imposed tariffs of 25% on steel exports coming from the EU, Canada and Mexico.

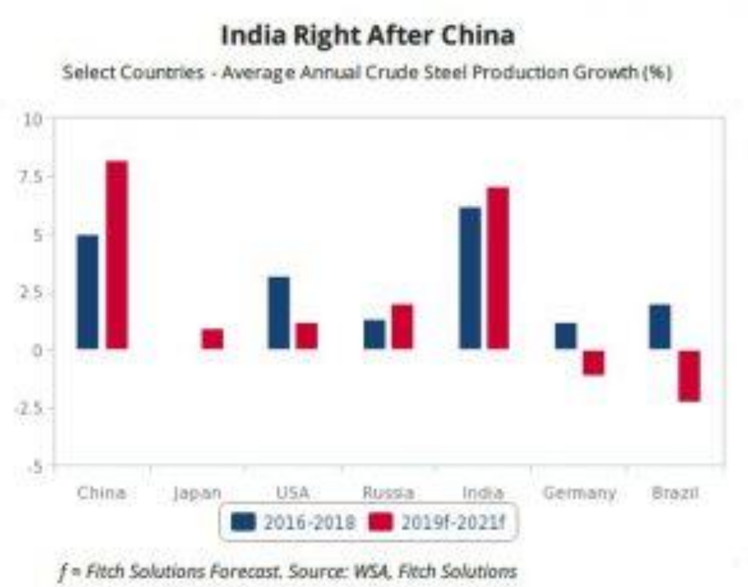
The decline in Europe was significant, registering an 8.7% drop. Profitability at steelmakers on the continent have eroded as excess capacity elsewhere ends up in the region which unlike the US has not taken any anti-dumping measures. Year to date EU crude steel output is down 3.6% to 122m tonnes.

Given the nearly 40% drop in steel prices in the country over the past year as the effect of anti-dumping measures against China fade, production declines have been modest

World number three producer India, which overtook Japan last year recorded a drop of 3.4% at 9.1m tonnes for October, reducing year to date gains to 3% at 84.2m tonnes.

Japanese production fell nearly 5% in October in part due to typhoons and year to date the country's output is down 3.9% to 75.6m tonnes.

A new report by Fitch Solutions suggests the weak conditions may be temporary.



The macro economic research company in the Fitch ratings agency stable reports global steel production and consumption growth will accelerate in 2019-2020, compared to 2018.

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Iron ore remains in a bull market for 2019, up 20% on the back of supply disruptions from top miner Vale following a deadly dam burst in January.

Escalating trade tensions between the US and China will prompt the Chinese government to provide further targeted stimulus to the domestic infrastructure sector, a major consumer of the commodity.

At the same time, US protectionism of steel will support US production through rising domestic prices on the back of increasing demand for local steel as tariffs render imported steel far more expensive.

Benchmark iron ore prices slid on Wednesday [November 27, 2019] with the Chinese import price of 62% Fe content fines exchanging hands for $87.56 per dry metric tonne, according to Fastmarkets MB.

Iron ore remains in a bull market for 2019, up 20% on the back of supply disruptions from top miner Vale following a deadly dam burst in January.
The Australian export price of metallurgical coal (FOB hard coking coal Fastmarkets MB) used in steelmaking eased again on Wednesday [November 27, 2019] to $134.30 a tonne. That's down more than $50 a tonne compared to the start of the year amid oversupply and import restrictions imposed by Beijing.

Read the entire article at: https://www.mining.com/iron-ore-price-world-steel-production-shrinking/

Weekly economic release summary: the Federal Funds Rate is too low

Financial Focus

This past week [week of November 25, 2019] the Federal Reserve released the full minutes of their recent FOMC meeting where the federal funds rate was again lowered. Their rationale for lowering the Federal Funds rate:

In discussing the reasons for such a decision, these participants continued to point to global developments weighing on the economic outlook, the need to provide insurance against potential downside risks to the economic outlook, and the importance of returning inflation to the Committee's symmetric 2 percent objective on a sustained basis.

Until the Great Recession, the Federal Funds rate normally remained above the rate

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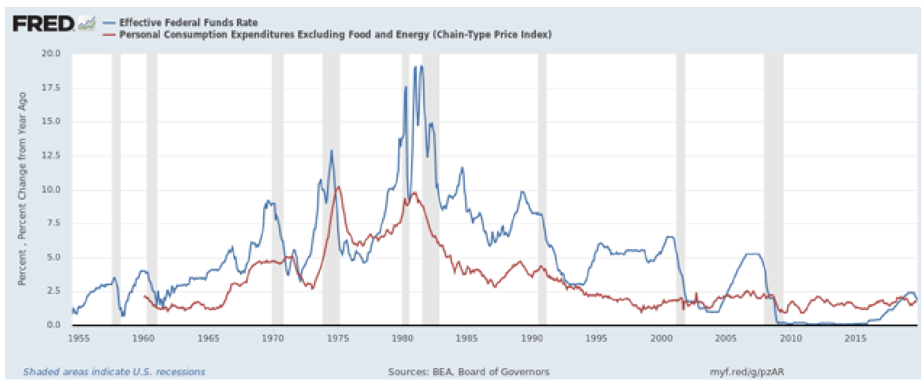
There's a sweet spot for inflation. Prices should rise just enough to encourage people to buy sooner rather than later. Deflation encourages consumers to delay purchases as prices will be lower tomorrow.

of inflation. Historically there had been a good correlation between the federal funds rate and inflation.

