Tortoise Energy Podcast

Tortoise

May 26, 2020

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 Tortoise Managing Director and Portfolio Manager Rob Thummel with this week's Tortoise QuickTake podcast.

I hope everyone enjoyed the Memorial Day Holiday. I know we all appreciate the sacrifices made by so many heroes providing each of us with freedoms experienced in our daily lives.
Like many of you, I have spent many Memorial Day holidays asking and being asked: are we there yet? This year my family took a temporary hiatus from traveling; however, market participants continue to ask: are we there yet? From many different perspectives.

Last week, markets participants were rewarded as Moderna raised the possibility that the world could be closer to a COVID-19 vaccine. As a result, the S&P 500 index rose by 3.2%. The global oil market saw signs that we are getting closer to being balanced as transportation demand increases and supply cuts take hold. Supported by a second consecutive week of oil inventories declines at Cushing Oklahoma, WTI oil prices rose by 14% last week helping propel energy stocks. In fact, the Alerian MLP Index posted its best week of the entire year rising by 11%. While the Alerian MLP Index and the Alerian Midstream Energy Index have bounced off of March lows, we still see midstream energy as a compelling investment opportunity as stock prices of midstream companies have declined by a larger percentage than the expected decline in company cash flows.

As we inch closer to a post-COVID world, I thought it might be helpful to explore our latest thoughts regarding the energy sector.

While oil dominates the headlines, natural gas continues to provide a compelling ratio of energy intensity relative to carbon dioxide emissions. As a result, we see natural gas as a critical source of energy supply going forward. A reduction in natural gas demand caused by COVID-19 has resulted in the convergence of global natural gas prices. In the short term, this restricts global LNG trade. Last week, it was reported that potentially 35 – 45 U.S. LNG cargoes scheduled for July loading could be canceled due to low prices. However, low natural gas prices encourage coal-to-gas switching. We expect low natural gas prices in Europe to result in coal-to-gas fuel switching for electricity generation in countries like Germany this summer. Also, South Korea and Japan are expected to switch to natural gas from coal due to low prices as well. Clearly, more natural gas and less coal will reduce carbon emissions. COVID-19 has reduced global energy consumption so carbon emissions are already declining significantly in 2020 but more natural gas and less coal will accelerate carbon emissions declines even more. Longer term, lower natural gas prices are causing deferrals and cancellations of several LNG projects. Therefore, the global LNG market is expected to balance faster than analysts expected and there will likely be less players in the global LNG market. Existing LNG providers like Cheniere Energy with stable cash flows backed by long-term contracts likely benefit from less market participants as LNG demand and commodity prices rise in the future.

What is happening with transportation demand and of course oil?

Normally, we would be talking about Memorial Day being the kick off of the summer driving season. Unleaded gasoline prices are the cheapest they have been for 16 years for this time of year. Apple mobility data indicates driving activities are accelerating and refining utilization rates are rising as consumers return to the roads as we inch closer to the post-COVID era.

Oil prices have responded as the global supply/demand imbalance continues to improve. Oil prices have increased by 78% so far in May and are on pace for their largest monthly gain in history. Remember when oil prices plummeted to negative $37 last month around expiration of the front-month future contract. Last Tuesday was another front-month future contract expiration that did not result in similar theatrics as the previous month. Financial buyers were better positioned this time. Oil inventories will be the regulator on oil prices. The massively oversupplied global oil market in April that resulted in higher inventories is subsiding. On the demand side, indications are that China oil demand is rising approaching pre-COVID levels. U.S. demand appears to be rising as well. Increased demand from two of the largest energy consumers in the world will help balance the global oil supply and demand equation. Meanwhile, in the supply side, Saudi's, Russia, and other OPEC nations are cutting production. U.S. oil production continues to fall and the U.S. rig count is at its lowest level since 2009 indicating further declines in production.

Lastly, on the regulatory front, New York regulators denied a water permit for William's proposed Northeast Supply Enhancement natural gas pipeline. Now, it is unlikely that Williams will pursue this project which would have resulted in lower heating bills for certain New York residents. Many analysts view New York's decision as a positive for the Williams stock price as investors want to see higher free cash flow yields from midstream operators. Spending less on expansion capital will likely immediately enhance William's free cash flow. At Tortoise, we believe increased free cash flow generation will attract new investors to the midstream space so we are focused on directing midstream management teams to accelerate free cash flow generation.

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@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℠
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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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