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BLIMLING AND ASSOCIATES
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Freight and Power

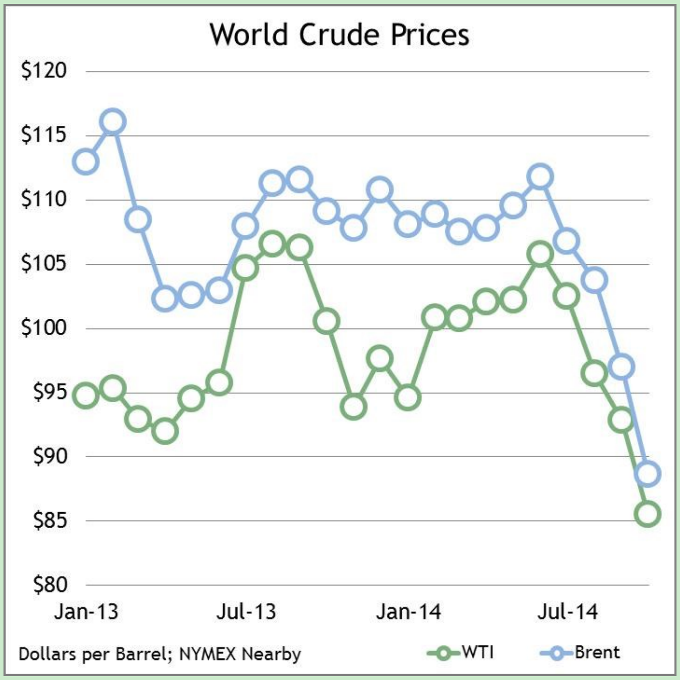
Since reaching a 2014 peak in July, world crude prices have been in freefall mode. Prices receded over 20% amid concerns over strong US-led supply growth in a weak global demand environment. Declining equity markets coupled with a strong dollar only added fuel to the fire. Diesel prices saw a marginal retreat, as values were partially supported by lower distillate output. The natural gas market is relatively quiet with above-average October temperatures limiting seasonal demand.

But, while crude prices appear down and out, freight rates continue to climb. A chronic shortage of drivers has spot rates rising to new all-time highs and, equally problematic, has carriers scrambling to service contracted lanes. Tanker rates have seen the largest gains, up 45% versus a year ago. Reefer and dry van costs have also risen, albeit at somewhat more manageable levels.

vs Last Week	vs Last Year	Market	10-Oct	3-Oct	26-Sep	19-Sep
-4%	-16%	WTI Crude Oil (NYMEX; bbl)	$ 85.82	$ 89.74	$ 93.54	$ 92.45
-2%	-19%	Brent Crude Oil (ICE; bbl)	$ 90.21	$ 92.31	$ 97.00	$ 98.39
-5%	-15%	Unleaded Gas (NYMEX; gal)	$ 2.26	$ 2.38	$ 2.66	$ 2.47
-4%	2%	Natural Gas (NYMEX; mmbtu)	$ 3.86	$ 4.04	$ 3.98	$ 3.84
-2%	-16%	Heating Oil (NYMEX; gal)	$ 2.56	$ 2.62	$ 2.70	$ 2.72
-1%	-5%	US On-Highway Diesel (EIA; gal)	$ 3.70	$ 3.73	$ 3.76	$ 3.78
-1%	-5%	East	$ 3.71	$ 3.76	$ 3.78	$ 3.80
-1%	-6%	Midwest	$ 3.64	$ 3.67	$ 3.69	$ 3.71
-1%	-4%	Gulf Coast	$ 3.64	$ 3.66	$ 3.69	$ 3.70
-1%	-4%	Rocky Mountains	$ 3.75	$ 3.79	$ 3.81	$ 3.84
-1%	-4%	West	$ 3.89	$ 3.93	$ 3.95	$ 3.99
-3%	45%	US Tanker (Dairy.com; mile)	$ 4.20	$ 4.31	$ 3.64	$ 4.63
0%	12%	US Reefer (DAT; mile)	$ 2.29	$ 2.28	$ 2.33	$ 2.33
0%	7%	US Dry Van (DAT; mile)	$ 2.03	$ 2.03	$ 2.02	$ 2.03
-1%	7%	US Dollar Index	85.91	86.69	85.64	84.73
1%	-7%	Euro / Dollar	1.26	1.25	1.27	1.28

