RAILROAD WEEK IN REVIEW

March 18, 2022

"Chicago May wheat has moved within a daily 85-cent range, with strength coming from a proposed ban on Russia's wheat exports through June. Corn is under heavy pressure, with funds having sold an estimated 13,000 contracts, as is soybean oil, and crude oil liquidation has been occurring all day long.." — Progressive Farmer/DTN, March 14

"The longer the Russia-Ukraine conflict lasts, the more insecurity about food supplies it may bring not only to the Ukraine and the region, but also to the whole world. The prices of wheat and corn had already spiked before the war, but due to the conflict we may expect prices rising further, having strong implications on the poorest African economies." — IHS Markit, March 7

"Russia has decided to 'temporarily suspend' fertilizer shipments… US fertilizer stocks have been on a tear, as relatively cheap US natural gas has given domestic suppliers a significant cost advantage over European and Asian competition." — Seeking Alpha, March 10

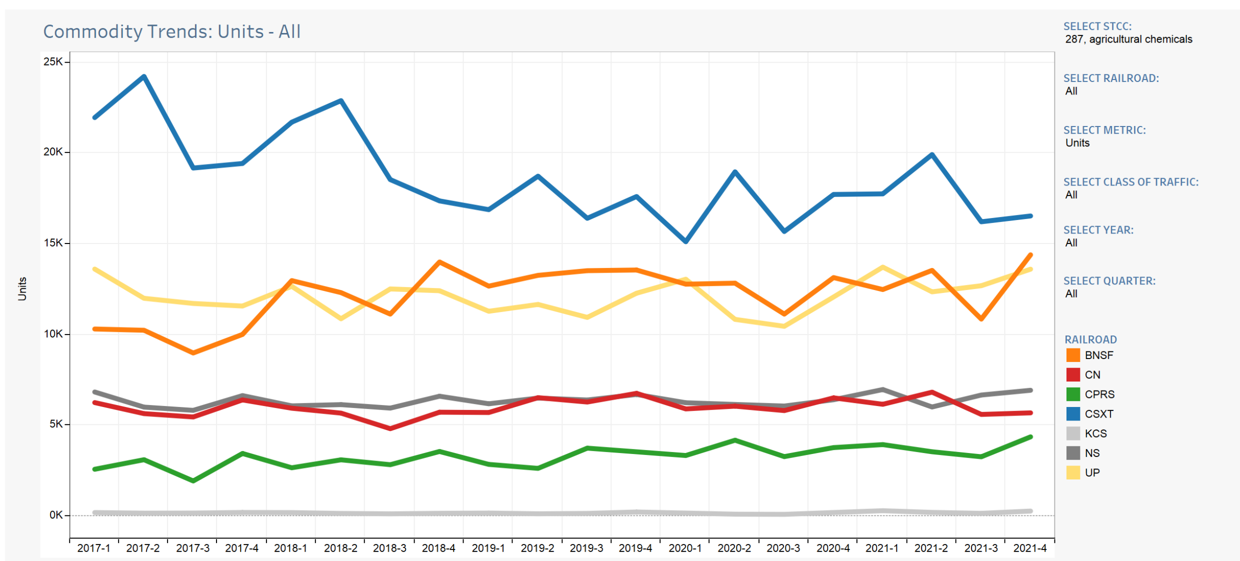
"AAR carloads of crushed stone, sand, and gravel rose for the tenth straight month, with carloads up 36.3 percent over last February. For the first two months of the year, carloads were up 7.3 percent. The recently passed infrastructure bill will provide hundreds of billions of dollars to infrastructure projects, including huge sums for road projects. According to the Association of Equipment Manufacturers, 38,000 tons of aggregates are needed on average to build one lane mile of interstate highway. A typical railcar of aggregates contains more than 100 tons." — Rail Time Indicators, March 4

Russia is the world's largest fertilizer exporter at more than 50 million tonnes[1] a year, representing some 13 percent of world output. The biggies are ammonia 23 percent, urea 14 percent, potash 21 percent, and phosphates including DAP and MAP another ten percent. US phosphate producers (Florida, North Carolina, Louisiana, e.g.) imported nearly a $billion worth in 2019, to give just one example.

