



Longreach Energy Holdings LLC

FIRM INFORMATION

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1. Market and Macro Industry Commentary

General Market Commentary

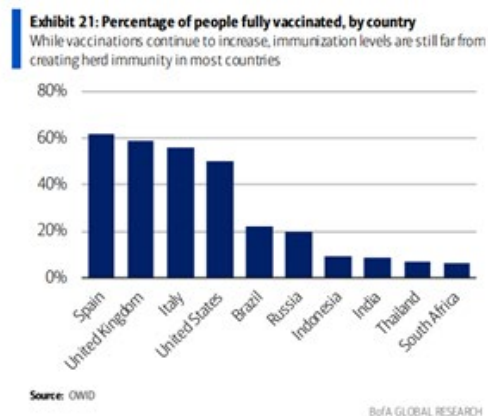
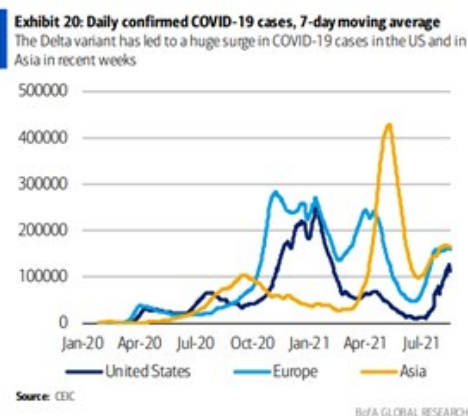
Hot weather driven cooling demand for electricity, much of which is being supplied by natural gas, continued high export demand and combined with steady production volumes, drove natural gas prices significantly higher by the end of August. The prompt September futures contract closed August at \$4.377/mmbtu with balance 2021 at \$4.440/mmbtu. These trends have continued into September, at time of writing (7 Sept) the prompt has risen further to \$4.684/mmbtu. Further dated futures have also increased although not by as much as the near dates. We anticipate that the core supply and demand trends will provide continued support for natural gas.

The WTI oil contract is flat month-on-month, closing August down \$1.09/bbl at \$68.50/bbl, as concerns about the impact of the fast-spreading Delta variant of Covid-19 remain front of mind.

At the end of August Hurricane Ida stuck the Gulf of Mexico coast as a Category 4 hurricane with 150mph winds. More than 1 million homes in Louisiana and 100,000 homes in Mississippi were without power in the immediate aftermath. Over 2bcf/d and 1.5mmbbl/d of offshore gas and oil production was shut in as the storm passed and by early September only a small proportion of this had been restored. LNG export, chemical plants and oil refining infrastructure appear to have avoided serious damage. The overall impact of the storm was thus more disruption to supply than reduction of demand, contributing to the early Sept rise in natural gas futures.

Covid-19 infections are increasing rapidly. While vaccinations continue to increase, immunisation levels are still far from reaching herd immunity in most countries (Figure 1).

Figure 1: US Covid Cases and Select Country Vaccination (Source: CEIC, OWID via BofA)



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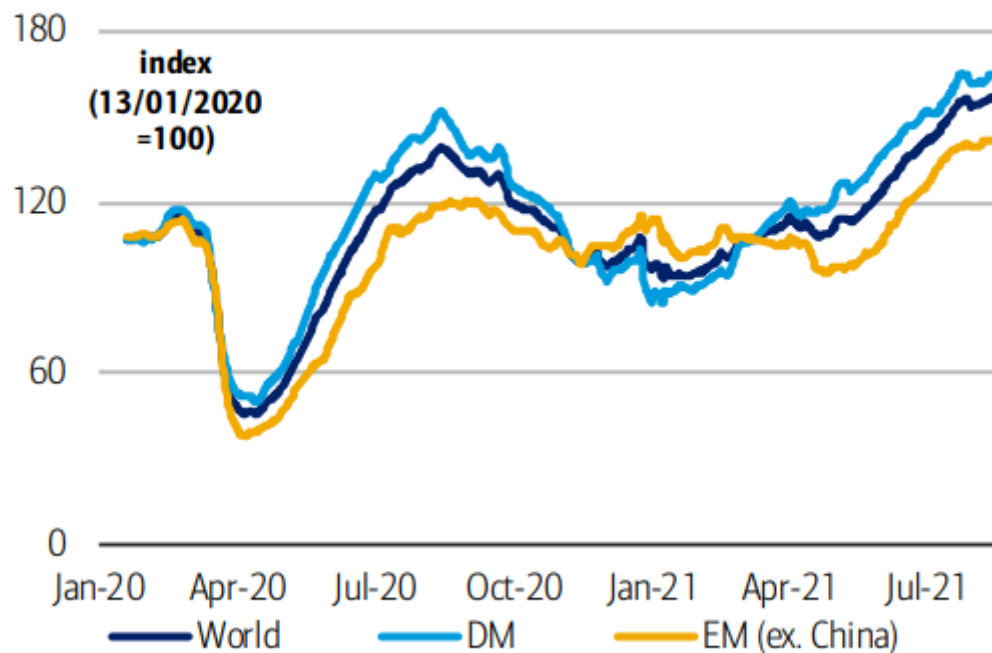
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Despite this, US driving mobility (Figure 2) and US domestic air travel (RHS Figure 3) are both recovering. International air travel (LHS Figure 3) remains depressed.

Figure 2: US Driving Mobility (CEIC, BofA)

Exhibit 11: Driving mobility trend, weighted by car fleet (7-day MA)
... helped by a normalization of driving demand around the world, led by the United States



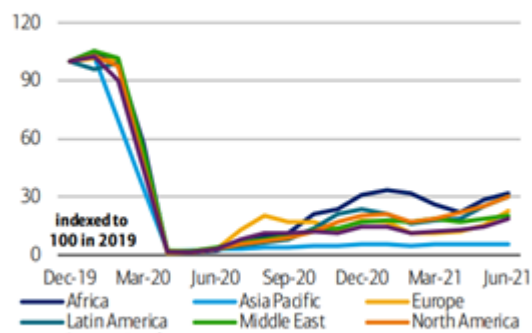
Source: CEIC, BofA Global Research

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Figure 3: International and US Air Passengers (CEIC, BofA)