There's a sweet spot for inflation. Prices should rise just enough to encourage people to buy sooner rather than later. Deflation encourages consumers to delay purchases as prices will be lower tomorrow. Too much inflation robs consumers on fixed incomes of purchasing power and negatively impacts economic growth. The Federal Reserve has determined by its actions that they think the sweet spot is 2% annual inflation growth.



The federal funds rate should be higher than the inflation rate if the inflation rate is too low. History shows this to be true.

Is 2% a good target rate for inflation? It depends on a lot of variables, but the data shows the Federal Funds rate historically has been above the rate of economic growth.

Riddle me this - Is the low Federal Funds rate impacting economic growth? Or is the causation the other way around? Or is something else impacting both interest rates and economic growth?

Economic Forecast

The *Econintersect* Economic Index (November 2019) forecast fell marginally again this month and continues to show the lowest level of growth since the economic slowdown in 2016. The continuing weakness of manufacturing, transport, and exports/imports continues to weigh on our economic forecast.

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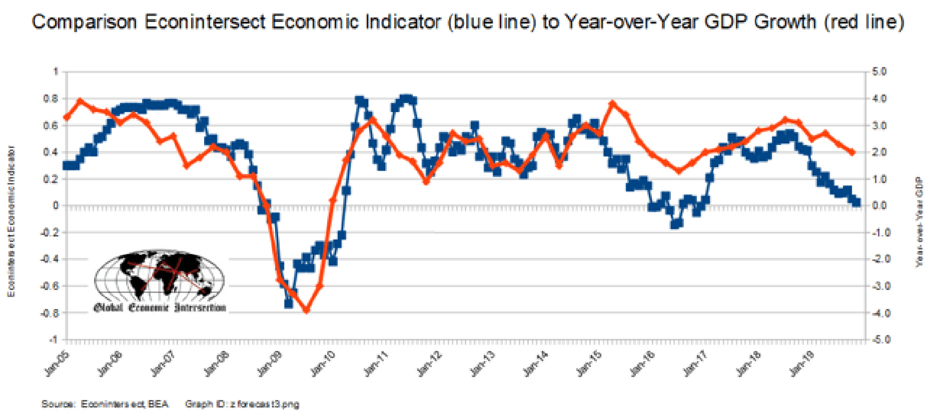
The continuing weakness of manufacturing, transport, and exports/imports continues to weigh on our economic forecast

The fundamentals which lead job growth are now showing a significant slowing growth trend in the employment growth dynamics. We currently are predicting the jobs growth to be below the growth needed to maintain participation rates and the employment-population ratios at current levels.



Learn more at: https://seekingalpha.com/article/4308697-weekly-economic-release-summary-federal-funds-rate-is-too-low?ifp=0

Railroad & Policy Updates

Private railcar owners and lessees: important news. All private railcars must be registered in OT-57

Railinc send notice via email November 19, 2019 that the new Loading Authority (OT-5) Replacement, is almost ready! A timeline of events surrounding the implementation of the Loading Authority (OT-57) are below:

- Thursday, December 12: The new application will be deployed in production
- Thursday, January 2:
  - The revisions to Circular OT-5 will be published
  - The new registration circular, OT-57, will be published
  - Existing OT-5 will be available for inquiry only
- Sunday, February 2: Registration in the new system will be mandatory

What You Need to Do:

1) Be sure you are registered in FindUS.Rail as an OT-57 contact – refer to the Add a FindUs.Rail Contact Quick Guide for information on adding and updating contact information.

2) Prepare your fleet(s) to be registered. The new system will allow up to 50,000 cars to be uploaded from a CSV file or through the User Interface in a single

Tealinc, Ltd. provides private railcar fleet support services include OT-57 application, tracking, tracing and shop expediting

Contact Shannon Rodgers at Shannon@tealinc.com or via phone at (814) 631-9277 to discuss your private railcar fleet support needs

transaction.
3) Identify your storage locations. The new system will require storage information for each fleet registered.
4) Beginning Thursday, December 12, register your cars, contact information and storage information in the new system.

Tealinc, Ltd. provides private railcar fleet support services include OT-57 application. Contact Shannon Rodgers at Shannon@tealinc.com or via phone at (814) 631-9277 to discuss your private railcar fleet support needs.

Reasons 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

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 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!