Fertilizer isn't cheap and it's getting pricier. *Progressive Farmer/DTN* says most nutrients are today much higher in price than they were a year ago. DAP and MAP are up nearly 50 percent, urea and potash have doubled, UAN has jumped 1.5 times, and anhydrous is pushing a triple. Assuming you can get it.

Fertilizer, as measured by the STB waybill sample for the generic STCC 287, is a consistent business for all the Class Is. It's also good for the Class II and III railroads by dint of their local focus. What's more, in these days of unpredictable Class I local service, the local haulers can do multiple spots per day as needed to absorb Class I bunching and missed interchanges.

[1] *One European "tonne" is 1,000 kilograms or about 2.2 US tons.*



Last week I wrote about the smaller roads' participation in the grain markets. How much US grain can replace wheat, beans, and corn from Russia and Ukraine remains to be seen. But with grain prices rising as fast as fertilizer prices, it would appear farmers can absorb some or all of the higher nutrient prices. Fingers crossed until the third quarter.

The American Iron and Steel Institute reports that U.S. steel mills in 2021 shipped 94.7 million tons of steel, up 16.9 percent over 2020. AAR 2021 metallic ores & metals were ten percent of total revenue units. For the non-class I roads the category accounts for about six percent of total revenue units. Norfolk Southern dominates steel STCC 331, handling about as many revenue units as all the other class Is combined.

US steelmakers rely on Russia and Ukraine for shipments of pig iron and steel slabs, used to produce raw steel at electric arc furnace (EAF) steelmakers and for rollers to make flat-rolled products. In 2021 United States iron and steel imports from Russia came to nearly $3 billion, per the United Nations COMTRADE database on international trade.

Barron's reported just a week ago that "tough sanctions due to the Russia-Ukraine conflict" are driving steel prices higher. This could hurt Russia as it exports steel to more than 130 countries and territories. The top ten countries alone import more than 800,000 metric tons each and together account for roughly two-thirds of Russia's steel exports.

Not any more. The U.S. and its allies are moving to isolate Russia still further from the global economy. Just the other day the Biden administration said it would join Europe and other allies in stripping Russia of permanent normal trade relations, another step to inflict economic damage on the country over its invasion of Ukraine.

At the same time, Russian steel firms are facing their own difficulties exporting to the bloc. The country's Severstal PJSC suspended sales to Europe, its biggest export market,

after billionaire owner Alexei Mordashov was sanctioned by Western nations, along with other tycoons in the country.

In short, the North American steel producers will need to replace the steel formerly imported from Russia. The impact on total STCC 331 carloads will most likely be small, but patterns will shift. We used to see Russian steel slab here in Philadelphia, for example, so seeing that slab produced in the Chicago area will diminish carloads from Philadelphia while adding carloads out of Chicago. The non-Class I carriers ought not to see any changes in finished steel products over their last-mile franchises.

On the other hand, more steel produced in-country will increase carloads of raw material. We know of several new EAF facilities coming on line and they will need anthracite coal and ferrous scrap. Conventional mills will see more carloads of iron ore, limestone, and coking coal. The railroads ought to do well in any event.

Wolfe Research lead rail analyst Scott Group writes a weekly *Friday Freight* note in which he reports on transportation-related matters. For March 11 Scott "spoke with a railroad shipper of petroleum products" about his relationships with and observations about Class I railroads. The comment that stood out for me: "Given the uncertainty with rail service, this shipper plans to add to his rail car lease fleet." Not good.

At this week's STB reciprocal switch hearing, the remarks of Private Rail Car Food and Beverage Assn (PRFBA) President Herman Haksteen, accompanied by former STB Chair Dan Elliott, former STB chair, addressed about additional costs incurred when shipments in his leased fleet are irregular. Hacksteen said that transit times *per se* are not a problem "as long as we know what they are."

But Class I local service delays add to his lease cost per ton, mandate a bigger fleet, and interrupt the internal goods flow. He concluded, the Staggers Act helped save the railroads then; "now we need the railroads to invest in the assets they need to earn (his word) our business." Happily, his shortline-served facilities can absorb many of the line-haul delays through extra switches and other custom services. Given a choice, Hacksteen's members prefer shortline sites for precisely that reason.

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