Exhibit 14: International RPK: Actual passenger traffic growth

While goods have continued to move around the world, people have not

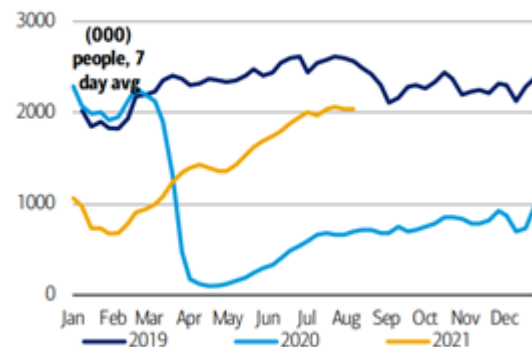


Source: IATA, BofA Global Research

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Exhibit 15: TSA checkpoint total traveler throughput

Still, aviation demand is recovering on a domestic basis, particularly in the United States



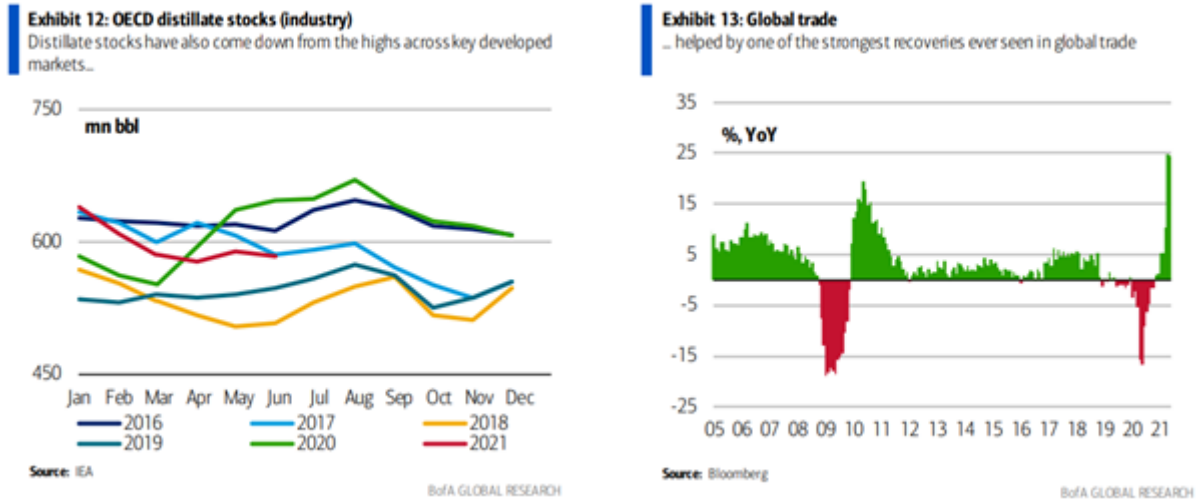
Source: Bloomberg

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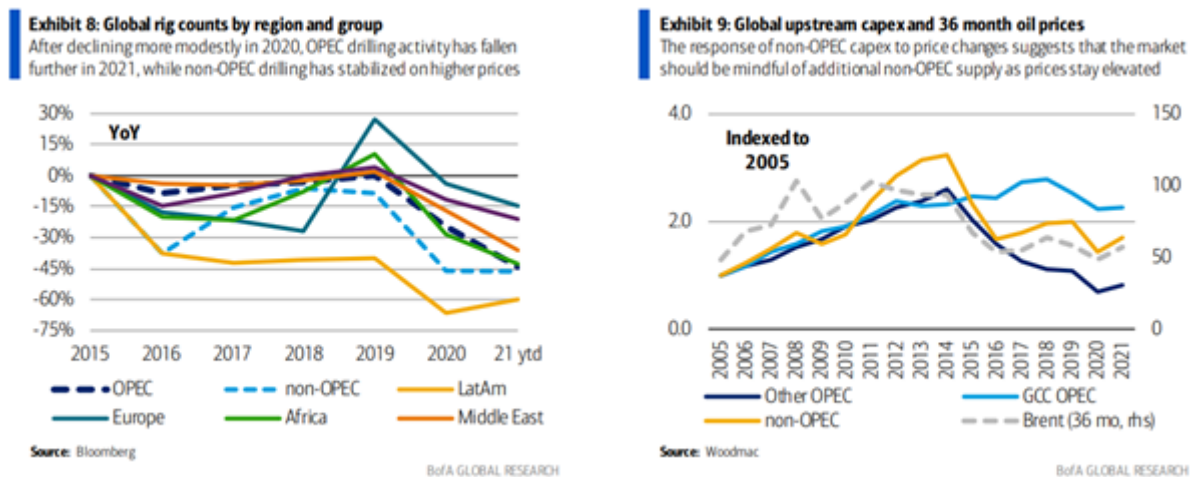
Distillate stocks, a measure of heavy transport demand, have come off highs but track at five-year averages (LHS Figure 4), meanwhile 2021 has seen one of the strongest ever recoveries of global trade (RHS Figure 4).

Figure 4: Distillate Stocks and Global Trade (IEA, Bloomberg, via BofA)



Global rig counts and capital spending both remain restrained as gas and oil producers around the world focus on cashflow generation (Figure 5).

Figure 5: Global Rig Count and Upstream Capex (Woodmac via BofA)





Notwithstanding industry caution, increased prices will see spending increase, non-OPEC (mostly the US) upstream capex looks set to rise circa 5% in 2022 (LHS Figure 6). The importance of shale to non-OPEC supply is evident in RHS Figure 6. Despite the sharp reduction of shale capex in 2020, production has stayed flat while conventional production has declined.

