Tortoise QuickTake Podcast

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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.

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Energy posted another positive week on hopes for positive news from the Doha OPEC and Russia meeting along with a softer U.S. dollar. For reference, oil was up 5% on last Tuesday alone after the Russian energy minister said a deal to freeze OPEC and Russian output was not dependent upon Iran's cooperation. Further stimulating prices was very strong demand numbers from both China and India. In China, Q1 imports were up 13% year over year contradicting growth concerns for the country. Meanwhile in India, March oil demand increased 16% year over year setting yet another record high for their oil demand at 4.3 million barrels per day of production.

Back to Doha….shocker….as it turns out Russia was wrong and the meeting failed to result in a freeze agreement to support oil prices. However, offsetting this, Kuwait oil workers went on strike over the weekend, immediately pulling 1.8 million barrels per day of production offline. As a result, oil is only off a couple percent and MLPs are actually up in Monday's trading.

For the week oil gained 1.6%
E&Ps were up 3.5%
MLPs picked up 2.1%
and the S&P energy index increased 2.0%.

With all the volatility the last few months it's hard to believe but at this point, for the year-to-date period
Oil is up 9%
E&Ps are up 13%
S&P energy index has increased 7%
and MLPs after being down 32% at one point in mid-February, are now down only 4%.

So does this mean we've turned the corner and prices have seen a bottom? I really want to say yes but compliance cut that part out…..but you can guess where I stand.

Supporting our bullish stance, last week the EIA released its latest Short Term Energy Outlook which once again cut estimated U.S. crude production for 2016. Additionally, the IEA's most recent outlook report further revised their demand estimates upward.

Moving on to last week's news.

In credit markets we had some good and some bad. First, the widely followed Chesapeake bank revolver redetermination turned out mostly positive on balance. While they did have to pledge every asset that wasn't nailed to the floor (and a couple that were) the revolver was maintained at $4 billion and no additional redeterminations will take place until June 2017. Additionally, the company is now allowed to issue up to $2.5 billion of 1.5 lien debt. You may be asking yourself, what the heck is 1.5 lien debt….well, like it sounds, it sits senior to second lien but junior to first lien debt in the capital structure. What will they think of next? One last comment on the amendment; it also relaxed certain financial covenants tied to leverage and interest coverage ratios. This is a positive development for not only Chesapeake but also Williams Companies since this likely means their largest customer will be able to avoid filing for bankruptcy well into 2017 giving them a chance to hang on for better natural gas prices. Speaking of bankruptcy, Energy 21 and Goodrich weren't so lucky and, as anticipated, filed for bankruptcy protection last Thursday and Friday respectively. This follows Wednesday's Chapter 11 filing of coal company, Peabody Energy. In other credit news both Linn and BreitBurn elected to defer interest payments due on their notes….a signal that restructuring is imminent for these companies as well. Alright, this is getting depressing, let's move on….

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In more positive news we are entering one of my favorite times of the quarter…MLP distribution announcement season. These are the wonderful weeks where pipeline MLPs remind us why we are investing in them despite this crazy market volatility that is getting all the attention. While it is still early, we have had seven pipeline MLPs announce so far this quarter with an average growth of 6% over the prior quarter. For those who say MLP growth is dead all I can say is "scoreboard."

Rounding on the news, Antero reported an operations update announcing Q1 production from the Marcellus and Utica that increased a combined 17% over the fourth quarter driven by higher gas and ethane volumes.

That wraps up this week's podcast, 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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