Tortoise QuickTake Podcast with Rob Thummel

January 4, 2016

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.

Happy New Year! And if you are an energy investor these three words couldn't come soon enough. As we close the books on 2015 and move into 2016, let's take a look at how we finished 2015.

U.S. crude oil prices ended 2015 at $37.04 representing a 30% decline from the beginning of the year. In 2015, crude oil prices declined for the second consecutive year. So, how does this commodity cycle compare to other peak to trough cycles in recent history? We are on day 530 of the current cycle which is the second longest cycle in recent history. Only the commodity cycle in 1997 and 1998 lasted longer than the current one we are experiencing.

In addition to crude oil prices falling, natural gas prices dropped for the second consecutive year as well falling 23% in 2015. Consequently, the energy sector was the worst performing sector in the S&P 500 index in 2015 falling by over 20%.

What were the returns for the E&P sector in 2015? Stock prices of oil and gas producers as represented by the Tortoise North American Oil and Gas Producers Index fell by 37% in 2015. Only 6 of the 66 stocks included in the index delivered a positive return. Individual stock returns ranged between a negative 85% to a positive 29%.

Did any set of stocks standout in 2015? Permian Basin focused producers performed the best with an average price decline of 7%.

How did MLP performance turn out? Despite growing cash flow and rising cash distributions, MLP stock prices as represented by the Tortoise MLP Index dropped by 32% in 2015. The current yield on the Tortoise MLP index is 8.7%. 90% of the MLPs included in the index experienced negative returns in 2015. The range of returns for the 102 MLPs included in the index was between a positive 110% and a negative 91%.

Which MLPs performed the best? The best performing were the variable-pay, refining-focused MLPs.

Which MLP sectors experienced the weakest performance? Frac sand and E&P MLPs were the weakest performers as many either suspended or significantly reduced their cash distributions in 2015.

Who were the biggest beneficiaries of low energy prices? The U.S. consumer. The benefit of low oil prices is low gasoline prices. Gasoline prices are as low as they have been since 2009. In 2015, over $100 billion dollars of cash savings were realized by the U.S. consumer as a result of lower gasoline prices.

Last week was a light week on the news front. Here are some of the biggest news stories for the week.

Would anybody in the energy industry have predicted that U.S. produced crude oil would be exported before liquefied natural gas? Probably not, but in a historic event in energy history, for the first time in 40-years, U.S.-produced light crude oil was exported last week. ConocoPhillips and NuStar Energy announced that Vitol purchased Eagle Ford shale light crude oil that was loaded at NuStar's North Beach Terminal in the Port of Corpus Chiristi on December 31. This represents the nation's first export cargo of crude since the 40-year ban was lifted. In addition, Enterprise Products Partners announced that it has agreed to provide pipeline and marine terminal services to load its first export of crude oil produced in the U.S. The 600,000 barrel cargo of domestic light crude oil is scheduled to load on the Houston Ship Channel during the first week of January 2016. Enterprise also completed its final phase of it LPG export terminal expansion as well. These announcements highlight the significant change that is happening in 2016 as the U.S. expands its role as a provider of low cost energy to the rest of the world as the U.S. becomes an exporter of crude oil, natural gas, and natural gas liquids.

Does the fact that it was 72 degrees in New York City on Christmas day mean global warmings is happening? Probably not, but climate change is at the front of everybody's mind. A simple, practical solution to reducing carbon emissions involves using more low cost, U.S. produced natural gas to produce electricity. In its monthly update, the EIA highlighted how natural gas is gaining market share by replacing coal in the electricity generation market. In October, natural gas represented for 35% of the electricity generation mix compared to coal which represented 31%. These numbers might not mean much until you compare them to the five year averages. Historically, natural gas has represented only 28% of the generation mix while coal represented 39%. These numbers emphasize how natural gas continues to gain market share and coal is losing market share. Ultimately, this shift in commodities will help the environment by reducing carbon emissions.

What is the latest rig count? The Baker Hughes rig count fell by another two rigs. In 2015, the U.S. rig count fell by 1,113 rigs or 61%. The current rig count is at its lowest level this century. The last time the rig count was this low was September 1999.

The EIA released monthly crude oil production volumes for October as well this week. The good news is that U.S. oil production is approximately 350,000 barrels per day below its peak. It appears that the exit rate of U.S. oil production in 2015 will be close to the exit rate at the end of 2014 so U.S. oil production appears to have stalled. The EIA forecasts U.S. oil production to fall by 500,000 barrels per day in 2016.

Lastly, Saudi Arabia released its 2016 budget last week. After operating at a surplus for many years, Saudi Arabia projects an $87 billion budget deficit in 2016 after recording a record $98 billion budget deficit in 2015. It is assumed that Saudi Arabia forecasted a $45 per barrel oil price in its budget. Stay tuned on the impact that record budget deficits could have on global oil prices.

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@tortoiseadvisors.com