Tortoise QuickTake Energy Podcast

Tortoise

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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 Rob Thummel with a special podcast related to OPEC's recently announced decision to cut its production by 1.2 million barrels a day.

So the 5th OPEC/Non-OPEC ministerial meeting just ended and a deal has been reached, and as a part of that deal OPEC has announced that it will cut OPEC production by 800,000 barrels per day. And in addition to that, other countries led by Russia will add an additional 400,000 barrels a day for an accumulative 1.2 million barrels per day cut. These cuts will take effect at the beginning of 2019 and are scheduled to last for six months. And a review of the current oil markets will happen by both OPEC and non-OPEC counties in April.

So what's significant about this and why is this significant? Probably a couple of things. So first in the short term. The short-term significance is quite remarkable. So if you think about it over the last two months, the global oil market has become oversupplied inventories have been rising, and the combination of these cuts along with Canada's recent announcement to curtail production will balance the crude oil markets and keep inventories around that critical 5-year average.

The longer-term implications are even more significant in our opinion. So if you look at the long-term significance of this agreement it shows the cooperation between two of the largest producers in the world and shows how critical that cooperation has been. So Saudi Arabia and Russia, two of the largest producers in the world, have been able to work together and have recognized the oversupplied market and this time have reduced volumes. As we know, previously this year they increased volumes. So, both countries have acted in both ways. In increasing volumes when it is necessary and decreasing volume when it's necessary.

So if you think about it like this. The OPEC and non-OPEC countries are now cooperating and acting somewhat like the U.S. Federal Reserve does in managing the U.S economy. When it's time to raise oil production, this collective group is able to and willing. And when it's time to reduce production as it is in these times this collective group has shown its ability to do so as well.

So ultimately what all this means is we think that this will stabilize oil prices going forward. This will keep oil prices from being less volatile, will keep them in a tighter trading range. In the U.S. we still believe oil prices between $55-$65 is a real sweet spot for the U.S. producer and the U.S. consumer. And as you know, at Tortoise our focus for the products that focus on the energy sector is a stable oil price. We think stable oil prices are the key to bringing investors back to the energy sector. And we think that this agreement between OPEC and non-OPEC producers will solidify and stabilize oil prices for an extended period of time.

So lastly, what's next? Clearly there's Iranian sanctions that are still looming and the Iranian sanctions implemented by the U.S. reduce the oil supply more significantly. We're going to find out over the next several months. But that is probably why the cooperation agreement between OPEC and non-OPEC producers is going to last for the six months because they will reassess based on the current Iranian sanctions in the next few months.

So that's it for today. We will probably have more on this in our podcast on Monday Thanks for listening. And we'll 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@tortoiseadvisors.com.

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