

Tortoise QuickTake Podcast

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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 Brian Kessens with this week's QuickTake podcast.

The U.S. oil rig count increased by 3 last week, the fifth straight weekly increase, and unexpected increases in U.S. gasoline and crude oil inventories cast a bearish sentiment across the commodity. Crude oil stocks rose 1.6 million barrels and gasoline inventory jumped 452,000 barrels. Consensus expectations were for draws in both. It is notable that part of the reason for the bump in crude oil stocks was higher imports, and that gasoline demand is solid, higher 2.6% year-over-year. Nonetheless, crude oil ended the week lower by nearly 6%.

Natural gas inventories on the other hand, reported the lowest build ever reported for a week ended in July, with an injection of just 17 Bcf. The injection is the 12th consecutive injection that was less than the corresponding week last year and the 5 year average. High temperatures drove more demand from gas fired generation and lower production growth combined to help set the record. The gas rig count actually fell by 2 last week. No surprise then that natural gas prices ended the week higher by 3.5%.

Energy stocks ended the week lower, with MLPs down 95 basis points, producers down 50 basis points, and broader energy off by 2%.

Last week marked the first big week of earnings reports.

Midstream companies generally reported earnings in-line to slightly higher than estimates. The largest midstream company to report, Enterprise Product Partners, had higher fee-based earnings, somewhat offset by lower marketing margins associated with narrower crude oil basis differentials. Enterprise also noted some LPG cargoes were cancelled due to more limited global arbitrage opportunities. That's likely one reason for the lower propane prices we've seen in July. Ethane prices can expect some support in August as Enterprise expects to announce commissioning of its ethane export terminal soon.

Upstream companies continue to focus on production growth. The largest single basin for crude oil production is the Permian at about 2 million bpd, and the largest pure play Permian producer, Pioneer Natural Resources, reported last week. Pioneer raised production growth a second time this year to 15% and highlighted upsized version 3.0 fracs. The company is now fracing wells with 1,700 pounds per foot of proppant, 100' stage spacing, and 15' cluster spacing compared to version 2.0 that used 1,400 pounds per foot of proppant, 150' stage spacing and 30' cluster spacing. It is estimated version 3.0 wells are outperforming 2.0 wells by approximately 15%.

The refiners generally reported decent results on the heels of lowered expectations. The largest independent refiner, Valero Energy, noted a couple items to look for in the back half of the year. First, Valero indicated it is now starting to blend winter grade gasoline due to ample supply of summer grade. The refiner also said its 2016 biofuel blend costs are unchanged even given the recent run-up in RINs prices.

For utilities, the warmer weather is positively impacting earnings results and the lower than expected 2Q GDP growth number last week of 1.2% gave investors a sense that the Fed may not raise rates anytime soon, a tailwind for utility stocks because their performance tends to closely align with interest rate sentiment.

Finally, updating crude oil production, the EIA monthly reported production declined 53 mbpd in May, to 8.9 mmbpd, or 800 mbpd below the peak reached in April of 2015. Onshore supply is down 930 mbpd with Gulf of Mexico actually higher by 200 mbpd. We continue to expect to end the year with production levels at 8.25 mmbpd and note the weeklies estimate current production at 8.4 mmbpd.

This week, expect the deluge of earnings announcement to continue, with the majority set for Wednesday and Thursday.

Thanks for listening.

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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