Figure 6: Non-OPEC Capex and Liquids Production Growth (Woodmac via BofA)

Exhibit 10: Non-OPEC+ upstream capex by resource type
After falling 27% in 2020, non-OPEC+ upstream capex has stabilized and looks set to rise by upwards of 5% in 2022

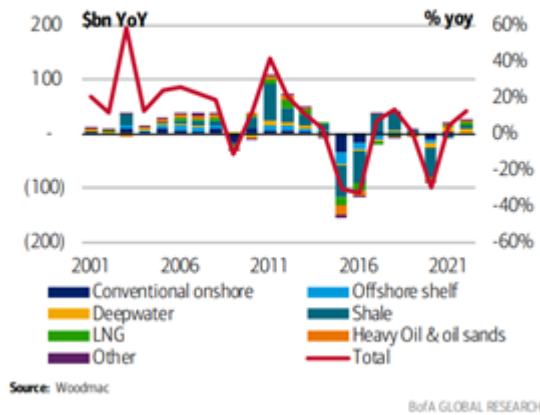
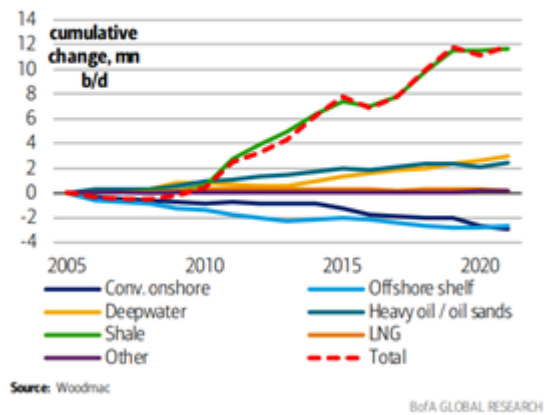


Exhibit 11: Non-OPEC+ liquids production growth by resource type
Even though shale capex collapsed in 2020, production has remained fairly resilient, while conventional onshore production declined



The latest Baker Hughes rig count data follows. In August US total rigs increased by 9 from 488 to 497 and land rigs increased by 22 from 473 to 495. Inland waters and offshore rigs both fell during the month. Oil rigs increased by 9 from 385 to 394 and gas rigs fell by 1, dropping from 103 to 102.

Baker Hughes rig count



Rotary Rig Count

9/3/21

Location	Week	+/-	Week Ago	+/-	Year Ago
Land	495	5	490	255	240
Inland Waters	0	-3	3	-1	1
Offshore	2	-13	15	-13	15
United States Total	497	-11	508	241	256
Gulf Of Mexico	0	-14	14	-15	15
Canada	152	5	147	100	52
North America	649	-6	655	341	308
U.S. Breakout Information	This Week	+/-	Last Week	+/-	Year Ago
Oil	394	-16	410	213	181
Gas	102	5	97	30	72
Miscellaneous	1	0	1	-2	3
Directional	11	-17	28	-9	20
Horizontal	463	4	459	243	220
Vertical	23	2	21	7	16



Gas Market

By the end of August low gas storage injection numbers, the impact of hurricane Ida and strong forward expectations of demand, from both exports (LNG and pipeline to Mexico) and power generation (primarily cooling), drove natural gas prices significantly higher.

The \$4.377 August close was an increase of \$0.35 on end July, the prompt has now risen 20% in two months (Figure 7).

Figure 7: Natural Gas Futures Prices (Source: EIA)

Near-month natural gas futures prices (NYMEX)

dollars per million British thermal units



Source: Graph by the U.S. Energy Information Administration (EIA), based on data from CME Group as compiled by Bloomberg, L.P.

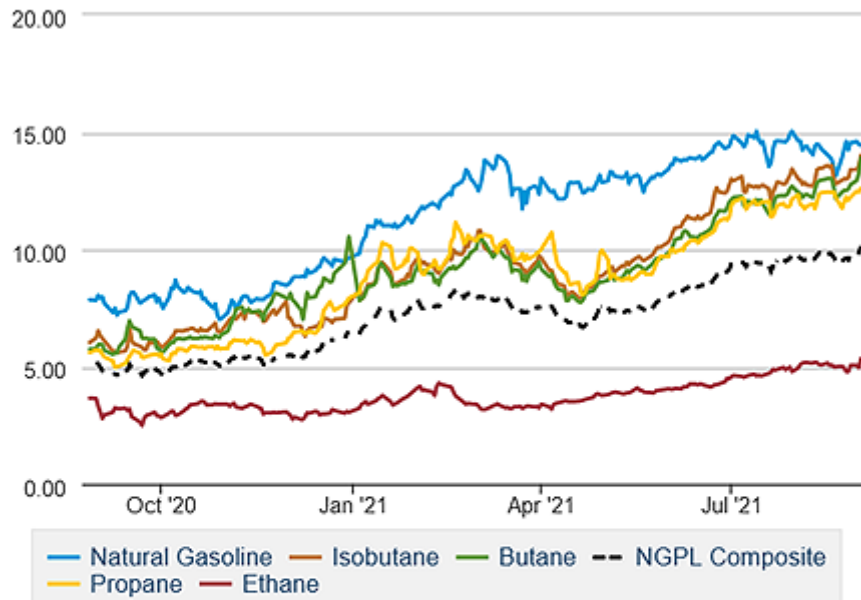


Prices for Natural Gas Liquids, an important revenue generator for Longreach Energy, have also recovered from the lows of mid-2020 (Figure 8).

Figure 8: Natural Gas Liquids spot prices (Source: EIA)

Natural gas liquids spot prices

dollars per million British thermal units

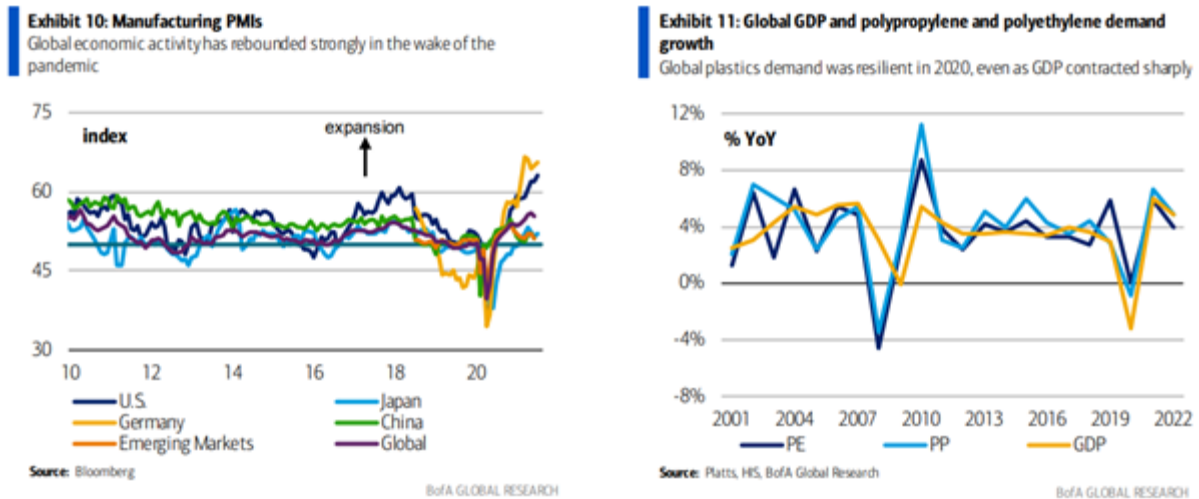


Source: Graph by the U.S. Energy Information Administration (EIA), based on data from EIA's *Petroleum Supply Monthly* and on Mont Belvieu, Texas, spot prices reported by Bloomberg, L.P.

