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Cheap Gas Should Boost Airport, Toll Road Bonds – Wells Fargo.

With oil sliding below $50 a barrel today, Wells Fargo looks at the infrastructure implications of low energy prices and says the ongoing drop in gasoline prices will boost coffers for a variety of municipal bond sectors like airports and toll roads. From Randy Gerardes, senior muni analyst at Wells Fargo Securities:

“We expect persistent lower gasoline prices to have a greater positive effect on airport traffic than automobile traffic. Therefore, we expect modest growth in vehicle miles traveled (VMT) in 2015. However, the increased discretionary income associated with lower fuel prices should offer an accommodative environment for toll operators to increase toll rates, which should support stronger toll revenue growth. We continue to be bullish on airports, specifically large international gateway airports with significant cargo operations. Speaking of cargo, we see the potential for the greatest cargo growth at East Coast and Midwestern ports with strong intermodal connections and infrastructure that can accommodate larger ships. Turning to energy, we expect electricity rates to become increasingly correlated to natural gas prices as electric utilities continue to deemphasize coal-fired generation. Finally, lower primary market issuance will likely drive cash toward higher-yielding infrastructure sectors, such as toll roads, which we saw in 2014.”

Here’s more from Wells on commodity prices and their impact on electricity rates and utilities:

“In 2015, we expect electric utilities to continue to move toward natural gas fired generation in response to environmental regulation. Consequently, we believe natural gas prices will be a bigger driver of electricity rates. Furthermore, we think environmental regulations will be the biggest driver of issuance for generation particularly in light of slowing load growth. In our view, the U.S. natural gas and oil markets are as interconnected as ever. Prices and behavior in one market can have an effect on the other. To date, the price of natural gas has not followed the slide in oil prices. However, low crude oil prices reduces returns for drillers and, in turn, may lead to reduction in drilling assets deployed and ultimately a slowing of U.S. crude production. While lower crude prices may make natural gas drilling more attractive in the short term, we believe producers seek a balance whereby oil production supports gas production and vice versa. The result, in our view, is upward pressure on natural gas prices. As producers curtail production of crude oil, this should, in turn, slow the growth in natural gas production as well.”

Barron’s

By Michael Aneiro

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