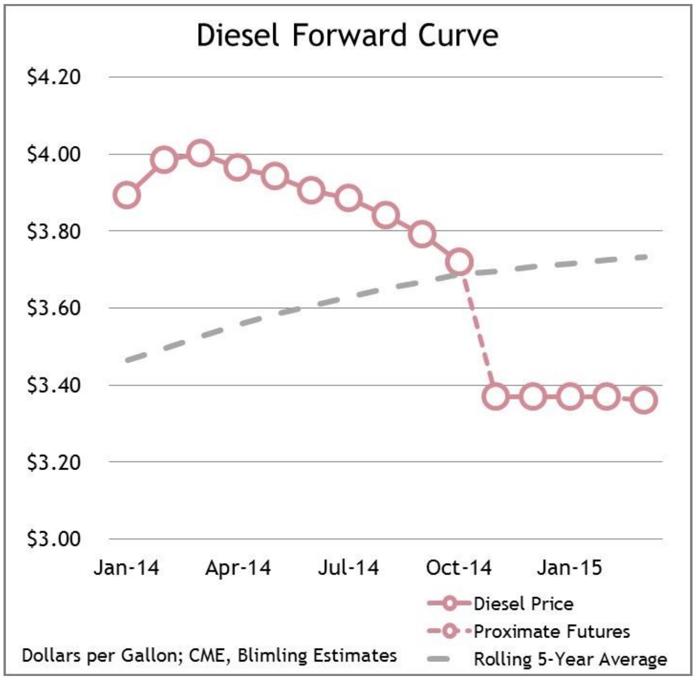
Crude Oil and Diesel

- A perfect storm of bearish factors has converged on the global crude market, sending prices spiraling downward. In the span of just four weeks, both WTI and Brent futures values have given up 13% and 15%, respectively. On Thursday, the WTI nearby price closed at $82.70 per barrel, while Brent futures settled only $1.77 higher at $84.47.
- The drivers are familiar – a global supply glut coupled with weak economic growth. Yet new pressures have arisen with global equities sinking and OPEC output rising despite a $16 discount to its $100 target level.
- Expert opinions regarding crude's next move are divided. Some view support at $80 per barrel, assuming OPEC will soon trim output. Others see further price deterioration ahead, suggesting US shale-based production will not throttle back until prices reach $75 or even $70.
- US crude production surged to 8.95 million last week and is up a staggering 19% versus a year ago. Output is now at its highest level since June 1985.



US Crude Oil Fundamentals			
	10-Oct	vs Last Week	vs Last Year
US Production [1]	8,951	1%	19%
US Imports [1]	7,740	0%	-4%
Cushing, OK Stocks [2]	19,645	4%	-43%

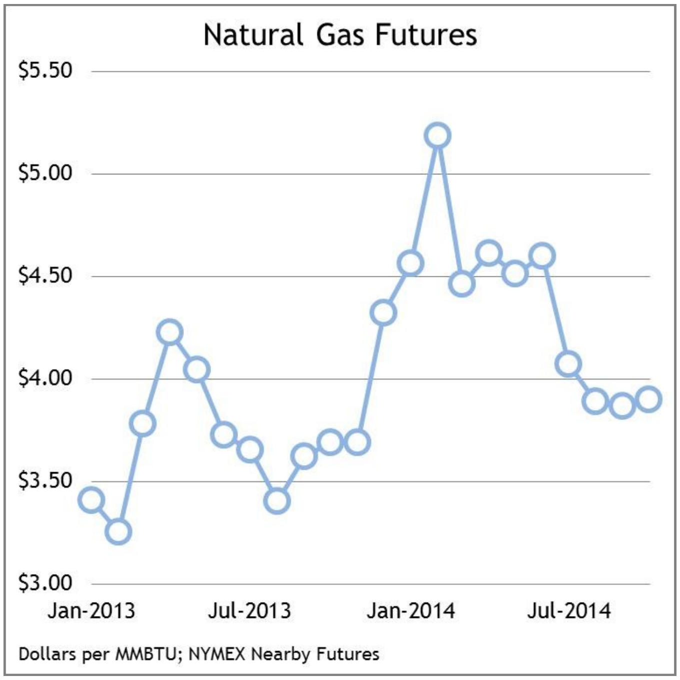
[1] Thousand Barrels per Day [2] Barrels



- US diesel prices continue to trend lower, although not at the pace of crude or unleaded gas. Prices fell to $3.70 per gallon, down 2% or $0.08 since late September.
- Distillate output has scaled back in recent weeks, down 6% to 4.5 million barrels per day. Stocks lost ground as well, down 3% to 124.6 million barrels since late September.
- Implied diesel futures suggest a substantial price correction, down to $3.38 per gallon.
- Unleaded gasoline prices have dipped to $3.15 per gallon, driving an above-average spread to diesel at $0.55.

