Tortoise QuickTake Podcast

June 12, 2017

Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, a senior member of Tortoise provides a timely update on trending topics in the market.

Hello. I am Tortoise Managing Director and Portfolio Manager Rob Thummel with this week's Tortoise QuickTake podcast highlighting the top energy events of last week.

Once again, oil prices dominated the headlines last week.

Early in the week, oil prices traded higher as the Saudi Arabia energy minister said that OPEC would assess the current market situation in July suggesting further oil output cuts could be needed. However, any gains were erased on Wednesday when the EIA released its weekly oil inventory report.

What happened? A complete surprise that triggered many oil bears. Analysts forecasted a decrease in weekly U.S. oil inventories. Instead, the EIA reported a 3.3 million barrel increase in inventories ending the streak of eight consecutive weeks of declines in U.S. crude oil inventories. This report caught the market completely off guard. As a result, oil prices fell by 5% the day of the inventory report and ended the week down by 4%.

What caused the big deviation from analyst estimates? The collective effect of higher than expected imports into the U.S., lower than expected exports out of the U.S., and a slight decrease in weekly refinery utilization drove the unexpected increase to oil inventories.

So, where do we go from here? At Tortoise, we believe declining U.S. oil inventories will be the driving factor that moves oil prices higher and reverses the negative sentiment associated with the energy sector. We expect oil inventories to continue to decline throughout the summer. Surprisingly, Canada, not OPEC, was the culprit behind the larger than expected increase in oil imported into the U.S. Over the next several months, we expect crude oil imports from OPEC to decline significantly while Canada's higher than expected import number is not expected to reoccur. In addition, oil exports out of the U.S. are expected to continue to rise. More about that in a minute.

Ultimately, we continue to believe that oil prices will return to the $50 - $60 per barrel range.

How has all of this impacted the energy markets? Currently, oil prices are directing the energy markets. Oil prices have declined by 12% year-to-date while the energy sector as represented by the S&P Energy Select Sector Index® is down 12% year-to-date and MLPs as represented by the Tortoise MLP Index® have declined by 5% year-to-date. It's been frustrating for energy investors as the negative sentiment associated with the energy sector has disconnected stock price performance from some positive fundamental stories developing as we transition to a new era for the U.S. energy sector. At Tortoise, our lengthy history of investing in the energy sector leads us to believe that fundamentals should eventually prevail.

In other news last week, you might have read about escalating tension between Qatar and Saudi Arabia. What impact could this have on the oil markets? Our view is that any tension will have a minimal impact on the oil markets as Qatar produces around 700,000 barrels per day of oil representing less than 1% of global oil supply. However, Qatar is a large player in the global liquefied natural gas or LNG markets. In 2016, Qatar represented approximately 30% of the total global LNG supply. The global LNG market is growing and the U.S. is becoming a reliable supplier of LNG to the rest of the world. If these tensions impact Qatar's reliability as an LNG supplier then the U.S. could gain additional market share.

In company specific news, the largest acquisition last week occurred when SemGroup, an energy infrastructure corporation, announced an agreement to acquire Houston Fuel Oil Terminal Company for $2.1 billion. The assets are strategically located on the Houston Ship Channel. You might have never heard of the Houston Ship Channel so here is a little background. The Houston Ship Channel is a 50-mile manmade port that is over 100 years old. It serves as an export hub where many energy commodities such as crude oil, gasoline and petrochemicals are loaded onto tankers from land-based storage tanks and delivered to foreign countries. These assets will allow SemGroup to participate in the growing trend of exporting crude oil and refined products. For example, average crude oil exports from the U.S. in 2017 are almost 2 times higher than exports for the same period in 2016. At Tortoise, increased exports are an emerging trend that we believe will grow as the U.S. becomes a meaningful supplier of low cost energy to the rest of the world.

Those are the highlights from last week. Thanks for listening. We will talk to you next week.

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseinvest.com.

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