Tortoise QuickTake Podcast

November 27, 2017

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.

Hello. I am Tortoise Managing Director and Portfolio Manager Rob Thummel with this week's Tortoise QuickTake podcast highlighting the top energy events of last week.

Happy Holidays to everyone! I hope that each of you gets to experience joy celebrating the holiday season. For my fellow investors in the energy sector, a quote from the Griswold's pretty much sums up our year. In the classic holiday movie National Lampoon's Christmas Vacation, Ellen Griswold tells us, and I quote, "I don't know what to say except it's Christmas and we're all in misery."

Last week was another example of a common occurrence in the energy sector in 2017 that has been rare from a historical perspective. Last week, oil prices rallied by 4% with WTI closing at $58.85. Historically that would have resulted in strong performance for energy related stocks. While the energy sector, as represented by The S&P Energy Select Sector® Index gained almost 1%, MLPs as represented by the Tortoise MLP Index® fell by 50 basis points. Year-to-date, the energy sector and MLPs continue to lag oil price performance as oil prices have risen by 9% while the energy sector and MLPs have declined by 7% and 11%, respectively. The disparity of returns between oil prices and the energy sector continues to be flabbergasting to us. In the last 25 years, there has only been one year that the energy sector declined when oil prices were positive. The year was 2002 when oil prices rose by 57% while the energy sector fell by 11%. In the following year (2003), the energy sector played catch up rising by 25% while oil prices increased by 4%. At Tortoise, we believe the fundamentals are in place for a similar scenario to play out in 2018.

So, what is the next catalyst to get the energy sector going? One potential catalyst is happening this week as the countdown is on for the 173rd OPEC meeting and 3rd OPEC and non-OPEC ministerial meeting scheduled for November 30 in Vienna, Austria. Leading up to the meeting there has been many double dog and triple dog dares from various OPEC and non-OPEC members. We think the focus of the meeting will be on global oil inventories. Currently, global oil inventories remain in excess of the critical five year average. However, the global oil inventory surplus has been significantly reduced. At Tortoise, we see four possible outcomes from the meeting. First, OPEC members could let the current OPEC production cut agreement expire in March of 2018 with no extension. We think this outcome is highly unlikely, giving it odds of less than 5%. A second option could be to extend the production cut agreement until the next OPEC meeting in May of 2018. While this is possible, we think this outcome is unlikely with odds of this happening being around 20%. A third option could be a bit more unorthodox although we think the odds are low - say 5% or less. What am I talking about? An alternative solution could be anchored by a more cohesive OPEC/non-OPEC strategy - something similar to a quantitative easing program implemented by many central banks. An accord could layout a detailed plan dependent upon global oil demand growth, inventory levels, and global production levels. A last option could be an extension of the production cut agreement through December 31. At Tortoise, we think this is the most likely outcome placing its odds at least 70%. Under this option, we think global oil demand will continue to outpace supply allowing inventories to return to the 5-year average. Accordingly, we would expect oil prices to remain around $55-$65 per barrel throughout 2018. In our view, the stability of oil prices could serve as a catalyst for the stock prices of energy companies to catch-up to the performance of oil so far.

Moving on to notable news from last week, the Nebraska Public Service Commission announced that it approved an alternative route for the highly controversial Keystone XL pipeline. Transcanada, the pipeline operator, indicated that it is reviewing how the decision impacts the cost and the schedule of the pipeline project. The Keystone XL pipeline is probably the most discussed pipeline project. It is one of many potential pipeline solutions that would increase the volume of Canadian oil imported into the U.S. The current humanitarian crisis in Venezuela is increasing the probability of less Venezuelan crude oil being imported into the U.S. For certain U.S. refineries, Canadian oil is the best alternative for Venezuelan crude.

There were also two big announcements that continue to advance the United States as a prominent supplier of energy to the rest of the world. First, Poland's state owned natural gas utility signed a five year contract to buy liquefied natural gas or LNG from Cheniere's Sabine Pass liquefaction plant. It is the first multiple year agreement for LNG supplies from the U.S. to Eastern Europe. The agreement reduces Poland's reliance on Russia as its sole provider of natural gas.

Second, INEOs entered into a long-term supply agreement with Singapore based SP Chemicals to ship the natural gas liquid ethane produced from U.S. shale gas to China for the first time starting in 2019.

These two announcements add to the growing list of U.S. exports of low cost U.S. energy to the rest of the world. We think domestic U.S. demand growth, along with increased exports to other countries, will be a positive for many companies across the U.S. energy value chain.

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@tortoiseinvest.com.

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