

RAILROAD WEEK IN REVIEW

December 7, 2018

By most metrics, the economy is humming along just fine. GDP grew by an annualized 3.5% in the third quarter and has averaged a 3.1% real growth clip over the last four quarters, while the November Manufacturing PMI printed at a brisk 59.3, the 23rd consecutive monthly reading north of 55 (a reading above 50 denotes expansion). — Almost Daily Grant's, December 4

The railroad performance you see at interchange and beyond is only part of the story. There's a reason for performance inconsistencies, and you can be sure you're not the only one who sees them. At RailTrends last week, for example, UP CEO Lance Fritz said carload trip plan compliance was running at 66 percent. That says one car in three was not trip-plan compliant.

Also at RailTrends, CSX CEO Jim Foote stressed customer focus and the role of Precision Scheduled Railroading to improve same. That's a consistent message. CSX uses a set of Core Values "designed to give all employees the tools and the resources you need to preserve CSX's ethical culture." Core Value Number One: It starts with the Customer and reliable service is the key to growth.

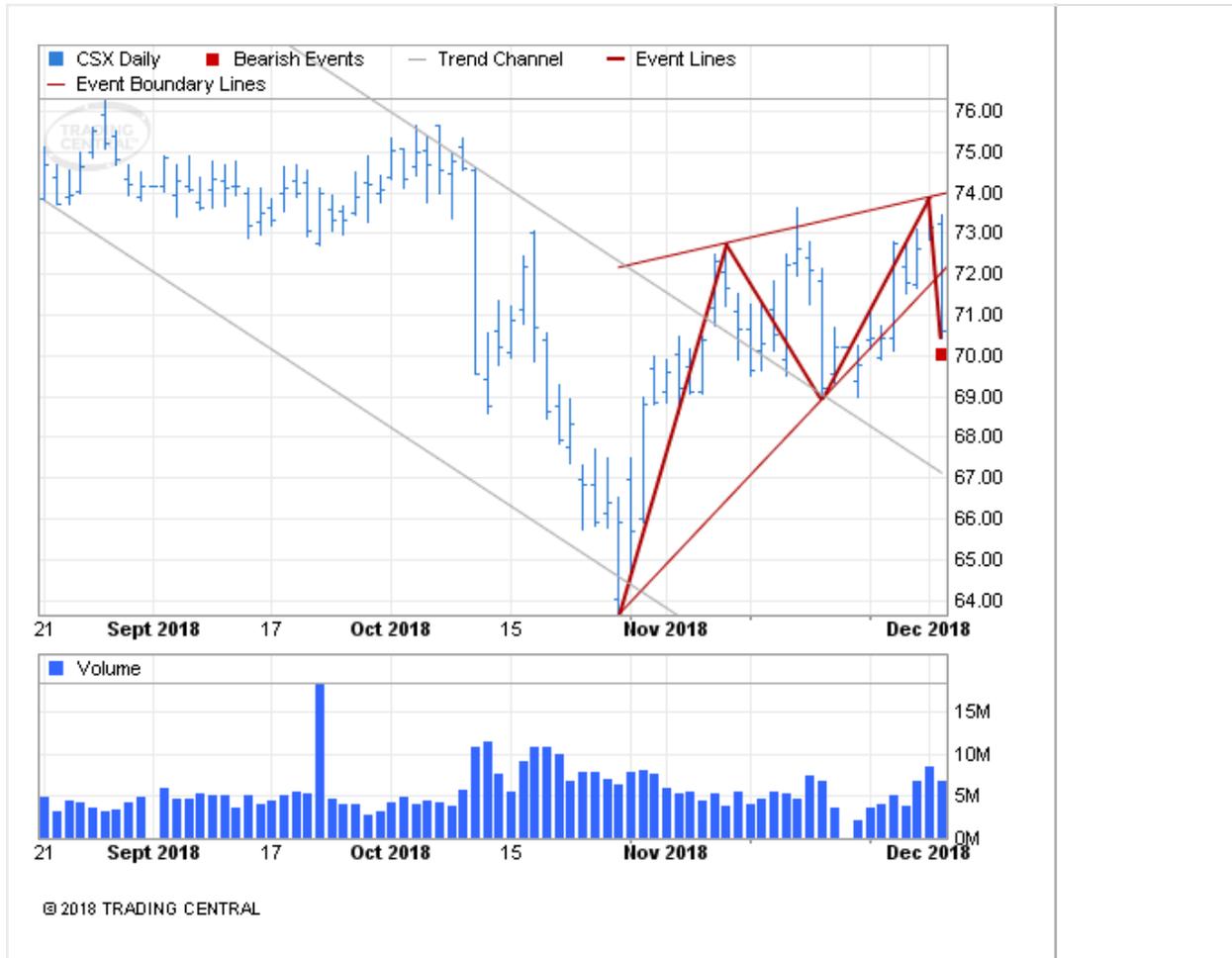
Which gets back to the basic purpose of any business: to create and hold customers. The best measure of how any railroad creates and holds customers is the AAR weekly carload report, published regularly on the railroad website. Here's [Union Pacific's Week 48 report](#). Compare Week 48 with the Q4 to date and see that, in 10 of 17 commodity groups (coal, intermodal excluded), more recent volumes are either up or less down from the QTD numbers. And that's with just two-thirds of cars running to plan. Filling the gap can only improve matters.

