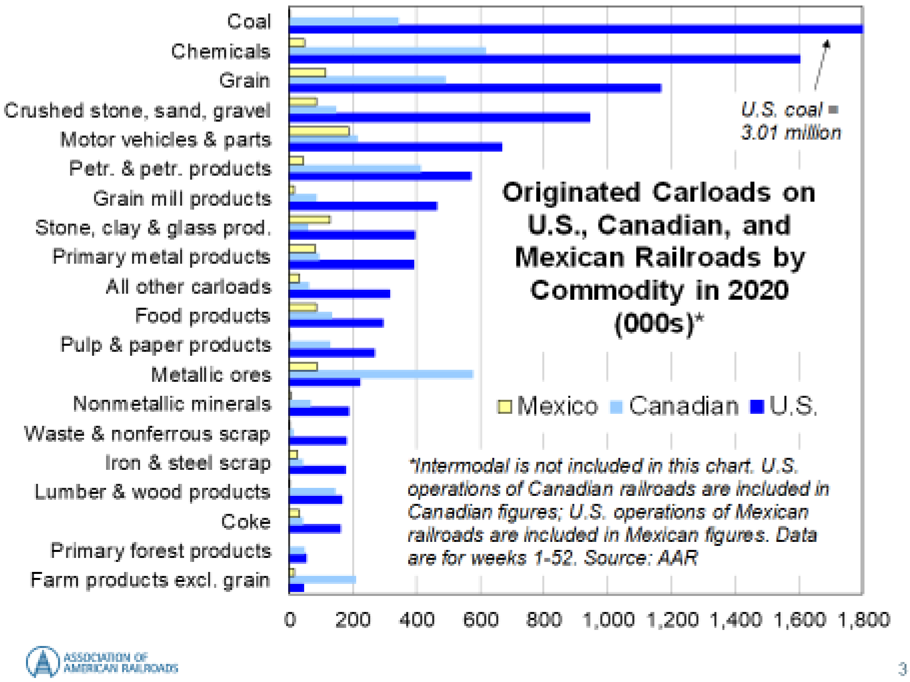
Greetings….
This was originally meant for New Year's week, then got delayed, given all of that celebrating in place. Then the goal became the 12th Day of Christmas (Drummers Drumming, remember) where some of the frippery was, or might have been still timely – see a friend's re-worked carol below, followed by the 2020 Top (?) Ten. But the 12th Day was Wednesday, January 6th, now to be remembered for sadder reasons. To paraphrase Monty Python's best episode - The Piranha Brothers (archive.org): even the National Association of Manufacturing had to sit up, and take notice. I have to ask, in Pete Townshend's words: "So, you think '21 is going to be a good year?" I was sure, then less so….but today I am still hopeful….So, back to rail business. I have attached some things that might have missed over the holidays, including the much-discussed Oliver Wyman presentation from ***RT20;*** recent traffic, NSC at NRC, etc – and the T-10. Stay safe!

A few things

- Recent Tweet: Happy New Year!* To paraphrase the Bard on the subject of much-maligned (admittedly and with apologies, by me) DOT Secretary Elaine Chao "Nothing in her career became her like the leaving it" (*if possible)

- I can't wait to see new NYC's brand new Moynihan Train Hall - Moynihan Train Hall: It's Stunning. And, a First Step. - The New York Times (nytimes.com) – but remember that while I am a CONSUMER of passenger rail, I am an ANALYST of *Freight Rail* – and I have to admit that when asked in general conversation about my opinions on Amtrak or commuter rail, it brings to mind Dirty Harry's line to his boss who came from H/R….

- ***Traffic: December and FY20 RTI!*** Thanks to Dan Keen and the AAR. As we know, like the Secretary of Transportation, for rail freight volumes, nothing also became 2020 like the ending of it. The headline: North American Freight Rail volume was, in total, up 3.4% for the month (that's carloads down 2.7% although 10/20 showed increases) and intermodal up fully 9.7%. For the full year the numbers were lousy – only 4/20 up in carload which was down 11% (!) and IM down 2.4; the total was down 6.6%. But both of those were impacted by US coal, down 14.5% for the month and 24.6% for the year, as well as Mexico, which had a tough year….
    - How tough? FY20202 total -10% (carloads down 7% on 6/20; IM -13%) – and unlike the pattern in the other two NAFTA nations, it was worse in Q4 and December (carloads were *up* 1.3% but IM was down 21% (!) and thus the total showed a 9% decline
    - On the day of hockey's return, Canada wins the NAFTA Gold, but not in spectacular fashion: FY -4% (CL-7% on 6/20; IM -1%); they finish 2nd for the 12th month: total up 3.3% (CL -0.5% on 11/20; IM up 8.1%
    - The USA gets the silver: FY carloads -13% with only 3/20 showing increases; IM down "only" 2% bring the total traffic number to -7% YOY; for December carloads were down 3.7% (note that ex-coal they were *up 1%* (10/20) and intermodal up 12.2% bring the total to +4.4%



