Tortoise

Tortoise QuickTake Podcast

September 5, 2017

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.

Of course, Hurricane Harvey was the biggest story affecting the entire country last week. Our hearts go out to all of the people impacted by Harvey. Harvey wreaked havoc on many critical energy assets along the Gulf Coast last week. Let's start with the latest update on Harvey's impact across the energy value chain.

Starting with the upstream sector, as of yesterday September 4th, approximately 1% of total U.S. oil and natural gas production was not operating. That represents approximately 121 thousand barrels per day of oil and 259 mmcf/d of natural gas from offshore production in the Gulf of Mexico that is not operating at the present time. Earlier in the week, a significant amount of production from the Eagle Ford shale was temporarily suspended but that lasted for only a few days. In general, Harvey has had little impact on oil and gas production volumes in the U.S.

In the midstream sector, the most significant energy infrastructure asset impacted was the Colonial Pipeline. The Colonial Pipeline is a refined product pipeline that extends 5,500 miles from Houston to the New York harbor delivering products such as gasoline to many large populations along the east coast. According to the U.S. Department of Energy, the pipeline is expected to begin delivering gasoline and diesel from Houston-based refineries starting today (Tuesday, September 5th).

Most critical energy infrastructure assets negatively impacted last week appear to be operational as of now. For instance, Magellan's BridgeTex and Longhorn crude oil pipelines that transport almost 700,000 barrels per day of oil production from the Permian Basin to Houston were temporarily shut down last week due to flooding. These pipelines are now are fully operational. Another key port, the Houston Ship Channel, has resumed operations. This is important as the Ship Channel serves as a key location for exporting U.S. produced crude oil and natural gas liquids such as propane.

Lastly, in the downstream sector eight refineries in the Gulf Coast remain shut down. These refineries have a combined refining capacity of 2.1 million barrels per day representing 11% of U.S. refining capacity. In addition, eight refineries have begun the process of restarting after being shut down last week. These refineries have a combined capacity of 1.8 million barrels per day representing 10% of total U.S. refining capacity.

So, what impact will Harvey have on the energy sector and energy stocks? All indications are that most of the facilities will be up and running in days with some taking a few weeks to return to full operational status. Therefore, we believe that the operational impact on key assets will be minimal. There doesn't appear to be any significant structural damage reported by the companies that we invest in. The most significant impact on stock prices will likely be from commodity prices movements. Crude oil prices could decline as demand for almost 4 million barrels of crude oil has been temporarily suspended due to refinery shutdowns. Of course, the demand will return as refiners refill refined product inventories. In the meantime, crude oil inventories will likely increase after falling for nine consecutive weeks. Natural gas prices could weaken as well as inventories rise due to many industrial facilities that are fueled by natural gas taking a few weeks to restart. Refining margins are expected to increase as gasoline prices increase due to declines in refined product inventories.

Let's take a quick look at how commodity prices responded to Harvey last week. Crude oil prices fell by 0.7% last week while natural gas prices declined by 1%. Wholesale gasoline prices experienced the largest move increasing by 5%. MLPs led a rally in the energy sector with the Tortoise MLP Index® rising by 3% and the S&P 500 Energy Select Sector® Index increasing by approximately 1%.

Lastly, Harvey overshadowed some significant news out of the EIA related to U.S. crude oil production volumes. Last week, the EIA released its 914 data that is widely considered a more accurate assessment of monthly U.S. crude oil production. The EIA-914 indicated that June oil production was 9.1 million barrels per day which is 73 thousand barrels lower than May. The weekly EIA data that oil traders so eagerly await had previously indicated that June production was 9.3 million barrels per day so clearly the weekly data appears to be overstating U.S. production. The U.S. is on pace to grow oil production by 600 thousand barrels per day which is less than the 1 million barrels per day that many are expecting. Lower than expected U.S. production growth, along with the continued decline in U.S. oil inventories, should help to boost oil prices once the temporary effects of Harvey cycle through the weekly data.

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@tortoiseinvest.com.

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