# 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.**

Hello. I am Tortoise Managing Director and Portfolio Manager Brian Kessens with this week's QuickTake podcast.

Last week, the broad markets were fairly quiet. In fact they've been that way for most of August as market participants go on holiday, more aggressively in search of sun than volatility. Putting some numbers to this, the last one percent move for the S&P 500® was on July 8, the volatility index or VIX hasn't moved by one point over a one day period since Brexit, and in the bond market, the 10-year Treasury yield has had the narrowest monthly trading since 2006. Even the biggest macro news last week, Fed Chairperson Janet Yellen's long-awaited speech, where she indicated a rate increase remains in the cards prior to year-end, couldn't shake markets.

In energy, the U.S. rig count decreased by 2 last week, breaking a streak of increases dating back two months. Oil inventories increased 2.5 million barrels with slight increases in gasoline and distillate stocks as well, versus estimates for draws. Notably, the crude oil build was a function of lower refinery utilization and higher imports, not a result of higher U.S. production. Production in fact declined an estimated 55 thousand bpd, week over week. Product demand remained healthy with gasoline higher by 1.8% and distillate flat. The Department of Transportation released the latest U.S. traffic data which showed vehicle miles traveled increased 3.2% in June, year over year. Natural gas inventories continued to increase per seasonal norms, yet at a rate significantly less than historical averages. Last week, 11 Bcf were added to inventories, 4 Bcf less than consensus estimates, and 52 Bcf less than the five year average. Record hot weather continues to reduce excess inventories at a healthy pace.

Given that backdrop, crude oil ended last week down 1.8% with natural gas improving 11%. For stocks, MLPs were down 1.3%, producers off 1.8% and broader energy ended last week lower by 1.5%.

Capital market activity was sparse.

One thing that did continue was another producer deal in the Permian. In the largest deal last week, PDCE announced the acquisition of Arris Operating for $1.5 billion. Arris' assets include 57 thousand net acres in the Delaware basin in Reeves and Culberson counties in Texas. After accounting for production, PDCE paid an implied deal value of $22,000 per acre. There have now been over $9 billion of transactions in the Delaware basin over the past two years, and roughly half of that came in the last three months. This was also the fourth deal with a per acre valuation over $20,000. This is all the more reason to expect Permian basin production to be resilient.

In MLP acquisition activity, there were two deals last week. Valero Energy Partners announced the acquisition of the Meraux and Three Rivers Terminal Services Business for $325 million from parent company Valero Energy. The business includes tank storage with minimum volume commitments covering 85% of planned throughput. Next, Phillips 66 Partners announced an acquisition of NGL logistical assets from Chevron in south Louisiana. We estimate the deals are accretive and neither requires outside equity given the strength of both balance sheets.

Arguably the most noise last week came in North Dakota. The Standing Rock Sioux tribe is protesting construction of the Dakota Access Pipeline, a nearly 1,200 mile pipeline with a $3.7 billion price tag that would deliver up to 570,000 bpd of Bakken crude oil to Illinois. Nearly all federal and state permits are secured and significant progress has been made toward the pipe's construction which is estimated to start service by year-end. The tribe is seeking an injunction blocking additional construction, to provide more time for impact assessment. It believes the Army Corps of Engineers didn't give it enough of a chance to assess the pipeline's impact on cultural sites and the possible effects of a spill along the line. The Corps insists it followed procedure. The Federal District judge said he'll rule on the injunction by September 9th. The pipeline project is owned jointly by five parties: Energy Transfer Partners, Sunoco Logistics Partners, Phillips 66, Marathon Petroleum and Enbridge Energy Partners. Different than Keystone XL, the Dakota Access Pipeline doesn't require Presidential approval since it doesn't cross an international border. We continue to believe the pipeline will get built given that 100% of the route was surveyed, the hardest permits are already secured and transporting Bakken crude oil by pipeline is more efficient and safer than transporting the product by rail, truck or barge.

This week, expect light capital market activity in front of the Labor Day holiday. Rest up though, September and October are historically relatively volatile months for financial markets. November will bring the U.S. election and the Fed will likely squeeze in a rate increase before year-end. We'll update you along the way.

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



**S&P 500® Index, an unmanaged market-value weighted index of stocks which is widely regarded as the standard for measuring large-cap U.S. stock market performance.**