Tortoise QuickTake Special Edition Podcast with Rob Thummel

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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 a special QuickTake podcast.

Well, the 168th OPEC meeting in Vienna, Austria just concluded. The oil markets are now reacting to official and unofficial commentary from OPEC's members. Here's our quick take on a few questions coming out of today's meeting.

But first, let's take a look at what has happened since the last OPEC meeting in November 2014.

- U.S. oil prices have declined by 44%
- U.S. oil and gas rig count has fallen by more than 1,000 rigs
- Non-OPEC crude oil production growth has slowed and is expected to decline in 2016 while OPEC production has increased
- Global demand for oil-based products like gasoline, diesel and jet fuel has increased well above historical averages.

From a performance perspective

Since the November 2014 OPEC meeting, the energy sector is down 22% as represented by the S&P Energy Select Sector Index, oil and gas producers are down 36% as represented by Tortoise North American Oil and Gas Producers, and MLPs, as represented by the Tortoise MLP Index, down 41%, as compared to oil prices which are down 44%.

Now let's answer a few questions.

What is the latest message from OPEC?

After an hour delay in the press conference, a "wait and watch" approach was the message articulated by OPEC. While OPEC did not officially raise its production quota, it confirmed that it will continue to produce at its current level of 31.5 million barrels per day. To put in perspective, a 30 million barrel per day production quota has been in place since Debember 2011. To put that in perspective, OPEC production has exceeded its production qauota in 43 of the last 47 months. OPEC is waiting and watching Iranian production as well as non-OPEC supply. In addition, OPEC stated that they will continue negotiations with non-OPEC producers to collectively look at the crude oil production levels.

Where do we go from here?

It is important to keep in perspective the significance of the energy sector. Energy is critical to the development and growth of any economy. It's kind of like food in that it is a basic need. In the short term, the global oil market is continuing to rebalance in 2016 with global demand expected to exceed global supply. This will allow global inventory levels to fall. We believe that $40 oil is unsustainable. Few, if any producers, make money at $40 oil. On the other hand, $90 oil is unlikely as everyone makes money at $90 oil. The oil markets are looking for the optimal price where consumer demand remains strong due to low gasoline prices yet oil producers earn an adequate return of return on their invested capital. We believe oil price between $60 - $80 per barrel achieves this balance.

What role does OPEC play going forward?

OPEC production is approaching capacity. Over the past two decades, global demand for oil has increased by approximately one million barrels per day and future demand is expected to grow at similar levels. In the long term, where does the oil supply come from to fill rising global oil demand of one million barrels per day? U.S. shale oil likely fills the supply gap so, in our view, U.S. oil and gas shale production is here to stay.

How are oil prices and the energy markets acting on the news?

Currently WTI oil prices are around $40 per barrel down 2.6% on today's OPEC news, and the energy sector is down a little over 1% while oil and gas producers and MLPs are down around 2%. For over half of the past year, oil prices have been below $50 per barrel. In fact, oil prices have not eclipsed $50 per barrel since July 22.

How long will oil prices remain low?

The duration of commodity cycles is always a difficult question. However, looking back at the last six peak-to-trough cycles in crude oil, the average decline in oil prices is 60% while the average duration of the decline is 337 days. For this cycle, oil prices are down 62% and the duration of the cycle is now almost 500 days dating back to July of 2014. Incidentally, the average one-year percentage increase in oil prices after reaching the lowest oil price, is 77%.

Does today's OPEC's decision change anything for U.S. producers?

Most U.S. producers have experienced multiple commodity price cycles. Over the past year, U.S. oil producers cut spending by 30% and are expected to cut capital spending in 2016 as well. This would mark the first time since the mid 1980s that the industry has cut spending for two consecutive years.

A function of lower spending is reflected in the current U.S.oil and gas rig count that has been reduced by over 1,000 rigs, a 60%+ decline. The current rig count is near the lowest level this century.

The result of lower capital expenditures and a lower rig count ultimately is lower U.S. oil production. After peaking in April 2014 at 9.6 million barrels per day, U.S. oil production has declined to 9.1 million barrels per day today. U.S. oil production is expected to continue to decline as we move into 2016.

Who are the winners in a low oil price environment?

The biggest winner is the American consumer. It is the holiday season and the energy sector has delivered its gift to the American consumer all year in the form of lower energy prices. Specifically, average gasoline prices are 30% lower this year than last year equating to over $100 billion of savings. These savings put some extra discretionary income into the pockets of the consumer. The refining sector has been the big winner in the stock market with refiners up 31% this year due to increased demand for gasoline and higher operating margins.

Those are our post-OPEC meeting highlights. Thanks for listening. Stay tuned. We'll be back soon with another QuickTake podcast.

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