Coal Continues to Slide

ASSOCIATION OF AMERICAN RAILROADS

% Share U.S. Electricity Generation

	2000	2005	2010	2015	2019	2020*
Coal	52%	50%	45%	33%	23%	19%
Natural Gas	16%	19%	24%	33%	38%	41%
Nuclear	20%	19%	20%	20%	20%	20%
Renewables	2%	2%	4%	7%	11%	12%
Hydro	7%	7%	6%	6%	7%	7%

*Jan-Oct Source: EIA

So that's why there was no lump of coal in your stocking, it wasn't because you were good….

Speaking of the recent holiday:

The Twelve Days of Railroading Christmas, 2020

"Twelve OmniTRAX CEO's in a decade"

“Eleven different NS PSR strategies”
“Ten Mexican blockades”
“Nine Times G&W multiple dreams”
“Eight Oliver Wyman Naysayers”
“Seven Kloster GE Box Cars”
“Six RailTrends shortline panelists”
“FIVE TONY HATCH RAILROAD RENASAINCE REFERENCES”
“Four Class 1’s haunted by EHH”
“Three Harvard Crimson”
“Two SoCal dudes AND”
“One great SP railroader stolen by the Atchison Topeka & The Santa Fe!”
/sent from a railroader friend….

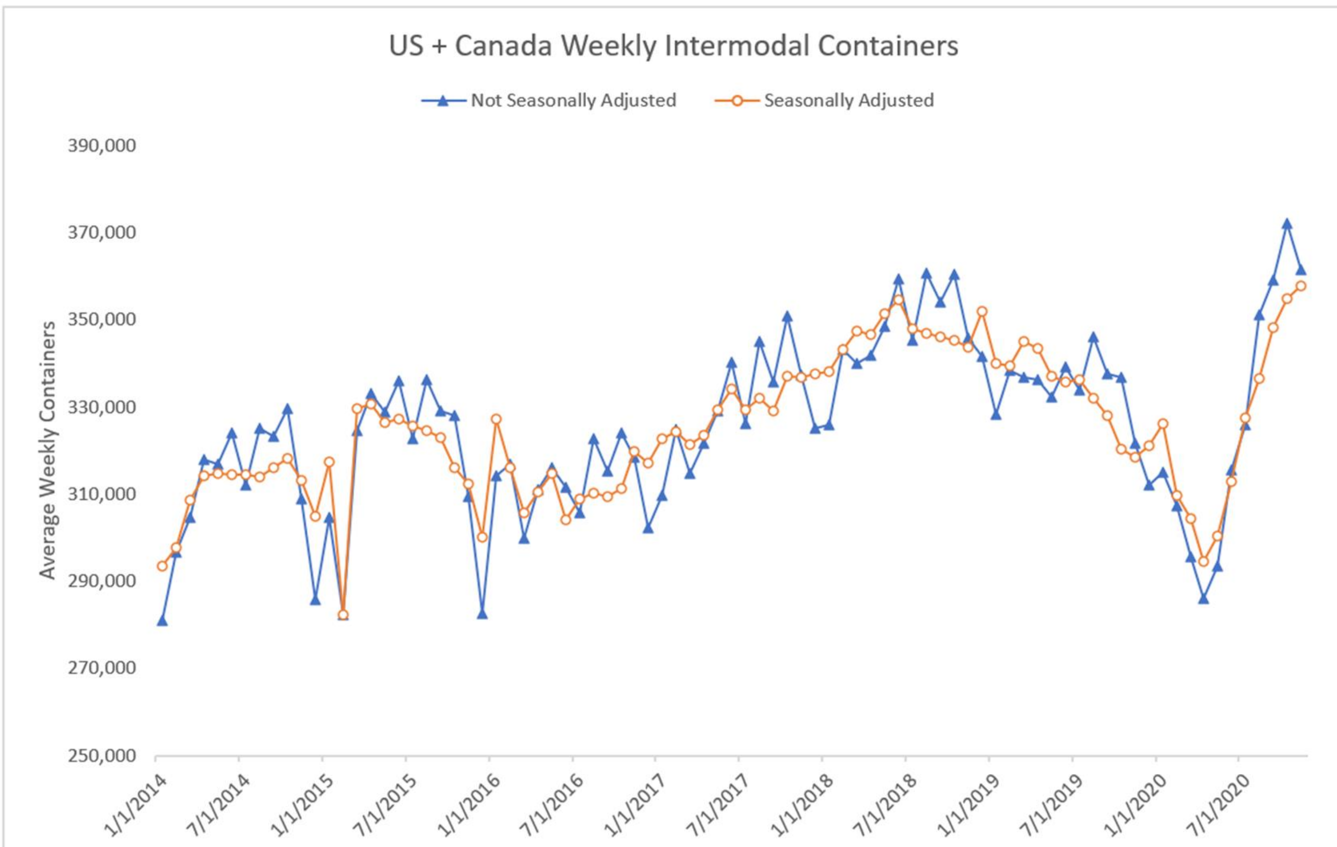
The T-10: So, looking back (OK, *why?!?*) and forward, here’s what happened and what may happen, and perhaps why it mattered. All of the rails spent the fall and early winter saying wait for January, for the Q4/20 earnings webcasts, for a more detailed preview, guidance and outlook.

