Tortoise QuickTake Energy Podcast

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

Hello. I am Tortoise Managing Director and Portfolio Manager Brian Kessens with this week's QuickTake podcast.

Oil prices took another dive in the holiday-shortened week last week. WTI fell 10.7%, with Brent down 12%. Concerns remain about an oversupplied market due to the U.S., Saudi Arabia and Russia all producing at record levels. Reviewing how we arrived here, Saudi Arabia increased production in front of Iranian sanctions going into effect on November 6, those had the intention of reducing Iranian crude oil exports to zero. Instead of full sanctions, the U.S. gave eight countries a six-month waiver to continue importing Iranian crude oil. Saudi Arabia followed indicating it would reduce exports by 500 thousand bpd in December. Yet additional cuts are necessary to balance the market if the waivers hold in 2019. The Saudi Arabian oil minister said the kingdom would respond to cool the market's anxiety, with an official response likely at the December 6 OPEC meeting. OPEC indicated a determination not to let the market slip back into an oversupply situation in 2019. After all, the average breakeven oil price to meet state budget needs for the wider Middle East is around $80 per barrel, with Russia indicating it needs at least $70 per barrel. Look for production cuts of up to 1.4 million bpd announced at the meeting. Until then, we expect volatile oil prices in anticipation of what might transpire.

Oil's weakness along with broad market jitters took energy stocks lower last week. Broad energy fell 4.9% and producers slumped 6.2%, with MLPs outperforming, though still lower by 3.1%.

Natural gas prices were the one bright spot with prices up 9.3% and staying well above $4 per mmbtu. As James indicated last week, weather is the key driver with gas especially, with inventories tighter than they've been in a decade, and last week it was cold. Certainly those lining the streets of New York during the Thanksgiving Day parade felt it - it was the coldest Thanksgiving since 1901.

Last week brought more corporate consolidation among producers, on the heels of three other deals announced earlier this month. Cimarex Energy announced the acquisition of Resolute Energy for a 15% premium to the prior day's close, or for $1.6 billion. Given Resolute's acreage in the Delaware Basin and Cimarex's expertise there, we think this transaction makes a lot of strategic sense. Synergies include Cimarex controlling costs and using its more proven well designs. For those keeping score, U.S. shale M&A activity now totals $53.5 billion for the year, $10.6 billion higher than 2017.

We've discussed a lack of pipeline takeaway in the Permian leading to wide price spreads between west Texas and the Gulf Coast. The situation in Canada is similar, where Western Canadian Select is selling at a $37 per barrel discount to WTI. Producers are placing incremental barrels on rail, yet the number of suitable rail cars is insufficient and the railroads prefer long-term contracts to accommodate. Some producers that lack downstream refining are considering voluntary curtailment to help prices, with the government in Alberta looking at potentially mandating production cuts or offering tax breaks. There is some hope in the near term with refiners coming out of fall maintenance and in the second half of 2019 Enbridge's Line 3 replacement and expansion project is expected to come on-line. In the interim, expect more rail volumes and fully utilized Canadian pipeline and storage infrastructure.

Finally, while increased U.S. oil production impacts prices to the downside, more oil to transport is more opportunity for U.S. energy infrastructure companies. Midstream corporate executives know this better than anyone and have been notable buyers since the end of October, purchasing about $40 million in their own stock.

This week expect more posturing by Saudi Arabia, other OPEC members and Russia ahead of the December 6th OPEC meeting. Also, don't be surprised if we see some more M&A activity before year-end.

We hope you all had a Happy Thanksgiving. We are thankful for your trust and confidence in us and the opportunity to provide timely thoughts on the energy markets.

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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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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