Tortoise QuickTake Podcast with Brian Kessens

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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.

Hi. I'm Brian Kessens, Tortoise Managing Director and Portfolio Manager with this week's Tortoise QuickTake podcast highlighting the top energy events of last week.

The energy complex weakness continued into the second full week of January. West Texas Intermediate crude oil decreased 11% last week, breaking through $30 per barrel, ending at $29.42 per barrel, and natural gas dropped 15% to $2.10 per mmbtu. The sense is demand for crude oil may be slowing as gasoline stocks rose significantly more than expected at 8.4 million barrels. Yet the large build is likely a result of less blending activity as blenders store components ahead of spring refinery maintenance rather than any changes in refinery activity or weak gasoline demand. Also impacting crude oil - the sanctions against Iran were lifted, potentially resulting in additional Iranian supply of 500,000 barrels per day over the next nine months. And it is also worth noting that the resiliency of US crude oil production remains, with production unchanged for the past week at 9.2 million barrels per day and the US oil rig count falling by just one.

Speaking to production, Barclays released their annual E&P spending outlook for 2016 following a survey of 225 companies. Globally, producers plan to reduce spending by 15% in 2016 following a 23% decline in 2015. This is only the second time spending has fallen in consecutive years in the 31 year history of the survey, the last since 1986/87. Specific to North America, 2016 budgets are off 27%, with downside to 50% if the forward curve manifests. Following the already significant drop in the US oil rig count (from 1,366 a year ago to 515 currently), we think this will have a material impact on production through 2016.

Following the commodity decline, energy stocks also fell last week. Broad energy declined 2.0% (though aided in large part by Exxon which improved 3.9%) while the Tortoise MLP Index fell 10.6% and the Tortoise North American Oil and Gas Producers Index declined 8.2%.

Despite lower stock prices, capital market activity continued to show signs of life. In the largest midstream deal of last week, Plains All American announced a $1.5 billion, convertible 8% preferred issuance with several private equity companies. According to the company, this completely satisfies Plains' equity growth financing needs for 2016 and well into 2017. We expect to see variants of this funding structure be used by other midstream companies to meet growth capital needs this year.

Regarding producers, last week's largest equity and debt deals respectively, were Diamondback Energy, a small Permian producer, raising $226 million in equity and EOG Resources offering $1 billion in senior notes. Both indicate market appetite remains for producers with top acreage and strong balance sheets.

Without a doubt the most volatile midstream complex last week was that of Energy Transfer and Williams. The stocks of these companies (tickers ETE, ETP, WMB, and WPZ) were down between 17% and 22% as uncertainty around the ETE / WMB deal remains – might it fall apart, be restructured, or continue as currently contemplated? The current deal spread of 25% indicates the market believes one of the former is most likely.

This week, we'll get a small taste for fourth quarter earnings as two bell weathers are the only energy companies scheduled to report, Kinder Morgan from the midstream sector and Schlumberger from oilfield services.

Thanks for listening, catch us again next week as we have a first look at fourth quarter earnings and other oil patch developments.

Thanks for listening and we look forward to speaking with 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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