# Tortoise QuickTake Podcast with Brian Kessens

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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 Brian Kessens with this week's QuickTake podcast.

This week, in light of President's Day, I'm reminded of the Continental Army's bleak conditions at Valley Forge in the frigid winter of 1778 when Washington turned 46. According to an observer, as the Continentals trained and consolidated, they were a "skeleton of an army, in a naked, starving condition, out of health, out of spirits."

While I'm warm, fully clothed and fully fed, the sentiment in the energy market feels similar to that dismal scene…

To that end, energy benchmarks were weaker last week with the Tortoise MLP Index down 10.5%, the Tortoise North American Oil and Gas Producers Index lower by 4.9% and the S&P Energy Select Index off 0.4%.

Crude oil and natural gas both fell 4.7%, even with crude oil's 11% pop on Friday after the UAE oil minister indicated that OPEC was willing to discuss production cuts.

Despite that market performance, supply fundamentals for crude oil improved as the US land rig count continued to fall, this time by 29 rigs, 23 of which were horizontal oil rigs. The total horizontal land rig count is now down 69% since the peak in November of 2014. Furthermore, US crude oil stocks decreased 750,000 barrels after analysts expected a 3.2 million barrel increase.

Regarding capex, two producer heavy weights guided 2016 capital expenditure lower by 14%. North American producer capex is now estimated 27% lower in 2016 versus 2015. This will only be the second time in the last 30 years when capex is lower for two consecutive years.

These fundamental improvements will eventually lead to a better supply and demand balance.

A concern in the high yield energy sector continues to be the health of natural gas producer Chesapeake Energy, and specifically whether the company may proactively reorganize sooner than later. There was some relief on Friday as indications surfaced that the company would use its ample liquidity to pay its $500 million March debt maturity, essentially buying itself at least another year before its next note comes due.

In energy regulatory news, the Supreme Court issued a stay on the implementation of the Clean Power Plan. The decision is certainly not the last word on the issue which likely returns to the courts. Despite the pause, we believe that natural gas will continue to take share from coal, it being both economic and cleaner.

Moving to earnings, the two largest MLP companies to report last week were Plains All American and Buckeye Partners. Plains missed estimates slightly, yet most telling, Plains indicated the task of providing guidance is more challenging versus past years as producer activity levels are more uncertain. Yet even if markets get materially weaker, Plains sees 'only' 3%-4% downside to guidance – a testament to the value of the company's assets and fee-based cash flow model.

Buckeye Partners on the other hand had a slight beat versus estimates – not too much of a surprise given the strength of refined product pipelines and crude and product terminals which make up the core of Buckeye's business.

This week expect a continuation of earnings during the extended fourth quarter earnings reporting season.

And for those willing to look longer, as Washington did in his farewell address….

In its annual energy outlook, BP raised its forecast of U.S. unconventional production. Despite a "brief retrenchment due to low prices and falling investment", BP now expects a doubling of production to 8 million barrels per day after 2030 when it will account for 40% of total US production. BP also noted risk is to the upside as technological innovation and productivity gains have unlocked vast resources of tight oil and shale gas causing revised outlooks successively higher.

Finally, Lincoln is always good for some wisdom. He didn't say when, yet he noted, "And this, too, shall pass away." I'm not certain when, but like BP, I'm confident U.S. energy will emerge even stronger and more formidable when the current energy malaise turns, directionally similar to the country's stark rise after that desperate Valley Forge winter.

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