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 in the oil patch, the majority of the rhetoric emanated from OPEC countries and Russia in advance of the International Energy Forum in Algiers this week. In mid-week, there was a sense that a potential deal would be reached to limit output, yet by Friday, hopes were dampened as Saudi Arabia insisted Iran participate. Meanwhile, Iran has raised production 720,000 bpd since January and Russian production is at record levels, now near 11 million bpd.

We continue to believe a production freeze or reduction is unlikely as OPEC countries and Russia need to not only reach a compromise with each other, but also sell any deal to their constituents back home. Nonetheless, we think the closer oil is to $40 per barrel, the more posturing we're likely to hear.

We recommend paying more attention to the fundamentals of a tightening oil market which continued last week. Crude oil stocks in the U.S. drew 6.2 million barrels, in stark contrast to an expectation for a 2.8 million barrel build. This was the third consecutive week of declining inventories, attributed to increased exports and relatively strong refinery activity following positive product margins.

In broader macro news, the Fed kept rates unchanged for now, with a stronger case likely to be made at the December meeting.

On performance then, oil ended higher by over 3% and natural gas closed above $3 per mmbtu for the first time in over a year. Amazingly, this comes when we're in a seasonal shoulder period for natural gas prices. Better commodity prices and an accommodative Fed, helped MLPs have their best week since April, closing higher by 4.2%. More notable, MLPs were resilient on Friday when oil fell 4% as OPEC waivered on any production commitment. Producer and broader energy also ended the week higher, gaining 2.5% and 0.1%, respectively.

In capital markets activity, Holly Energy Partners announced a $100 million PIPE (Private Investments in Public Entities) to fund a $275 million dropdown. As indicated by Holly, the dropdown will go toward Holly reaching its 8% targeted distribution growth, with the funding solving the remainder of its 2016 equity needs. Notably, Tortoise Capital Advisors' clients purchased the entire offering – big tip of the cap to the portfolio team on that one.

For producers, EnCana Corporation raised $1.0 billion to fund 2017 capital expenditure and to improve its balance sheet. In 2017, Encana's focus is Permian basin growth, with aims to double the number of wells online in 2017 over 2016 levels.

In the utility sector, gas distributor Chesapeake Utilities raised $52 million to reduce debt, and finally, 8point3 Energy Partners, a YieldCo, raised $100 million to fund an acquisition of a solar project in California.

For news last week, The Colonial Pipeline restarted its main gasoline line, yet it could take more than a week to rebuild depleted inventories. As a reminder, the pipeline is the main conduit transporting products like gasoline from refiners on the Gulf Coast to consumers along the Atlantic Coast. It was mostly shut since September 9, after a leak was discovered in Alabama.

Interestingly, while the number of energy bankruptcies grew since fourth quarter 2014, driven by small cap E&Ps, the number subsided in the third quarter, with many companies emerging from Chapter 11 protection. This is very telling since WTI remains in the $40s, implying the decline in service costs and increased efficiencies are remarkable.

This week, expect discussion at the International Energy Forum to dominate headlines. While no meaningful agreements are expected, it is notable that the last two OPEC meetings held in Algeria, in 2004 and 2008, surprised the market with production cuts announced to bolster oil prices.

Last word for the week, we understand there are several private midstream companies in the Permian for sale. Look for a deal or two to be announced sooner over later.

And as we close, let's remember the late Arnold Palmer's characterization of his game. He quipped, "Golf is deceptively simple and endlessly complicated." I feel the same way about investing and may enjoy a little lemonade with my iced tea this week. Cheers.

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