Tortoise Energy Podcast

Tortoise

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

Hello I am Matt Sallee, Energy Portfolio Manager at Tortoise.

Last week wrapped up the tail end of earnings on a relatively positive note. First Saudi Arabia announced they would reduce output an additional 1 million bpd which, along with other data points, led to a 20% gain in the WTI price. So what other data points?

Well, the trio of EIA, IEA and OPEC updated their oil market forecast for 2020. The key data points are as follows; for demand destruction, estimates range from 8.1 to 9.1 million bpd with OPEC calling for the biggest decline. But the biggest revision from last month's estimates from all 3 agencies was for non OPEC supply. The average forecast is now a 3 million bpd supply contraction, 50% higher than last month's estimate led by North America; finally some discipline from U.S. producers, let's hope they're right because if non-OPEC helps with the supply reduction I believe OPEC will be more compelled to adhere to its announced cuts. The bottom line is all three call for OPEC production to be curtailed between 5 and 6 million bpd so if the announced cuts hold, after a brutal first half of 2020, the market will fall into deficit and quickly chew up some of the glut of inventory that has built recently.

So that's the longer term forecast but we are also closely following what is going on real time from the well head to the gas pump. Starting upstream, we've talked at length in recent weeks about the amount of oil production curtailed and shut-in in the U.S. and Canada. This has generally been in a range, on the low-end, of an estimated 2.5M bpd up to 4.5M bpd on the high end. For context, this is about 20% off a base of a little over 17M bbls/ day. Even with these barrels off the market we've witnessed huge U.S. inventory builds totaling 88M bbls going back to early March as refineries were running in the high 60% utilization rates; their bare minimum without going into full shutdown. Even with low run rates refineries have still been producing more product than is needed given gasoline demand was down an estimated 45% during April leading to huge gasoline builds. With that said over the last few weeks we started to see some positive signs. According to ISI, after peaking at over 90% of the U.S. population, stay at home orders have been dropping steadily and by the end of last week represented below 20% of the country. Likewise, based off DOE weekly inventory report, gasoline demand has been improving nicely in the last few weeks. After peaking at down 48%, the latest reading has improved to less than 20% off normal. Similarly, Apple mobility data is reporting a steady increase in request for driving directions. Interestingly the requests for transit directions have not shown much improvement confirming our suspicion travelers will be slow to return to communal forms like subways and buses, which along with the lagging return of air travel, could stimulate gasoline demand similar to what we've seen play out recently in China.

This data was supported by Wednesday's DOE inventory report which showed a 750,000 barrel crude oil weekly draw, the first in 16 weeks. Additionally, gasoline inventory dropped another 3.5 million barrels bringing the 3-week total to over 8 million in decline, again, supporting improving demand and disciplined refinery production.

Shifting to earnings, the big news in global energy markets was after Saudi Arabia announced an additional 1M bpd production cut, Saudi Aramco reported Q1 profit down 25% to $16.6B. Further, the company generated free cash flow of $15B compared to the $25B of dividends paid in the quarter. Finally Aramco plans to invest $25-30B in capital during 2020. According to the IMF they need $76 Brent crude to have a balanced budget so we are cautiously optimistic that they will keep production curtailed.

In the U.S., Energy Transfer announced an in-line quarter on strong natural gas liquids volumes similar to what others have reported. The highlight was updated guidance which was only down 4.5% vs pre-COVID levels, a smaller impact than we were modeling. They also reduced capex $400M but we were disappointed they couldn't cut more. However, if the environment remains challenged, as we expect it will, they can reduce capex to less than $2B which results in significant free cash flow generation even beyond dividends paid in 2021.

Next up, Equitrans Midstream put up a big quarterly beat on gathering and water volumes and updated full year guidance, slightly increasing it to reflect the strong first quarter and expected stable performance looking forward...pretty remarkable in this environment. As expected, nothing material has changed on the outlook for permitting for the Mountain Valley Pipeline so that aspect remains a waiting game which is frustrating.

Finally, a key producer in the Bakken, Continental Resource, announced an in line quarter and is tracking slightly below its capex target which was down 55% from initial plans. The big news is they are a curtailing 70% of the production for the month of May and exit to exit production volumes are forecast to decline over 20% excluding the impact of any ongoing curtailments.

I'll leave it there for now. Thanks for listening.

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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