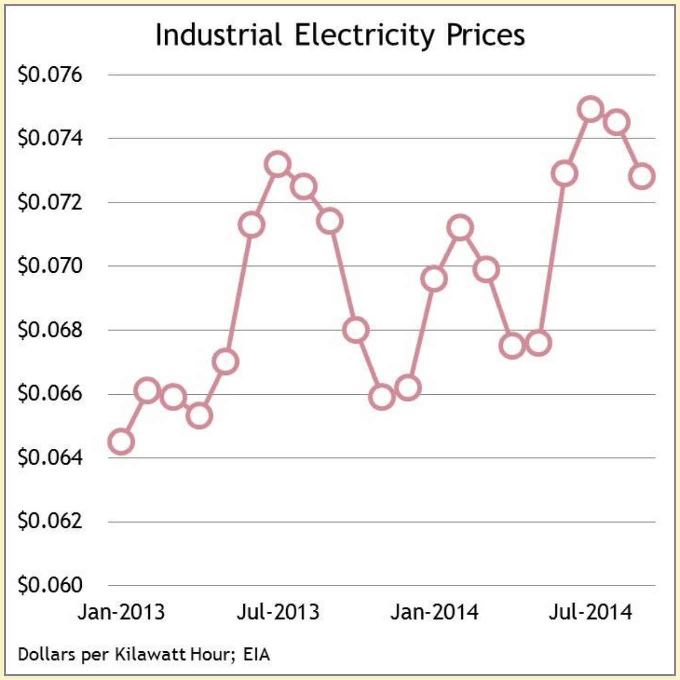
Distillate Fundamentals			
1,000 bbl / day	10-Oct	vs Last Week	vs Last Year
Production	4,582	-3%	-1%
Stocks	124,622	-1%	2%

- Natural gas nearby futures traded around $3.80 per MMBtu for the better part of this week. Prices are down 7% for the month with mild October weather keeping demand in check.
- September industrial end-use gas was reported at $7.28 per thousand cubic feet, up 2% year-over-year.
- Natural gas in working storage rose 3% to 3.3 trillion cubic feet for the week of October 10, however storage remains 10% behind 2013 levels. This is the lowest October storage deficit since 2005. Working stocks are expected to reach their peak in mid-November at which time it switches into draw-down mode for the winter months.
- In Europe, concerns are growing over potential disruptions in Russian gas supply piped across Ukraine. Russia cut gas supply to its neighbor in response to unpaid debt and is now urging Europeans to utilize other pipelines to ensure continuity of supplies during the winter period.
- As reported by Baker Hughes, the number of active gas rigs was 320 through October 10. This is down 3% for the week, 13% off from a year ago.



Natural Gas Fundamentals			
	10-Oct	vs Last Week	vs Last Year
Working Storage [1]	3,299	3%	-10%
Active NG Rigs	320	-3%	-13%

[1] Billion cubic feet



- September industrial prices, as estimated by the Energy Information Administration, dropped seasonally to $7.3 cents per kilowatt hour. Prices are 2% ahead of 2013. West Coast customers were charged $9.4 cents per kwh, on average. Those in the Mid-South enjoyed the lowest rate at just $6.3 per kwh.
- In the most recent *Short Term Energy Outlook*, the EIA forecast 2015 industrial prices to hold steady versus 2014.
- The severity of the California drought has caused a shift in the state's power generation mix. From 2014 to 2013, hydropower accounted for 20% of in-state power generation. However, year-to-date through July, hydropower has only driven 10% of the state's needs, with the balance made up by more expensive natural gas-fired capacity.