Note: We base the NGPL composite price on reported Bloomberg spot prices. We base the volumetric weight on the most recent Form EIA-816 data reported in the *Petroleum Supply Monthly* (PSM). Volumetric weights are adjusted when new PSM data are published. Natural gasoline is the term used in the spot and futures markets to describe pentanes and hexanes, the primary components of pentanes plus.

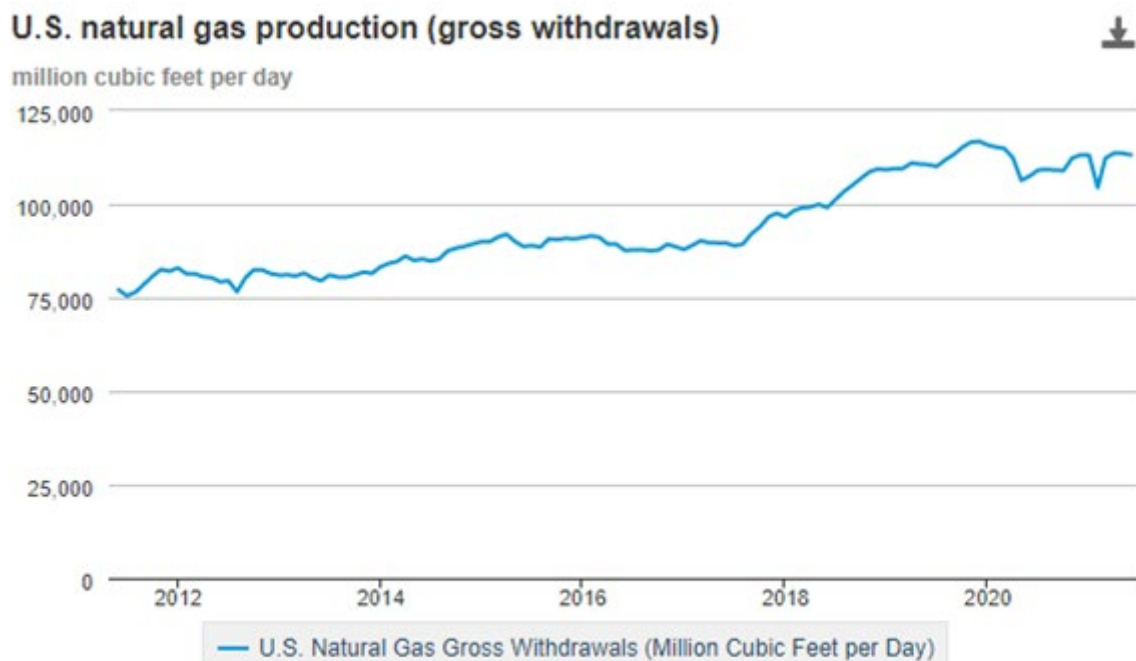
Natural gas liquids (NGLs) are the key feedstock for a wide range of plastics. Shifting consumption patterns during the pandemic, such as online shopping, have helped keep plastics demand strong even as global GDP contracted through 2020. This relative strength has supported petrochemical sector demand for NGLs. Current forecasts call for stable plastics demand growth this year and next, in-line with GDP expectations, which should lead to stable NGL demand growth and support for prices (Figure 9).

Figure 9: Manufacturing PMIs, Global GDP and Plastics Demand Growth (Source: various, via BofA)



Capital spending restraint referenced above has meant that production volumes have not yet increased with higher gas prices (Figure 10).

Figure 10: US Natural Gas Production (source: EIA)