- ***Covid,*** in a first punch knockout over it’s contenders the Election (which beat Trade Wars to get the chance to be overwhelmed by the Pandemic); now – second wave? Third wave? New wave dance craze? It’s all taken a toll on me. And while vaccines offer hope, I don’t mind stating that the scariest three words of the minute are “new coronavirus strain”….

- ***Uncertainty*** – the general and railway puling of guidance, citing cloudy or even non-existent crystal balls, limited shipper visibility, pandemic and political response ambiguity, etc. There are some signs of hope here – not just the rail company’s statements to look to January, as mentioned, but others: For example, the comeback of the dividend, that is anticipated. In the darkest days, 42 of SP500 cut payouts; in recent days, 6-10 have restored them. And in an 8-K, Union Pacific pre-announced an eye popping OR (55.6%, down 4.1 points and making their “55+0” plan all of a sudden not so crazy), so maybe we’ll see some *visibility* return. This is the biggest thing the Street will look to when rails start reporting Q4/20, starting with the Union Pacific on the morning of the 21st (discussing their prospects and the $278mm non-cash charge for the “re-purposing” of the Brazos Yard)
    - We also expect in ’21 some major railway Investor Conferences, hopefully live, which are due/past due for the group
    - There are also unresolved *succession issues* – Yes, BNSF was happily decided but there still isn’t clarity at CSX, CN, UP, KCS….and maybe CP *if*
    - Free agents? Keith Creel? (note and take this to the bank – there will be no rail consolidation in 2021, or 202-anything); also, it’s said, Jim Vena, operator extraordinaire. However, as the industry moves from PSR 1.0 to 2.0 (PHR)

- ***The Shark’s Tooth –*** I have emphasized that in the shutdown, first of production then of demand, that rails have a proven ability to reduce expenses (and increase their variable/semi-variable percentages of operating expense) in a known slowdown – and if C19 might not have been seen coming by *everyone,* it was obvious enough to the freight community by the time of the Q1/20 webcasts in April (and before as the volumes began to plummet in March). So in an unpredictable time there was one predictable result – the rails beat earnings expectations, first in Q1/20 and then in the carnage of the second quarter. And then came….like a tsunami, the re-stocking/recovery. Now *this* was unprecedented and unexpected. Mid-year business and trade press accounts were full of tales of supply chain disaster (in fact, never before had *supply chains* been so widely discussed in the serious press, in politics, etc). While fighting covid, rails – labeled "essential" and with a lot of C19 resistant activity - had to restore labor numbers and operations and fast. They did so – certainly not without hiccups – but they did. It is certainly fortunate that PSR (1.0) in the US was already entering maturity when the pandemic struck. No commodity, with the possible exception of automotive (to which it is tightly coordinated) exemplifies the V-shaped recovery that because of its severity I labeled the "shark's tooth" than….