Natural Gas and Electricity

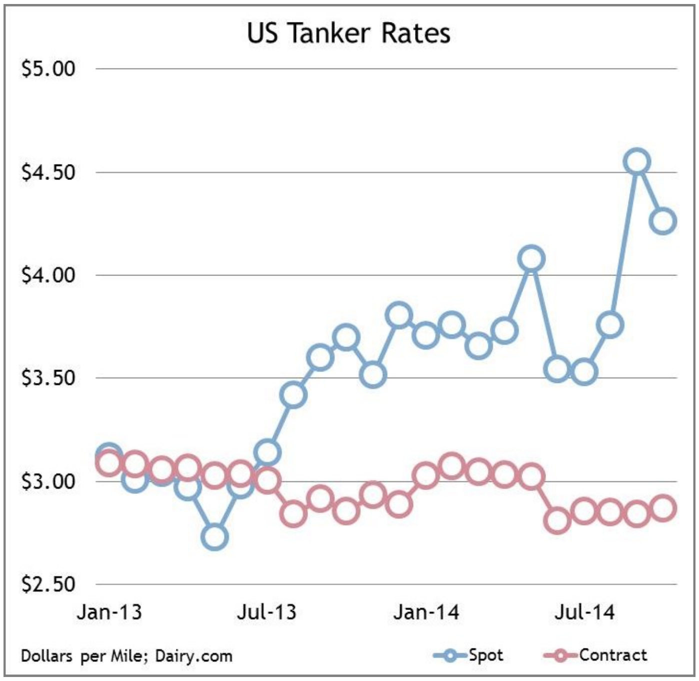
Transportation

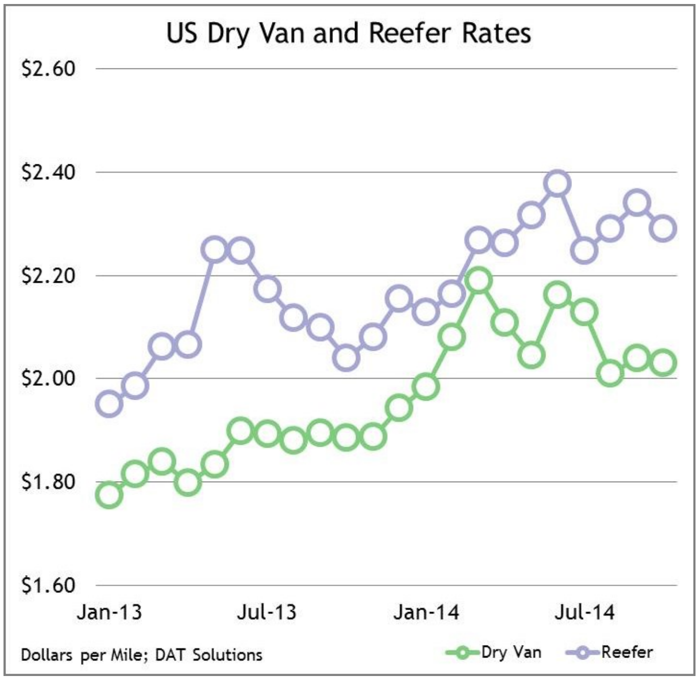
The nation's trucking industry is wrestling with structural issues leaving US dairy companies with millions of dollars of incremental and unexpected freight cost. While trucking demand in the manufacturing, agriculture, and gas and oil sectors remains strong, freight companies are finding it increasingly difficult to hire and retain qualified drivers. Heavy advertising, higher pay and sign-on bonuses are having only a marginal impact on expanding the driver force. Drivers who remain in the industry are being lured to the lucrative world of hauling sand, water and oil in support of the US fracking industry, where pay can run up to $100,000 a year.

Over the next ten years, the US trucking industry will require one million new drivers to keep pace with demand growth, plus replace soon-to-be retirees – approximately 25% of the driver force. But, to get there, trucking companies will need to restore pay premiums that have eroded away across the truck driving profession in the past decade.

In short, the driver shortage is likely to escalate service challenges, reduce carrier flexibility, heighten carrier sensitivity to plant delays, and above all, increase freight charges. Already spot rates have reached unprecedented highs and contract rates are expected to follow. Freight procurement professionals will require new strategies to manage carriers under these new conditions.

General Industry Trends	Sep '14	vs Last Month	vs Last Year
ACT Large Truck Orders	29,400	-2%	32%
ISM Manufacturing Index	56.6%	-4%	1%





- Spot tanker rates pulled back some after averaging $4.55 per mile last month. Prices remain elevated due to the growing driver shortage, in addition to the seasonal uptick in school milk deliveries.
- National reefer rates remain fairly steady at $2.29 per mile. Costs were highly variable across regions, ranging from $1.79 in the Southwest to $3.13 in the Midwest.
- US dry van rates are holding at $2.03 per mile. Rates have shown little movement since the summer when prices were near $2.20.