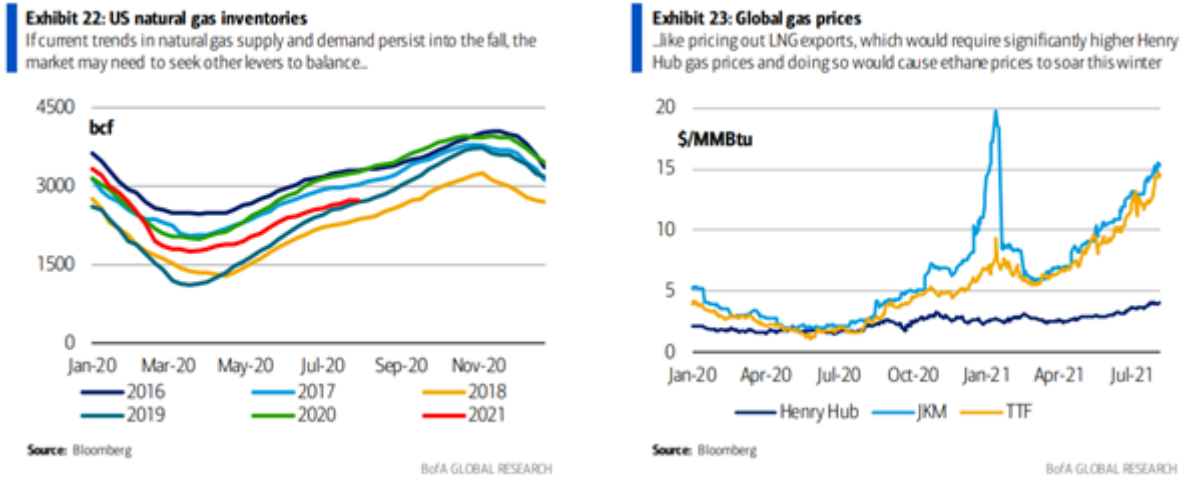


eia Source: U.S. Energy Information Administration



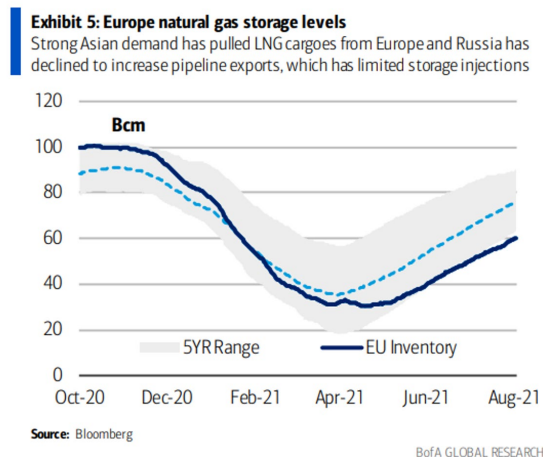
Storage injections are running 15% lower than the five-year average so far in the refill season (April to October) (LHS Figure 11) while the differential between US domestic Henry Hub and Asian and European gas prices continues to widen (RHS Figure 12). This is drawing maximum gas volumes into LNG export facilities.

Figure 11: US Gas Inventories and Global Gas Prices (source: Bloomberg, via BofA)



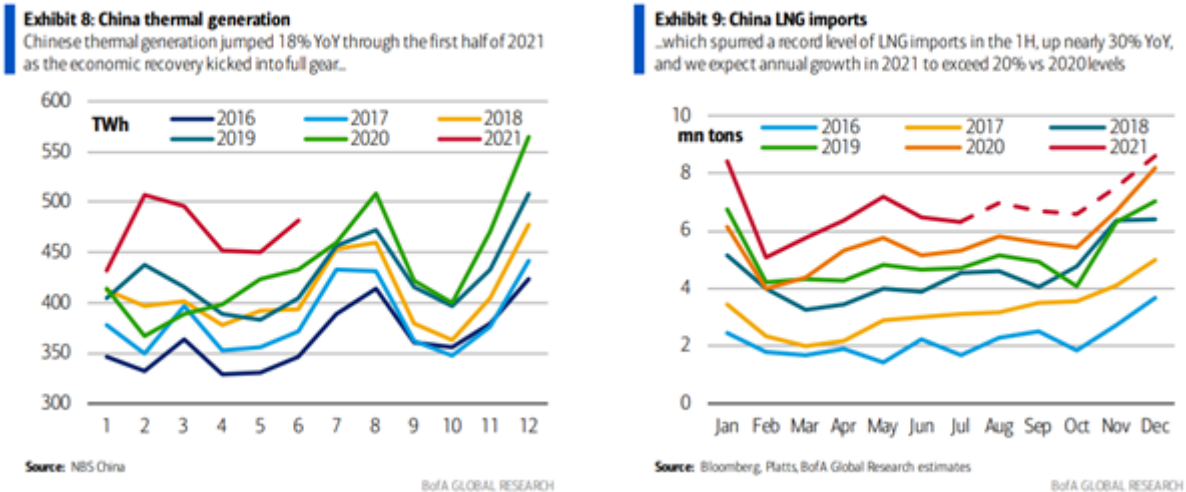
Despite record prices, gas storage levels in Europe remain very low (Figure 12), contributing to asymmetric upside risks this northern winter for the global LNG market in the event of colder than normal weather, in Europe or in Asia, or any supply side outages.

Figure 12: European natural gas storage levels (source: Bloomberg, via BofA)



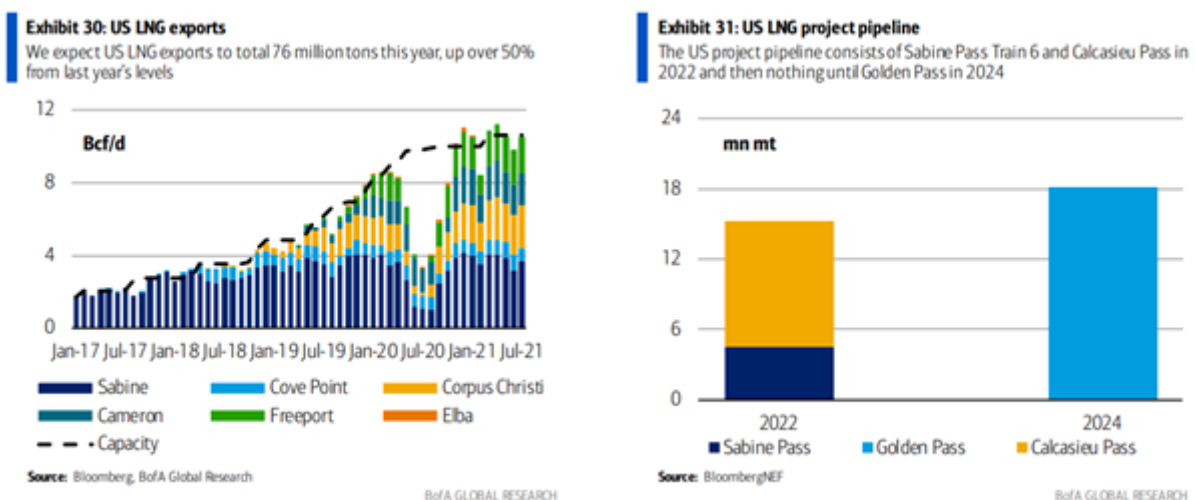
Chinese demand has been the primary driver of global LNG demand growth so far this year. As the economic recovery kicked into full gear, Chinese thermal generation jumped nearly 18% YoY through the first half of 2021 (LHS Figure 13). With this came soaring LNG volumes, tracking nearly 30% higher YoY (RHS Figure 13).

Figure 13: Chinese thermal generation and LNG imports (source: various, via BofA)



As global LNG demand ramped up, it was the United States producers that delivered supply. BofA expects that US LNG exports will total 76 million tons this year, up over 50% from last year's 50 million tons (LHS Figure 14). US facilities are expected to run at maximum capacity given the current record export arbitrage price differentials. Production will increase further into 2022 with Sabine Pass Train 6 (0.7bcf/d) potentially coming online at the end of 2021 and Venture Global's Calcasieu Pass (1.5bcf/d) expected to come online in 2022. The only other US project currently under construction is Golden Pass (2.4bcf/d) expected in 2024 (RHS Figure 14).

