Tortoise Capital Advisors

# Tortoise QuickTake Podcast

May 31, 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.**

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

We hope everyone had a wonderful holiday weekend, and we sincerely hope all had the opportunity to remember and reflect on the lives of those brave men and women who died while serving our country.

While Memorial Day serves as a day of remembrance, it also provides a time to look forward. Often viewed as the unofficial start of summer, the energy patch generally sees increased demand for gasoline due to high vehicle miles driven, air conditioning leading to renewed usage of natural gas and of course a boatload of conferences to attend. This year is no different as the Master Limited Partnership Association hosts its annual conference, one of the largest in the MLP space, this week in Florida.

As for last week's performance:

- On the commodity front, crude oil had a strong week, up 3.3%, while
- Natural gas also performed very well, plus 5.2% for the week
- Shifting to equities, the broader S&P 500® Energy Index finished higher as well, up 1.5%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠, returned 2.8%
- But unfortunately, MLPs could not make it a clean sweep as the Tortoise MLP Index® finished down 1.7% last week

Let's start out with the macro before getting more granular as it relates to the fundamentals.

On the supply side, OPEC is set to meet on June 2nd, the first such meeting after the failed Doha meeting. However, expectations are very low with most assuming there is nothing accomplished other than perhaps finding a new secretary general due to retirement of the existing head, Libyan Abdalla el-Badri.

Within OPEC, would you believe that out of the 13 member countries, six of them have actually witnessed negative production growth for the first four months of 2016 compared to the average for all of 2015? Another five averaged an increase of only 20,000 bpd over the same time period. Finally, the increase of ~580,000 bpd so far this year compared to 2015's average is almost entirely attributable to two countries, Iran and Iraq.

Nigeria in particular continues to experience issues related to militants attacking pipelines and export facilities with production likely falling below 1.5 million bpd in May.

Of course, within OPEC, the Saudi's control most of the space capacity and while we fully expect their annual ramp in production over the summer due to domestic cooling demand, anything above that would clearly be impactful to world oil balances.

Canada has been able to see some positive developments in their battle against wild fires, but there remains significant production offline.

Many have stated that these events are transitory and therefore are not impactful on the markets, yet that's a rather narrow view of the inventory situation.

Getting past the obvious concerns for human and environmental safety, the lower production from various conflicts and natural disasters will have a meaningful impact in lowering historically high inventory levels. And while the production will eventually come back online, the timing likely accelerates the rebalancing of the oil markets as demand continues to tick up and supply continues to tick down. U.S. rig counts were essentially flat for the week and have only moved down two rigs in two weeks, with perhaps a floor being found.

On the demand side, AAA expects more than 34 million Americans to travel 50 miles or more for the Memorial Day weekend, which is up 2% over 2015 and the most since 2005.

All these events led to crude oil breaching $50 per barrel intraday last week, before settling just under $50 on Friday.

On the natural gas front, weather for the summer is expected to be above normal in terms of heat for all but a handful of U.S. states, with our state, Kansas, being one of the lucky ones that is expected to see normal temperatures. That should lead to a high degree of coal to gas switching, helping work off the excess inventory levels we continue to experience

Moving to a more micro level, Plains All American provided their latest outlook at their 2016 Analyst Day on Wednesday. Some of the key highlights included:

- Expectations for a continuation of a challenged near-term crude oil industry environment, offset by very constructive intermediate and long-term fundamentals
- Ability to optimize existing assets and generate significant EBITDA with a recovery due to higher utilization on existing pipes and significant scale
- And the view that M&A activity is likely to pick up in the future , in particular for MLPs

Plains noted most key basins are well-served currently from a takeaway capacity perspective based on current levels, and that a production ramp-up from here may take longer than expected due to the fact that so many within the oil field services segment were laid off and no longer working in the industry.

Consistent with our thoughts however, the stage is being set for a recovery as investment worldwide has simply not kept pace, and the U.S. will be called upon to increase production in outer years to satisfy demand.

Finally, as noted at the outset, the MLPA conference will begin on Wednesday and provide another opportunity for midstream companies to tell their stories. We anticipate a solid showing by investors with companies looking to differentiate themselves from their peers.

We'll have more on that next week, until then that wraps up our commentary for today, thanks for listening and enjoy the short 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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The S&P Energy Select Sector Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

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The Tortoise North American Oil & Gas Producers IndexSM is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

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The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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