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.

I am Matt Sallee, Managing Director and Portfolio Manager at Tortoise Capital Advisors.

Wow, it was a tough week in the ole energy patch last week with oil dropping below $50 and closing the week at $48.40 down 9%. As you can imagine this bled through to energy stocks as well pushing MLP, E&P and The S&P Energy Select Sector® Index down 3.2, 4.2 and 2.9% respectively. So what the heck happened? I'll point to three factors

1. The biggest issue was clearly the 8 million bbl inventory build Wednesday which caught the market off guard. As we've talked about in previous podcasts, crude imports to the U.S. remain stubbornly high as cargoes that set sail from the Middle East prior to the OPEC cut are still arriving in Gulf coast. The ships are arriving during a heavy refinery turnaround schedule leading to big builds. We believe we're at the tail end of this trend and will be watching this closely so stay turned to future podcasts for updates.
2. Second was a huge energy conference taking place last week hosted by Cambridge Energy Research Associates (or CERA) at which the Saudi oil minister warned about the U.S. growing production too fast and that there is a limit to how much support they would give oil markets through a production cut.
3. And lastly, the EIA put out its latest short-term energy outlook in which they materially raised the forecast for U.S. production growth from 430 mbpd to 740 mbpd on an exit rate basis.

So the logical question at this point is when and if the market will turn? Our belief is it will be soon. Global oil stocks as measured by OECD countries is already in decline and the U.S. we are nearing the end of refinery maintenance season and should soon get relief from the wave of imports as the OPEC cuts start to make their way through the market. Bottom line is we are not changing our call for under-supplied oil markets in 2017 and a steady rebound in the oil price as we move through the year.

Outside of the wild oil market it was March madness for energy conferences in Houston with CERA week, the ISI energy conference, the Wells Fargo Energy Forum and the Enterprise analyst day. We had attendees at all of the events and overall the tone was cautiously optimistic with investors focused on rigs coming back to work in the U.S. which is leading to upside in crude production estimates, the expectation of another year of well above trend line global demand growth and there was also a great deal of speculation on the likelihood of OPEC extending production cuts. Speaking of production growth another big topic was the return of new midstream projects. At the Enterprise analyst day the company announced plans to build a 9th fractionator at its Mont Belvieu complex, in addition to considering a new gas pipeline out of the Permian and they were getting closer to final investment decision on the reversal of centennial pipeline which would deliver NGLs South from the Marcellus. This is on top of a 2017 capital budget which is already north of $2 billion. This follows a string of new project announcements we've seen this year. Multiple companies have announced plans to add processing capacity in the Permian and we've also had several Permian crude pipeline expansions. In addition, we believe significant investment is still required to provide the necessary plumbing for the Marcellus. So while I'm not calling for a return to peak capex levels, the growth outlook does continue to brighten.

So, I'll leave it on that positive note. 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.

The S&P Energy Select Sector® Index The S&P Energy Select Sector® Index is a capitalization-weighted index of S&P® 500 Index companies in the energy sector involved in the development or production of energy products.