Figure 14: US LNG exports and project pipeline (Source: Bloomberg, BofA)



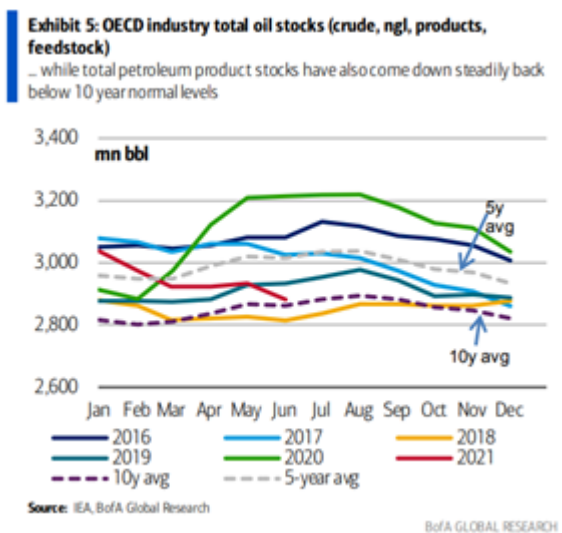
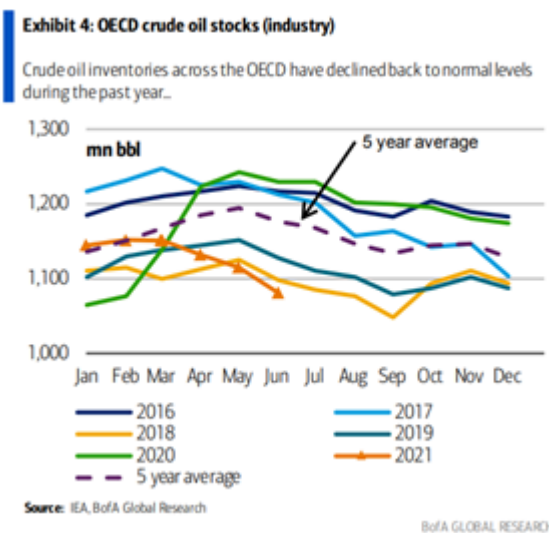


Oil Market

Oil prices were steady around \$69/bbl month-to-month with reduced demand from surging Covid-19 infections balancing supply issues in Mexico (platform fire), Gulf of Mexico (Hurricane Ida), OPEC+ restraint and fighting in Libya.

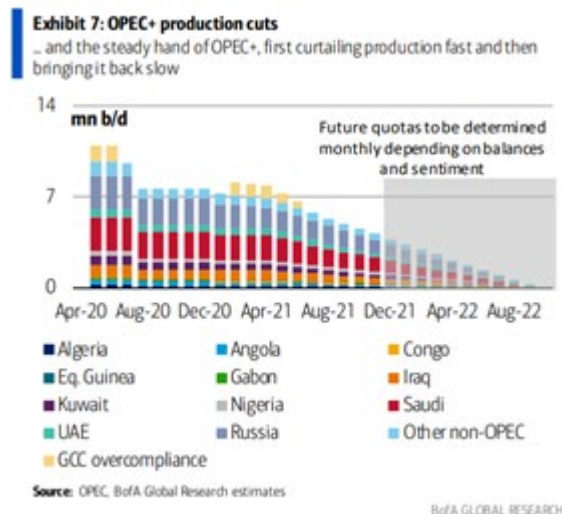
Relatively tight supply/demand balance is evidenced by fact that crude oil and petroleum product stocks across the OECD are both below the 5-year averages (Figure 15).

Figure 15: OECD crude oil and petroleum product stocks (Source: EIA, IEA via BofA)



This normalisation of oil stocks has been driven by demand recovery (LHS Figure 16) and active management of supply from OPEC+ (RHS Figure 16).

Figure 16: Global oil demand and OPEC+ production cuts (Source: IEA, OPEC via BofA)

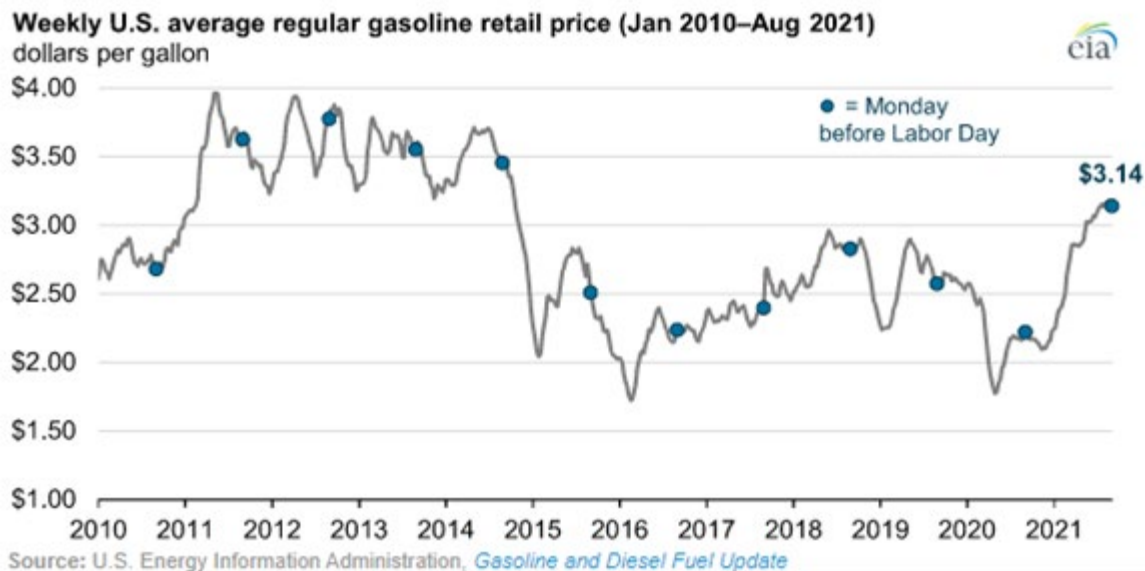




Recovery in US oil demand is seen in the spike in retail gasoline prices (Figure 17).

