

Tortoise QuickTake Energy Podcast



July 9, 2018

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.

The energy markets didn't offer much by way of fireworks in the U.S. last week. Yet we'll take a quieter week every now and then. Let's get to what did happen.

The weekly petroleum inventory report was slightly bearish for WTI last week. Crude oil stocks increased 1.2 million barrels, while gasoline and distillate amounted to a net 1.4 million barrel draw. Partly driving the increase were higher imports, up nearly 700 mbpd week over week. Meanwhile, refining utilization remained ever strong at 97.1%. Yet, crude oil prices continue to get support from supply outages in major producing countries. Supply disruptions continue in Libya, Venezuela, and even Canada where as much as 360 mbpd of oil sands production is likely offline until September. And the Trump administration continues to try to disrupt Iranian crude oil exports. For now, Saudi Arabia is increasing production, with June production nearly 500 mbpd higher than May's output. With Saudi Arabia now growing production, expect greater concern about a lack of spare capacity over the next year.

After counting all those barrels, the WTI crude oil price was down 0.5% for the holiday shortened week. Broad energy was also lower, by 0.3%, though MLPs and producer stocks eked out a gain, by 0.4% and 0.9%, respectively.

Canada had some fireworks of its own on the fourth. On U.S. Independence Day, Enbridge Inc. announced it is selling its Western Canadian midstream business to Brookfield Infrastructure and its institutional partners for U.S. \$3.3 billion. The business includes 19 natural gas processing facilities and 3,500 kilometers of gathering lines with connectivity to major demand markets, including the U.S. The sale by Enbridge was expected as the company is divesting non-core assets to fund its growth projects, including the Line 3 Replacement project. So far in 2018, Enbridge announced \$7.5 billion of asset monetizations, ahead of the initial \$3 billion target. We think the company now has significant financial flexibility going forward.

In other news, the Saudi Aramco IPO looks unlikely to launch in 2018. A combination of robust valuation expectations, an ambitious timetable, and reluctance for greater corporate transparency are resulting in a delay until 2019, if it happens at all.

In the week ahead, this is the last week before earnings reporting starts in a big way. As a preview, for midstream, quarter over quarter volume growth, project updates and capital funding are likely key topics. For producers, Permian takeaway will be a top issue with potential capital reallocation to other basins or modest curtailments announcements. Other topics likely are returns to shareholders, service costs and capital discipline. And for refiners, we'll see how much they benefitted from crude oil pricing differentials and what they expect to do with the cash windfall.

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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