Does Wall Street care? I keep a screen of seven railroads plus Berkshire as a proxy for a BNSF. I am a firm believer that the trend is your friend and, no matter what the earnings or other performance trends may be, the charts tell you what Mr. Market thinks of what the railroad is actually doing. I use a number of technical indicators to track stock price movement, but rely mostly on moving averages and patterns. Perhaps the most useful pattern-identifying program is Recognia ©. Their recent analysis of CSX is an excellent starting point.

Recognia has detected a "Continuation Wedge (Bearish)" chart pattern formed on CSX Corp (CSX:NASDAQ). This bearish signal indicates that the stock price may fall from the close of \$70.60 to the range of \$61.00 - \$63.00. The pattern was formed over 27 days, which is roughly the period of time in which the target price range may be achieved, according to standard principles of technical analysis.

Recognia continues,

Tells Me: After a temporary interruption, the prior downtrend is set to continue. A Continuation Wedge (Bearish) represents a temporary interruption to a downtrend, taking the shape of two converging trend lines both slanted upward against the trend. During this time the bulls attempt to win over the bears, but in the end the bears triumph as the break below the lower trend line signals a continuation of the prior downtrend.



You can tell from the trading volume that investor interest decreased after that second peak and didn't start to increase until attaining that \$69 low. Volume grew again until hitting the \$74 high, then sank to \$70 with sellers vastly outnumbering buyers. So, even with Foote's encouraging words, Mr. Market is yet to be convinced. Volumes at your interchange and performance beyond will be your Leading Indicator of which way volumes (and share prices) are headed.

Canadian Pacific's new grain trains are on the move. Those of us at the September CP Short Line meeting (WIR September 14) first learned about these cars under the rubric of "CP is Open for Business,

seeking single-car customers in a way that can provide better customer value without stressing the CP asset base. Case in point is the fleet of nearly 6,000 new grain hoppers coming on line over the next few years. They are higher cube, shorter, and weigh less than the present cars, which means more grain in a shorter train. And, since shortlines host a large number of shuttle-train loop track facilities, having access to a bigger, more reliable fleet will be beneficial for all.

CP unveiled the first train of these new 8,500-foot High Efficiency Product (HEP) covered hoppers at its Pasqua Terminal loop track (designed specifically for the new HEP cars). The new train can move approximately 44 percent more grain than the prior generation of grain trains, and is expected to become the gold standard.

These HEP cars feature a capacity 10 percent greater by weight than the older-model cars owned by the Canadian government and cube out with 15 percent more volume on a frame five percent shorter than the older cars, meaning more cars can fit into a train of the same length. The cars are part of a half-billion-dollar investment CP is making to upgrade its fleet and, by year's end, will have approximately 500 new hopper cars in service. That number will grow to 1,000 by spring 2019. Over the next four years, CP plans to purchase a total of 5,900 new hopper cars.

To put all this in context, Canadian Pacific moved 2.64 million metric tonnes (some three million US tons) of Canadian grain and grain products in October making it CP's biggest month ever for moving Canadian grain, breaking the record from September 2017. Moreover, CP has broken its previous record for carloads of Western Canadian grain and grain products shipped to the Port of Vancouver in a single month.

In a related development, Cowen rail analyst Jason Seidl writes that CP and CN will gain from expansions at three grain terminals. Parrish & Heimbecker will enlarge its jointly-served Fraser Grain Terminal facility in Surrey, BC, to take four million tons of Canadian grain and specialty crop exports, opening in late 2020. Separately, Viterra will upgrade grain terminals in Binscarth, Manitoba, on CP, and Stettler, Alberta, on the Alberta Prairie Railway, a CP interchange partner.

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