Tortoise QuickTake Podcast

September 11, 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.

Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Portfolio Manager with Tortoise Capital Advisors.

Mother Nature has continued to wreak havoc on the southeast United States, as recovery from Hurricane Harvey is being overshadowed by Hurricane Irma. We continue to send our thoughts and prayers for all those impacted by these massive and devastating storms.

We'll start today with a recap of market performance:

- On the commodity front, crude oil was marginally higher, up 40 bps, while
- Natural gas was weak, down 5.9% on cooler than forecasted weather and potential demand disruption in Florida due to Irma
- Shifting to equities, the broader S&P Energy Select Sector Index® increased 1.4%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠, were negative, down 0.8%
- And finally MLPs were also down, as the Tortoise MLP Index® fell 1%

On the news front, a quick update on Hurricane Harvey's impact on energy operations:

- Big picture, as expected, crude oil production fell, but not as much as refinery demand and exports, which led to builds in crude oil and draws of refined product
- A variety of midstream companies provided updates on operations and the punchline is very minimal damage and operations are either restarted or in process of restarting at various facilities
- Same goes for producers, with crude oil and natural gas production coming back on line as well
- As we have mentioned previously, the brunt of the impact remains at the refiner level and reports have indicated there is still a decent amount of capacity offline, although that is expected to drop substantially in the coming days
- From a refinery perspective, Corpus Christi appears to be in relatively good shape, Houston in decent shape and moving northeast, Beaumont/Port Arthur in the worst shape and will likely take the longest to recover
- In summary, operations are returning to normal for energy companies and based on preliminary reports, the impact is likely to be transitory in nature

Hurricane Irma is bearing down on Florida, yet it will have less impact on oil and gas operations in the U.S. While it's always difficult to discuss business impacts when you have a natural disaster such as this, it is our job to opine on those impacts, understanding first and foremost we are concerned with the health and safety of those impacted.

- Given the path of Irma, we anticipate very little impact on oil and gas producers, virtually no impact on refiners and a localized, yet relatively large impact on natural gas demand as Florida is a major consumer for natural gas fired power generation

In other news, there was a large energy conference last week that historically has produced headlines. The biggest news this year was it produced almost no headlines. While that might sound negative, energy headlines haven't been great this year, so no news is good news in that aspect.

I wanted to close with a stat comparison to provide some perspective about where we are in this current energy cycle.

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All of these stats, which we quote often on these podcasts, will be compared to where we were approximately one year ago.

From a macro standpoint:

- The U.S. rig count is up 85% year over year, or 436 rigs
- U.S. oil production is up 5% year over year, utilizing the monthly data from the EIA, as of June
- U.S. natural gas production is up 2% year over year, again utilizing June EIA data
- Crude oil inventories are down 4% year over year
- Natural gas inventories are down 6% year over year

So to recap the energy macro environment, production of crude and natural gas is up, inventories are down and the rig count is almost double what it was just one year ago.

Meanwhile, crude oil prices are essentially unchanged, while natural gas prices are up about 3% year over year.

OPEC and several other countries announced a significant production cut agreement last November and compliance remains pretty solid.

Now comes the interesting part. MLPs during that same time frame are down about 4%. Oil field service companies however, are down 21% year over year, and E&P companies, or producers, are down 23%. In a nutshell, that's what negative sentiment feels like. The fundamentals are improving and eventually, we believe the stocks will follow course. It's never easy to tell what inning we are in, but it certainly feels like we have passed the middle innings at least.

And I would be remiss not to mention, given the date, that it's the anniversary of the horrific events of 9/11. Simply put, we remember and will never forget.

That will do it for today. Have a great week and we look forward to speaking with you again soon.

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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