- ***Intermodal!***



This chart is just here for illustrative purposes, through Q3/20 and created by Jason Miller, PhD of Michigan State (***Go Sparty!)***; see the recent YE&Preview issues of the *Journal of Commerce* for more from Jason (as well as from OW's Adrienne Bailey on her RT20 Presentation, a nice accompaniment to the attached report). We'll be hearing more from Jason/MSU in 2021…. Anyway, the drop in the spring (first supply-driven, already distorted by the Trade Wars, then demand-driven) then the recovery as inventories needed to be replenished (and, it's commonly said, folks spent more on *things* than events like ballgames and movies and dinners out). Intermodal burst into FY positive territory and has remained there – though remember the comparisons to 2019 only looked difficult in a pandemic. And in six weeks, we'll be comparing to the pandemic. But still….the rails also showed they could play in the growing ecommerce sandbox (see below). Some IM thoughts:

- Will the west coast hold on to some of its regained share? Put another way, will there be a bifurcation of IM between faster service (west coast ports) and cheaper, slower service (all water)?
- Is the international segment's recovery sustainable? HIS sees global container trade growing at 4%+ to 2030; hopefully the removal of the Navarro gang will be helpful
- Does the reduced truckload length of haul (LOH) mean good or bad things for IM?
- 27% of TL companies cite "infrastructure" as their top challenge (drivers being listed by everyone, of course) – "Inbound Logistics" was the source. This is, of course, a positive for rails, whose infrastructure as well as their financial strength are the two impregnable barriers (even as labor/fuel/emission advantages are under varying degrees of attack).
- Will they rails hold on to their domestic share gains as they competed PSR 1.0, and rallied to the recovery? I think they can. Analysts must watch their technological progress (below) and their spend on capacity….

- ***Accelerated Trends*** – Was 2020 and the Pandemic, as awful as it was (still is) really "a hinge in history" as Larry Summers (former President of Harvard and some other jobs) stated? Most, outside of the public health arena, think that it simply accelerated trends already in place – and boy, did that happen. Most notably, Ecommerce increased by a third, as noted; it has also, combined with the trade uncertainty (to say the least) over the last 4 years, has led, to discussions of changed supply chain patterns - f not demonstrably to near/on-shoring (beyond PPE, etc). The biggest concentration, and by mid-crisis (May) seemingly the *only* focus, was on supply chain viability and visibility, diversity and optionality (AKA "resilience") – see "Globalization", below. But it was enlightening to back over the trade press/business press/academic and government concerns over the course of the year, from the darkest days to the fall recovery and the beginnings of vaccine success.
    - Boy did the experts have it wrong – for example, the JoC, the bible for the container trade, headlined in April "Coronavirus to diminish (steamship) transport demand and destroy earnings". Oops! But to be fair, who knew?
    - Full recovery? After (and it is important to remember) the bad year for rail that was 2019 (truck capacity, the last effects of the disruptions of PSRE 1.0, *trade wars)* we had hopes of 2020 being a *base year* (boy did I have *that* wrong). So, when? Moody's says 2023. McKinsey says 3-5 years, with rails at 4 years due to their exposure to oil & gas (faster in non-metallic minerals, clay, ceramics, cement, Ag, food products (which are areas of rai interest, BTW). Lets see what the rails say next week, although I have modest expectations.

- *Zooms &* ***RailTrends*** – more contact, less contact. Typically I attend (and most often speak at) some 25-35 rail and related conferences, getting a pulse check on just about all of the stakeholder groups. This year I made it to….*two*, plus two company visits before the shutdown. Zooms made it, er, possible to continue – and in fact not having to have the disruptions of travel meant that in some ways conference content was improved, sometimes by a lot. It certainly upped the game for the so-called "analyst conferences", usually such a CFO-family reunion ("let us look back to our most recent quarterly earnings call"). This year, led (as in so many things) led by the Canadians in the summer CEOs and others joined in via the internet and….things were actually said! Whether or not that compensated for the informal time for channel checks, succession outlooks, industry gossip, etc is debatable (I think not). But it helped….and didn't require long pants. Some new streams, for me, were added (a great Chicago-based rail veterans bi-monthly Zoom, for example). ***RailTrends 2020*** was terrific, absolutely as good as it could be under the circumstances (thanks, all) but, still. My "Reflections" are once again attached. We hope we're live by November. As of now I have no live event on the schedule until H2/21 (I will update the calendar in my next piece) – the excellent NRC event, the usual kickoff of the year, was virtual (see below), as will be MARS (Midwest Association of Railroad Shippers), of course….*MARS in fact is next week, on the very busy day that is January 20th….the agenda is, of course, good: you have your Creel, your Farmer, your Titterton, your Hatch (take him or leave him, it precedes cocktails, virtually) here's the agenda link: TENTATIVE TOPICS & SPEAKERS (mwrailshippers.com).* While the timing could have been better, one advantage to a virtual MARS is not having to be in a shopping mall, anchored by a Sears, in Lombard, IL (though I will miss the fun at Harry Caray's, named after the old Cards broadcaster)….

