Tortoise QuickTake 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 this week's Tortoise QuickTake podcast highlighting the top energy events of last week.

While it's March Madness in the sports world, its March happiness if you are an investor in the energy sector as the sector has returned 9% in the month of March through the end of last week. In fact, the energy sector is the best performing sector within the S&P 500 so far this month.

Year-to-date, the energy sector is up 2% with Spectra Energy Corp. grabbing the top spot as the best performing security in the energy sector year-to-date up 29%.

Last week the energy sector gave back some its returns falling by 2.4%. The sector was influenced by a sharp drop in oil prices which fell by 4% last week.

Oil prices were negatively impacted by a larger than expected increase in U.S. oil inventories. Last week provided some answers to questions that investors wrestle with when analyzing the energy sector including:

First, will oil demand from China moderate in 2016? Last week, Reuters reported that China's oil imports rose 20% to the highest ever level on a daily basis in February. So far, it appears that oil demand in China remains strong.

A second question is will OPEC production rise due to the lifting of sanctions on Iraq? Currently, Iraq oil exports in March are at similar levels as November 2015. As expected, it is going to take some time for Iraq production volumes to ramp up.

Lastly, will U.S. supply actually fall? U.S. oil production has fallen 8 of the last 9 weeks. U.S. oil production is approximately 200,000 barrels per day lower than production levels in January. Last week, the EIA released an interesting study which highlighted that half of the nine million barrels per day of U.S. crude oil production is produced from wells drilled in the last two years. This represents almost four and a half million barrels a day of oil production. Essentially all of this production is from shale plays which tend to decline rapidly. Generally speaking, production from shale wells declines by 60 - 70% in the first year of production and falls by another 25% - 35% in the second year of production. This study by the EIA, coupled with another weekly decline in the U.S. rig count further supports continued declines in U.S. oil production. We feel that lower U.S. production is one critical factor in balancing the global oil markets. Of course, any new information leading up to the OPEC freeze meeting in Doha on April 17 could significantly influence crude oil prices between now and then.

While investors in the energy sector are focusing on oil prices, few are talking about natural gas. This time of year is known as the end of the natural gas withdrawal season. This means that winter is over so natural gas inventories typically stop declining as natural gas is no longer being withdrawn from inventories to heat our homes. As we exit the withdrawal season, natural gas inventories are currently higher than they normally have been in the past five years leaving prices at lows not seen this millennium. Blame that on El Nino or Punxsutawney Phil. Nevertheless, demand for natural gas is expected to be higher than normal throughout the summer. When natural gas prices are this low, electric utilities are financially incented to burn natural gas rather than coal generate electricity. After experiencing a similar mild winter in 2011/2012, coal-to-gas switching resulted in an average of about 6 billion cubic feet per day of extra natural gas consumption during the first half of 2012 versus the first half of 2011. This represented approximately 8% of the total U.S. gas market during the first half of 2012

After experiencing positive returns in four of the last five weeks, the stock prices of MLPs fell last week. The Tortoise MLP Index® declined by 5%. The current yield of the Tortoise MLP Index® is 9.7% which is almost 8% higher than the 10-year treasury. The MLP sector continues to maintain a higher than normal correlation with oil prices. Year-to-date, JP Morgan estimates the correlation to be 0.7 compared to a 0.5 historical average.

Two events occurred in the midstream sector last week. First, two companies accessed the capital markets by issuing equity. Shell Midstream Partners raised approximately $350 million in an overnight equity. offering while Antero Midstream Partners sold units owned by its parent, Antero Resources, to the public. Second, the latest episode in the Energy Transfer and Williams drama was released with an updated proxy statement being released which sets the closing date no earlier than May 31. In addition, the updated numbers in the proxy reduced the amount of capital expenditures as well as the amount of synergies due to the lower commodity price environment.

In downstream news, INEOS announced that the world's largest multi gas carrier arrived in Norway carrying ethane from US shale gas. This is the first time that ethane from U.S. shale gas has ever been shipped to Europe. INEOS is a global petrochemical company that is using U.S. produced ethane to displace gas that was previously sourced from the North Sea. 2016 has already been a significant year for the U.S. energy sector. In January, the first export of U.S. produced crude oil was shipped outside of North America. In February, the first shipment of liquefied natural gas, or LNG, left Louisiana headed for Brazil. And now, in March the first shipment of U.S. produced ethane shipped to Europe. The U.S. is just getting started as a low cost provider of energy to the rest of the world.

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@tortoiseadvisors.com

About Tortoise MLP Index®

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.