TortoiseEcofin QuickTake Podcast

June 27, 2022

Welcome to the TortoiseEcofin QuickTake podcast. Thank you for joining us as we provide timely updates on the market.

Hello. I am Tortoise Senior Portfolio Manager Rob Thummel with this week's TortoiseEcofin QuickTake podcast.

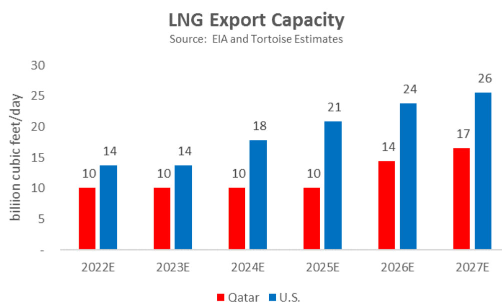
Another topsy-turvy week in the stock market coupled with several major macro headlines left energy investors asking the question – are we running out of gas both figuratively and literally?

Starting with performance, some investors are wondering if the rally in the energy sector has run out of gas due to the its weak absolute performance since June 8th. Last week, the energy sector as represented by the S&P Energy Sector Index fell by 1.5% while the energy infrastructure sector as represented by the Alerian Midstream Index rose by 1.5% as the stock market continues to be influenced by fears of a recession. We believe there are several catalysts that could refuel energy stocks leading them higher in the short and long term. Energy demand tends to be inelastic given the essential nature of energy use in our daily lives. The upcoming earnings seasons will reinforce the significant cash flow generation potential of the energy sector not only this year but for an extended period of time. Lastly, more U.S. energy is the answer to enhance global energy security which brings me to my next point.

Is Europe going to run out of gas or natural gas in this case? Last week, Germany announced that it will restart coal-fired power plants to conserve natural gas. This move allows Europe to build natural gas inventories right now to meet future winter demand in the event that Russian natural gas supplies are not available. So far, Germany, Austria, and the Netherlands have announced plans to resurrect old coal plants to boost natural gas inventories.

While increased use of coal in Europe could lead to higher greenhouse gas emissions in the short term, the U.S. and Qatar are increasing liquefied natural gas or LNG export capacity which should make Europe's switch to coal temporary. Even more importantly LNG available from the U.S. and/or Qatar will reduce and/or eliminate Europe's reliance on Russian natural gas. Last week was an active week for U.S. LNG announcements with four new long term LNG sale and purchase agreements reached. Chevron, U.K. based INEOS, and German utility EnBW agreed to buy future U.S. natural gas volumes from Cheniere, Venture Global, and Sempra Infrastructure LNG facilities for a term of 15 – 20 years. Just these agreements could increase total U.S. LNG export capacity by almost 10%. In 2022, U.S. LNG export facilities have reached agreements with international buyers to buy almost 5 bcf/d of additional natural gas. This will likely result in U.S. more than doubling its current LNG export capacity by 2026. As highlighted in Cheniere's 2021 sustainability report released last week, the International Energy Agency or IEA has identified fuel displacement from coal to gas as the quickest route to emissions reductions. In fact, the IEA estimates that switching from coal to natural gas has helped limit the rise in global CO_2 emissions since 2010 and avoided more than 699 million metric tons of CO_2 emissions between 2010 and 2020.

LNG news was not limited to the U.S. Internationally, Exxon and ConocoPhillips joined Total, Shell, and ENI as partners in expanding Qatar's North Field that will boost LNG exports. The U.S. and Qatar are the world leaders in LNG exports. As illustrated in the chart below, the U.S. and Qatar are both expanding LNG export volumes in the next five years with the U.S. solidifying its position as the global leader in LNG exports. By the end of 2027, Qatar could be exporting 17 bcf/d of natural gas while U.S. natural gas exports could approach 27 bcf/d.



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To finish with the are we running out of gas theme, lets talk about gasoline. We've highlighted in the past how U.S. gasoline and diesel inventories are at the lowest levels in more than a decade for this time of year. We are not going to run out of gasoline and diesel. However, last week, the EIA released its annual U.S. refining capacity report that showed U.S refinery capacity is now at its lowest level since 2014. Refining capacity has declined by over one million barrels per day in the last two years. Some of this capacity will return as certain refineries are being converted to renewable diesel facilities but 80% of the capacity reduction is expected to be permanent. You likely saw the political theater last week with Chevron CEO Mike Wirth asking President Biden to stop vilifying the energy industry and Biden responding calling energy industry CEOs mildly sensitive. Unfortunately, no concrete solutions emerged from the meeting between U.S. Secretary of Energy Jennifer Granholm and the seven major U.S. oil companies. In my opinion, the best solution remains increasing oil and natural gas production from reliable supply sources like U.S. and Canada that will assist in balancing the global energy markets and reduce the geopolitical risk premium embedded in global oil and natural gas prices resulting in lower prices at the pump. Of course, higher North American production volumes would enhance the free cash flow generated by many energy infrastructure companies even more.

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 episode. Have topics you want covered or other feedback to share? Write us at info@tortoiseecofin.com.

The **Alerian Midstream Energy Index®** is a broad-based composite of North American energy infrastructure. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMNA) and on a total-return basis (AMNAX).

The S&P 500® Energy comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

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