- ***Technology! portals, (Rail) Pulse and….Tu Simple investment.*** As The Economist noted, "the pandemic has quickened the pace of technological adoption"; ecommerce business will end the year up a third, the world is changing at an ever-faster pace. Perhaps I am being too optimistic (I have been accused of that before) but I think that while the rails have work to do in the tech space (converting PTC to the digital backbone, etc), as well as in the tech-related space (regulatory, legislative, labor), it's now clear that they "get it" and are beginning to both focus on the subject and to spend money. Critically, as with ESG (below), their shareholders are asking about it, which helps concentrate their collective minds….2021 had *better be* a good year for rails & tech….
    - On the "existential threat" trucking side (EV & AV), they hype continues but reality was starting to set in. The head of Waymo said that AV presented "a bigger challenge than launching a rocket". In 2018 thought that by 2030 30% of the auto market would be AV – now it says ~5%; Nikola lost its (Republic) garbage truck contract when it was discovered that not all garbage rolls downhill….
    - The rails are moving forward – Wabtec and BNSF are testing their hybrid battery-powered loco (BEL) while sources tell me that they are beginning to think of an all-out push for hydrogen
    - The FRA is reportedly looking at high-speed freight cars to tap into the parcel market – this will fit well with AR (autonomous rail) ability (its been said) to run short, fast trains as well as slow(er) long ones

- ***ESG -*** ESG **(Environmental, Social and Governance) investing refers to a class of investing that is also known as "sustainable investing**.". This is an umbrella term for investments that seek positive returns and long-term impact on society, environment and the performance of the business**.** For those of you fully familiar skip ahead to number 9 – but after the rails all dedicated a full earnings call slide (out of about 10 on average) in October (and UNP spent their ***RT20*** presentation on the topic) it is here and here to stay, yet in my zoom presentations in the last two months the first questions that I received were from those unfamiliar with the term and topic). This will have advantages for rails as long as they retain their (fuel-based) emissions advantages; this will also be something of an issue for all companies including rails as bigger and bigger funds hold managements accountable for ESG performance. I will have more on this next week – on the rise (?) of "stakeholder capitalism" and how that applies, etc.

- ***Ag*** I have written a lot starting with the traffic decline that it was amazing to see *grain transportation as the stabilizing factor for rails!* US and Canadian grain volumes were up just under 28% for the last month of the year and just under 11% for the year 2020 as a whole (Mexican grain was down 5.6% FY20). Not only that, but at the start of the year bullishness – in some cases looking out 18-24 months, which for grain is *eons* - was rampant and increased demand and falling supply (in this case good for rails) meant that, as noted in business journals everywhere, prices were booming. Yes, China was behind on its "Phase One" promises (by a *lot)* but their ongoing demand expectation was very bullish (they had brought their pork herds (are pigs in a "herd"?) back up 80% of their level before the swine's own pandemic. Ethanol remains problematic (although there was hope for positive news from the incoming administration – in fact, the farm belt sees good things in general form Biden (trade wars etc) so you might wonder about their voting – but that's another story for another time. World events seem to be a tailwind for North American grain. La Nina and other events were hindering competitors (notably the ongoing and bitter trade war between China and Australia). And here's a headline – "political unrest helps move grain prices higher" (American Farm Journal) – but that "political unrest" is in….wait for it….Argentina!

- ***Globalization/De-globalization/Regionalization?*** The whole nature of supply chains was one of the most debated issues in this world – in May, for example, The Economist cover story stated *"Goodbye Globalization"* (after absorbing three "body blows" – the 2008 crash, the trade wars and then C19). The whole perceived importance of supply chains was elevated in the spring ("*Don't it always seem* ***to go, you don't*** *know* ***what you've got 'til it's gone!")***. The new rule wasn't JIT it was (to be, we'll see) JIC (just in <u>case</u>), and the greatly over-used word "*resilience"* rose to the fore. But it's not just in the dark days – the ATA's "Transport Topics" wrote *this week* that "Manufacturers re-think supply chains; Eye re-shoring after the Events (sic) of 2020".
    - *DHL (not an uninterested actor) says that its Globalization Index (the year 2000=100)peaked in 2017 at 127*, dropped to 122 for 2018-2019 (trade wars) – and could end up at 111.
    - *De-coupling with China?* BofA estimated that would cost some $1T (not a typo – "T") over 5 years; in fact, China's recovery, whatever one thinks of their C19 response, has been extraordinary, and their share of global exports increased from ~13% to 20% by midyear '20 (IHS). In fact, China will show *positive* GDP numbers for 2020, and not just by PRC stats.
    - *Near-shoring? Refer back to my mid-year report ("Manana") – I just don't see it.* Looking beyond PPE issues, the Center for Automotive Research notes that Mexico's poor handling (ahem) of the Covid crisis has hindered their efforts in that regard.
    - *EY stated in April that 83% of the global manufacturers they polled were looking to de-couple from China and re- or near-shore; in October that number was down to 37%*