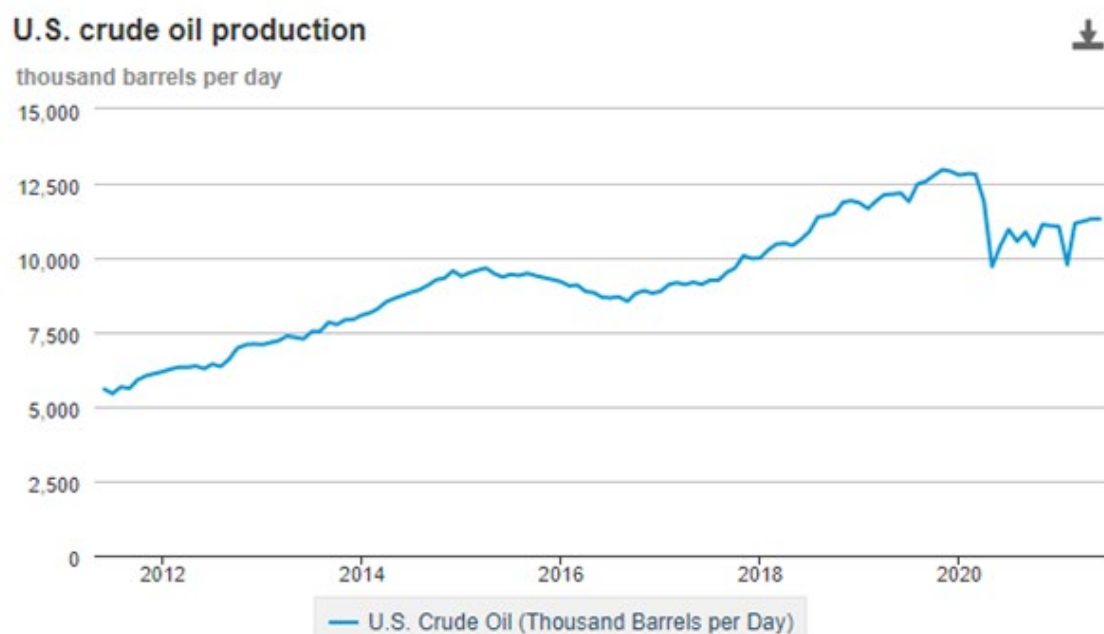
Figure 17: US retail gasoline prices (Source: EIA)

Pre-Labor Day retail gasoline prices at highest level since 2014



Capital spending restraint previously discussed has delivered steady production volumes despite the incentive to drill provided by higher prices (Figure 18).

Figure 18: US crude oil production (Source: EIA)

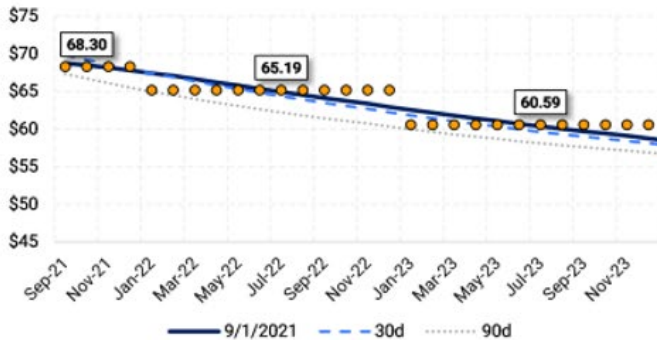


Source: U.S. Energy Information Administration

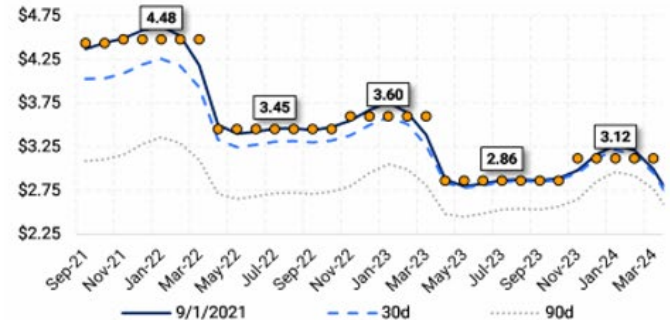


Gas and Oil Prices 1 September 2021

WTI Calendar Strips



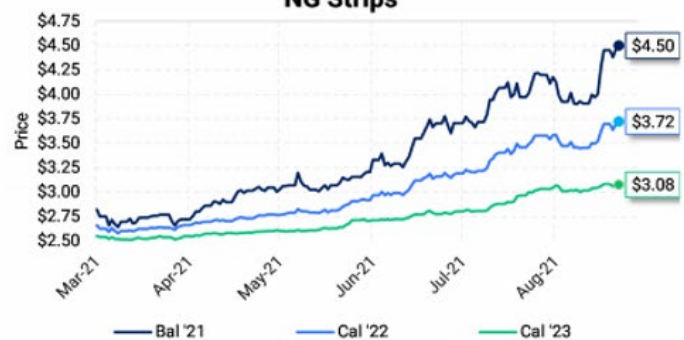
NG Seasonal Strips



WTI Strips



NG Strips



Swap Pricing

	Bal 21	Cal 22	Cal 23	Cal 24	Cal 25
NYMEX WTI Crude	\$ 68.30	\$ 65.19	\$ 60.59	\$ 57.05	\$ 54.69
ICE Brent Crude	\$ 71.10	\$ 67.95	\$ 64.31	\$ 61.36	\$ 59.30
Light Louisiana Sweet	\$ 68.86	\$ 66.73	\$ 62.35	\$ 58.51	\$ 56.15
TM Midland Differential	\$ 0.30	\$ 0.27	\$ 0.28		
WCS Differential	\$ (12.00)				
NYMEX Natural Gas	\$ 4.50	\$ 3.72	\$ 3.08	\$ 2.84	\$ 2.84

