Tortoise QuickTake Podcast

April 17, 2017

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.

Despite being a holiday-shortened week, there were a plethora of monthly reports released last week that contained information supporting the U.S. energy markets.

Let's start with the Energy Information Administration or EIA's short-term outlook. Let me highlight something that I think is important but often gets overlooked. What am I talking about? U.S. carbon dioxide emissions. U.S. energy-related carbon dioxide emissions fell by 1.7% in 2016. In fact, energy-related carbon dioxide emissions have declined by 14% since 2007. Additionally, the EIA forecasts emissions to decline again in 2017. Declining emissions are a result of less coal and more natural gas and renewables being used by electric utilities to generate electricity. A second piece of information to highlight relates to U.S. crude oil exports. According to the EIA report, crude oil exported from the U.S. has doubled over the last year. Where is the U.S. produced crude oil being exported? Mainly Asia with China and Japan being the largest sources of incremental demand. Lastly, the EIA updated its U.S. oil production projections. U.S. oil production is expected to average 9.2 million barrels per day in 2017 which is about 300 thousand barrels per day higher than the 2016 average level. What I find even more interesting is the forecast for 2018 U.S. oil production. U.S. oil production in 2018 is expected to rise by another 700,000 barrels per day averaging 9.9 million barrels per day. This is significant because it would be the highest production level in the history of the United States. We believe that more U.S. oil production will be needed to meet future global demand and offset production declines occurring in China and Mexico during 2017 and 2018.

The other significant report published last week was the International Energy Agency or IEA's Oil Market Report. This report is always highly anticipated. Why? Because it answers a key question - Is OPEC complying with its production cut agreement? The answer for March was a resounding YES! In March, OPEC countries collectively reduced production by over the 1.2 million barrel per day agreed upon cut. In 2017, OPEC's average compliance with its stated production cut is 99%. OPEC compliance is much higher than most expected. Non-OPEC compliance with the stated production cut is not quite as good. Recall that non-OPEC countries, mainly Russia, agreed to cut production by approximately 600,000 barrels per day for the first six months of 2017. Non-OPEC suppliers cut production by 64% of their stated goal in March. This is the highest percentage of compliance achieved so far in 2017. We believe that global oil inventories need to be reduced to keep oil prices stable. The IEA still expects the global oil market to be undersupplied in the second quarter resulting in declines in global oil inventories. Global oil demand growth typically accelerates in the second half of the year so if OPEC extends its production cut agreement through the end of 2017 then we would expect global oil inventories to decline at a faster rate in the third and fourth quarters of 2017.

Moving onto a quick look at performance last week. Supported by signs of OPEC compliance, suggestions that Saudi Arabia wants to extend the OPEC production cut agreement through the end of 2017, and the first meaningful decline in U.S. oil inventories, oil prices extended its April rally rising by almost 2% last week. In April, oil prices have increased by 5% and are only down by 1% this year. Despite a continued rally in oil prices, the performance of energy stocks could not separate from the broad market. Last week, the S&P® 500 Index fell by 1.1% while The S&P Energy Select Sector® Index declined by 1.5% and the Tortoise MLP Index fell by 2%.

In company specific news, the Permian Basin continues to dominate the headlines. Last week, the news coming from the Permian related to energy infrastructure. At Tortoise, we believe that the Permian will be one of key areas of development of new energy infrastructure. Last week, two new pipelines and one acquisition were announced in the Permian. Enterprise Products Partners added to its project backlog by announcing its plans to construct a new 561-mile natural gas liquid or NGL pipeline from the Permian Basin to Mont Belvieu, an area near Houston, Texas. The pipeline has an initial capacity of 250,000 barrels per day but is expandable up to 600,000 barrels per day. It is supported by long term producer commitments and is expected to be completed by the second quarter of 2019. A second potential pipeline was announced by Kinder Morgan and DCP Midstream. The Gulf Coast Express Pipeline is a natural gas pipeline that would originate in the Permian Basin transporting up to 1.7 bcf/d of natural gas over 400 miles to a facility near Corpus Christi, Texas. This project requires an open season to gain shipper commitments but would be completed in the second half of 2019 if shipper commitments are obtained. You might be thinking "Isn't the Permian an oil basin?" The answer is yes but with each barrel of oil produced also comes a certain amount of natural gas and natural gas liquids such as ethane and propane. The commitment for new pipelines to support transportation of energy commodities such as natural gas and natural gas liquids are a testament to the long-term potential of the Permian. The sole energy infrastructure acquisition in the Permian announced last week by NuStar Energy L.P. NuStar entered into a definitive agreement to acquire a private infrastructure company Navigator Energy Services for $1.475 billion. NuStar will acquire crude oil transportation, gathering, and storage assets located in the Midland Basin, a subset of the Permian. This transaction is expected to close in mid to late May.

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@tortoiseinvest.com.

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The S&P Energy Select Sector® Index 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.

The Tortoise MLP Index® 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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