OK, I will add an 11th:

- **The 2020 World Series – the only indisputably good news from 2020**

Other Rail news-of-note:

- Posner-Power – Henry Posner's Railroad development Corporation (RDC) sold a 40% stake (terms undisclosed) to an infrastructure fund, iCON; this surprised me….
- Israeli steamship line Zim filed for an IPO (they have tried three times before but their recent record of repositioned success as a high-service point-to-point player, a good lesson for RR/IM –

and operator of a short-sea service to Mexico, recall, means that the 4th time is likely the charm….the early look values the company at $1.5B

- Congratulations to both Don Itzkoff and to Patriot Rail as Don joined the SLHC (short line holding company) as Chief Policy Officer (think: government relations and such); Patriot has pulled together an all star like team in recent days by adding Don, Roquita Coleman (ex-CN) and the mighty, mighty Owen Zidar to their ranks and having ex-ASLRRA and multi-year ***RT*** speaker General Rich Timmons on their Board….
- In other short line news, Roy Blanchard (WIR) reports that a unit of the SLHC Rio Grande Pacific will lease – and reopen since its 1997 closure – UP's Tennessee Pass (strangely it's in Colorado) line, 163 miles and a sign that Class Ones can be on both sides of short line transactions. This one is really interesting….if successfully rehabilitated, it could be run as both passenger and freight (see my tweet, above); meanwhile the deal is being challenged by another short line Tennessee Pass Revival: It's Complicated - Railway Age
- December ISM numbers were a big, almost shocking surprise (note that the FT said the 4.1 point "beat" over consensus was "at odds with other evidence")
- Auto sales were also surprisingly strong for Q4 (GM +5%, etc)
- DHL beat its own earnings guidance by 10%
- December Class 8 truck orders were the 4th highest ever, and FY20 the 2nd (behind only 2018, and we know how that turned out for the TL/IM markets)
- Wind power overtook coal (25% to 18%) in….Texas
- Whatever happened to….*blockchain?*
- *On the other hand,* I received an unsolicited offer for an IPO of *Convoy* (an internet truck brokerage) shares at $14 valuing the company at $2B ; just came over the transom….
- Today's WSJ reveals that Mary Steenburgen's father, Maurice, was conductor on the MoPac (Missouri Pacific, now part of the UP, and generator of a lot of rail leadership in the 19802-2000s, the so-called "MoPac Mafia")
- YRC – and, you might have missed it, the WSJ also reported YRC (formerly Yellow/Roadway) received $700mm – or 95% of the $736mm in outstanding federal loans
- The last, best hope for a significant increase in PRB coal exports to Asia seemingly died when the Millennium Bulk Terminal project in WA, the last standing survivor of ~10 such project efforts, was shut down over the weekend….

Another reason to say "good riddance" to 2020 – parked cars and ended dreams: RailPictures.Net Photo: Untitled n/a at Mill Creek, Oklahoma by David Hawkins. Note what's missing in the photo? (and thanks to Bobby B for sending this to me!).
Also sad: https://www.lrb.co.uk/the-paper/v43/n01/ian-jack/the-railway-hobby
It does remind me of my first ever night in Melbourne (AU) – I passed a big storefront called something like "Railway & Railfan" – and in the window was a copy of (our) Trains magazine – in fact one in which I was quoted and even interviewed (their "Q&A").
I was so excited so I entered, brought it to the counter where the clerk and the (only) other customer were in deep conversation…. I said "hello gents – *I am featured in this issue!* (cue to daydreams of setting up a lecture there for the next night, friends in town, pints all around). The response: "Good on ya (or some such); that will be eight dollars, mate"….cue delated balloon.

Got a feeling '21
Is going to be a good year

Especially if you and me
See it in together
So you think '21
Is gonna be a good year?

Be safe!

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