QuickTake

Tortoise QuickTake Podcast with Matt Sallee
Sept. 8, 2015

Narrator: 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.

Matt Sallee: Welcome to the Tortoise QuickTake podcast highlighting our views on the top energy events of last week. I am Matt Sallee, Managing Director and Portfolio Manager at Tortoise Capital Advisors.

Well, volatility continued on into the first week of September, as if the August that we would all rather forget, never ended…..

For the week, although oil increased 1.8%, the broader S&P Energy Index, E&P companies and MLPs each dropped roughly 3%.

On the news front it was a relatively quiet pre-holiday week so I'll keep it brief…

The big news source last week was the EIA. First with their bullish report on monthly U.S. oil production report Monday, supportive report on crude exports Tuesday, followed by a bearish inventory report Wednesday…talk about a rollercoaster ride.

Monday's oil production report was interesting on a couple of fronts. First, they changed their methodology for reporting initial monthly estimates to increase accuracy. Next they revised January thru May production estimates, cutting them between 40 & 130,000 bpd each, and finally they released initial June production which was down 100,000 bpd from the revised May figure. Finally we're seeing real evidence production is responding to reduced drilling. This combined with an OPEC bulletin suggesting the organization was ready to consider cutting output spurred an 8% rally Monday. Unfortunately, nearly all of which was given back on Tuesday as crude sold off along with the 3% S&P drop, one of the biggest of the year.

But back to fundamentals…The EIA also released their highly anticipated study of the impact of removing the restriction on U.S. crude oil exports. The punchline is the EIA projects that allowing crude oil exports would result in a similar or lower domestic gasoline price. While that may seem counter intuitive, we agree with the logic which I will try to explain simply.

First, U.S. gasoline prices are set off global, not domestic, crude prices. Second, allowing crude exports from the U.S. would put more crude supply on the global market pushing down global prices, all else equal. Therefore allowing exports of U.S. crude could result in lower domestic gasoline prices which is good for U.S. consumers at the pump.

The last bit of news on the EIA front was Wednesday's closely watched inventory report which showed a surprising 4.7 million barrel build in crude inventory for the week. While bearish on the surface the build was driven largely by a pickup in imports for the week which tend to be volatile. Meanwhile, product demand has remained strong and production continues to fall which provides visibility to a sustained improvement in domestic crude oil market balance.

That wraps up this week's podcast. Thanks for listening.

Narrator: 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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