Tortoise QuickTake Energy Podcast

Tortoise

Sept. 16, 2019

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

Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Energy Portfolio Manager with Tortoise.

It's great to see the NFL back in action. Patrick Mahomes and company picked up right where they left off last year with the Chiefs' offense clicking against one of the better defenses in football. If you felt a huge sigh of relief out of the heartland last Sunday, that's because every Chiefs fan was exhaling after Mahomes came back into the game after suffering an ankle injury. Safe to say the Chiefs wouldn't trade Mahomes for anyone in football at this point. On another positive note, my alma mater, the Kansas Jayhawks, picked up their first road win against a power five conference school in 48 games. Yes, 48. If the Jayhawks can turn around sentiment on the gridiron, so can energy stocks! It's a whole new world out there.

We'll start things off with market performance for the week that was:

- On the commodity front, crude oil fell, declining approximately 3%, while
- Natural gas had a solid week, higher by approximately 4.8%,
- Shifting to equities, the broader S&P Energy Select Sector Index® rose 3.5%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ were even better, up 5.3%
- And finally MLPs also had a solid week, as the Tortoise MLP Index® rose 3.4%

It was a pretty wild week, so let's start at the macro level as we witnessed a massive stock market reversal as momentum stocks were hit hard while cyclicals surged. Dubbed an unwind of an incredibly crowded trade of long momentum and short cyclicals, risk was back on. Energy markets were certainly enjoying that as they responded positively. The primary driver was noted as improving talks around trade between the U.S. and China with the possibility of a truce discussed.

EQT Corp, a Marcellus Shale exploration and production company, announced a 23% workforce reduction, with expected cost savings of $50M dollars annually. While it's never good to see jobs lost, with new management in place, this was somewhat expected.

The biggest news of the week was certainly in the oil markets.

A bunch of tidbits to relay, starting with Saudi Arabia announcing a change in oil ministers, Out was Al Falih, in with a relative to Crown Prince Mohammad bin Salman. The primary thoughts from the market were two-fold, one, the old minister wasn't getting oil prices to the $80 dollars necessary to balance the budget and two, there is a desire to accelerate the IPO of Saudi Aramco.

President Trump apparently fired National Security Advisor John Bolton on Tuesday. Or Bolton resigned, depending on whom you believe. Either way, an Iran sanctions hawk is no longer advising the president. Markets took that to mean that a deal with Iran may occur, lowering crude oil prices as supply could make its way back on the market quickly if sanctions were eased or lifted altogether. This feels like a pretty long putt at this point, but never say never.

The Department of Energy announced a crude stock draw of almost 7 million barrels this past week as well.

The Joint Ministerial Monitoring Committee met on behalf of OPEC and its partners and while further cuts were not contemplated, it was noted that compliance should improve among countries that are cheating, in particular Iraq.

Additionally, key oil agencies released updated forecasts with weaker 2020 fundamentals due to softer demand and stronger non-OPEC supply.

Of course, all of this will be overshadowed by the events in Saudi over the weekend as it was reported that 10 drones targeted two separate Saudi Aramco oil facilities, damaging and/or shutting in crude production capabilities for roughly half of the country's production. That would equate to approximately five million barrels per day, or 5% of the worldwide supply.

Yemen's Houthi rebels claimed responsibility for the attacks, a group which is widely believed to be supported by the Iranians. Secretary of State Mike Pompeo tweeted specifically it was Iran behind the attacks and not Yemen.

Which leads us to the next question, what happens to crude prices? We've seen an initial spike in the spot price of roughly 10%, which will likely stay until more facts are uncovered, most notably what exactly was damaged and how long it will take the Saudi's to get production flowing again. Safe to say there will be some serious short-covering first thing in both crude oil and stocks, which will push prices higher than it otherwise would. In terms of supply, Saudi has said they would draw on inventories to compensate in the near term and they have plenty of capacity to do so.

We have noted in these podcasts for some time that the geopolitical risk premium in crude oil has been close to non-existent for several years. It's possible that comes back into the mix now. The real concern will be what this does to escalate tensions in the region, already at a fairly high level. And that goes well beyond just crude oil prices, but the physical safety of people. We can only hope that cooler heads prevail and de-escalation occurs rapidly. We will of course keep you updated as this unfolds.

That will do it for today. Have a great week and we look forward to speaking with you again soon.

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@tortoiseadvisors.com.

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The **PCE inflation rate** is the Personal Consumption Expenditures Price Index. It measures price changes for household goods and services. Increases in the PCEPI warn of inflation while decreases indicate deflation.

Broad Energy = The S&P Energy Select Sector® Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

Producers = Tortoise North American Oil & Gas Producers Index℠
The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

MLPs = The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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