Source: Bloomberg LP
Indicative only

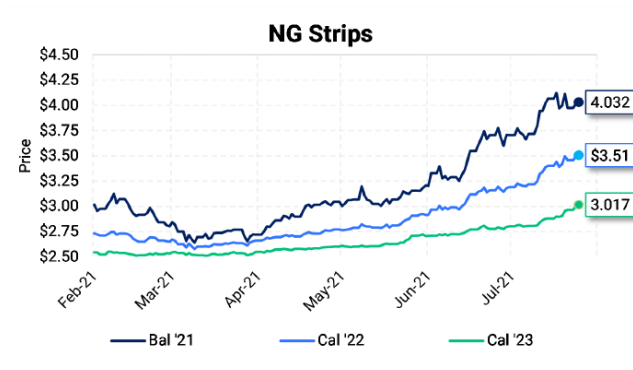
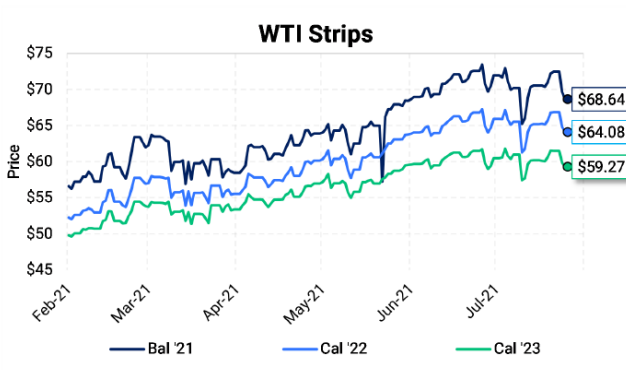
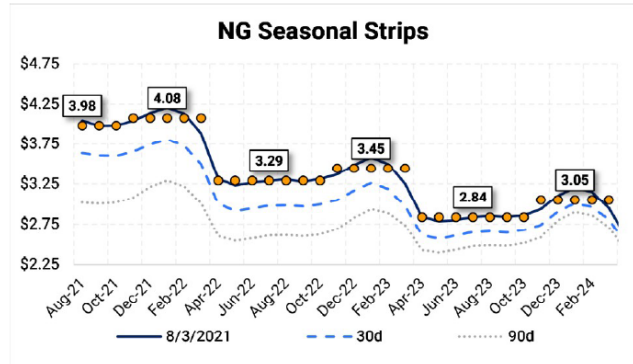
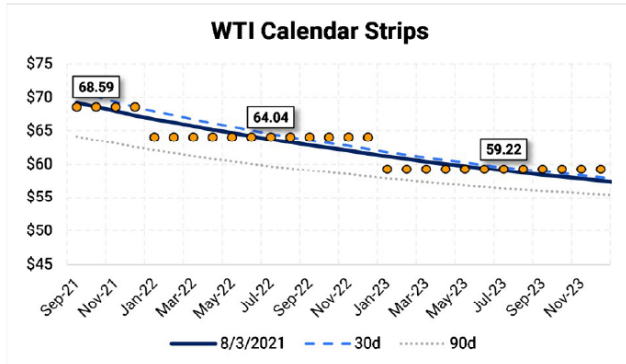
Natural Gas Basis

Location	Spot	Summer '21	Winter '21/'22	Summer '22	Winter '22/'23
Henry Hub Fixed	4.25	4.43	4.42	3.43	3.58
Malin	\$ 0.31	\$ 0.16	\$ 0.70	\$ (0.06)	\$ 0.37
Sumas	\$ 0.08	\$ 0.20	\$ 0.97	\$ (0.32)	\$ 0.61
Opal	\$ 0.03	\$ (0.02)	\$ 0.59	\$ (0.18)	\$ 0.27
Chicago CG	\$ (0.09)	\$ (0.16)	\$ (0.14)	\$ (0.18)	\$ (0.15)
PEPL	\$ (0.14)	\$ (0.21)	\$ 0.06	\$ (0.25)	\$ (0.04)
Waha	\$ (0.15)	\$ (0.29)	\$ (0.01)	\$ (0.38)	\$ (0.26)
TETCO M3	\$ (0.44)	\$ (1.11)	\$ 1.11	\$ (0.68)	\$ 1.06
Dominion S	\$ (0.53)	\$ (1.26)	\$ (0.63)	\$ (0.86)	\$ (0.66)
AECO	\$ (1.33)	\$ (1.00)	\$ (0.84)	\$ (0.91)	\$ (0.79)

All prices as previous trading day close
Source: Bloomberg



Gas and Oil Prices 3 August 2021



Swap Pricing

	Bal 21	Cal 22	Cal 23	Cal 24	Cal 25
NYMEX WTI Crude	\$ 68.59	\$ 64.04	\$ 59.22	\$ 55.85	\$ 53.61
ICE Brent Crude	\$ 70.50	\$ 66.83	\$ 63.20	\$ 60.48	\$ 58.63
Light Louisiana Sweet	\$ 69.75	\$ 65.61	\$ 61.19	\$ 57.75	\$ 55.50
TM Midland Differential	\$ (0.07)	\$ 0.10	\$ 0.18		
WCS Differential	\$ (13.88)				
NYMEX Natural Gas	\$ 4.03	\$ 3.51	\$ 3.02	\$ 2.78	\$ 2.74

Source: Bloomberg LP

Indicative only

Natural Gas Basis

Location	Spot	Summer '21	Winter '21/'22	Summer '22	Winter '22/'23
Henry Hub Fixed	3.97	3.98	4.04	3.28	3.44
Malin	\$ 0.11	\$ 0.10	\$ 0.48	\$ (0.06)	\$ 0.35
Sumas	\$ (0.12)	\$ 0.13	\$ 0.79	\$ (0.32)	\$ 0.60
Chicago CG	\$ (0.21)	\$ (0.24)	\$ (0.18)	\$ (0.21)	\$ (0.16)
Waha	\$ (0.22)	\$ (0.27)	\$ (0.09)	\$ (0.44)	\$ (0.41)
PEPL	\$ (0.24)	\$ (0.29)	\$ (0.03)	\$ (0.31)	\$ (0.19)
Opal	\$ (0.27)	\$ (0.12)	\$ 0.35	\$ (0.22)	\$ 0.25
TETCO M3	\$ (0.78)	\$ (1.17)	\$ 1.14	\$ (0.73)	\$ 0.97
Dominion S	\$ (0.83)	\$ (1.22)	\$ (0.64)	\$ (0.90)	\$ (0.69)
AECO	\$ (1.04)	\$ (0.78)	\$ (0.64)	\$ (0.78)	\$ (0.71)

All prices as previous trading day close

Source: Bloomberg