



Longreach Energy Holdings LLC

FIRM INFORMATION

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1. Market and Macro Industry Commentary

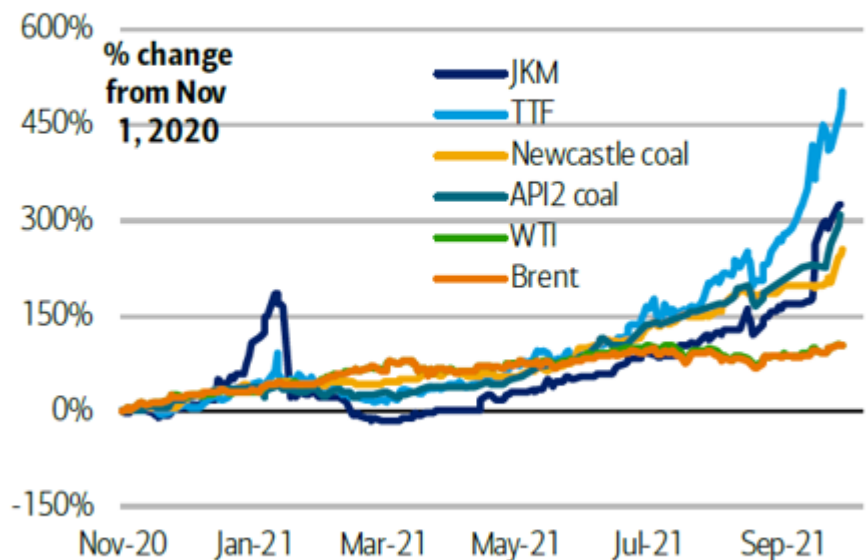
General Market Commentary

The surge in energy prices sustained momentum through October with notable markers including WTI reaching a 7-year high near \$83.50/bbl and Henry Hub November contract hitting over \$6.20/mmbtu on expiry at the end of October. European and Asian LNG prices (TTF for Europe and JKM for Asia) peaked in early October (TTF over \$40/mmbtu and JKM an astounding \$52.326/mmbtu) before each declined to approximately \$30/mmbtu by end of the month. It is worth noting that in the week ended 28 October 2020, JKM was \$6.89/mmbtu and TTF \$5.17/mmbtu. Coal and electricity prices are also still climbing.

Figure 1: Global Energy Prices (Source: Bloomberg via BofA)

Exhibit 4: Global energy prices

From oil to gas to coal to electricity, and from China to Europe to the United States...

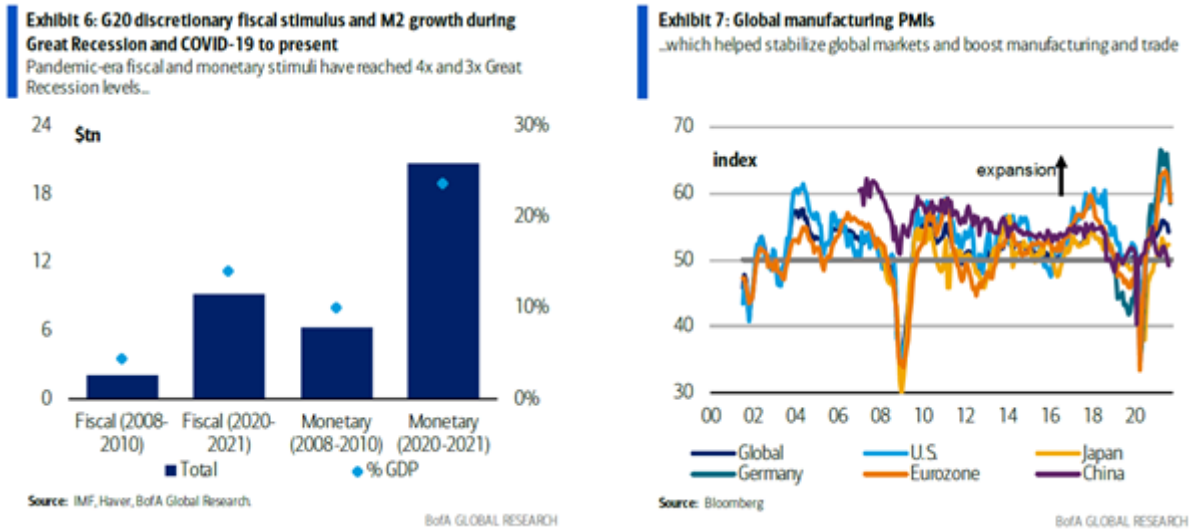


Source: Bloomberg

BofA GLOBAL RESEARCH

Economic stimulus across the G20 (LHS Figure 2) is a driver of increased economic activity. This is reflected in Purchasing Manufacturers Indices (PMI) indicating strong industrial expansion (RHS Figure 2).

Figure 2: G20 Stimulus and Global PMIs (Source: IMF, Bloomberg via BofA)



Unprecedented stimulus across the OECD has delivered a fast recovery through Covid-19 and a surge in global exports as consumers spend the money (Figure 3).

Figure 3: OECD GDP and Global Exports (Source: IMF, NBER via BofA)



Global trade is growing rapidly (Figure 4) as is mobility as fear of Covid recedes (Figure 5).

Figure 4: Global Trade (Source: Bloomberg, Clarksons via BofA)

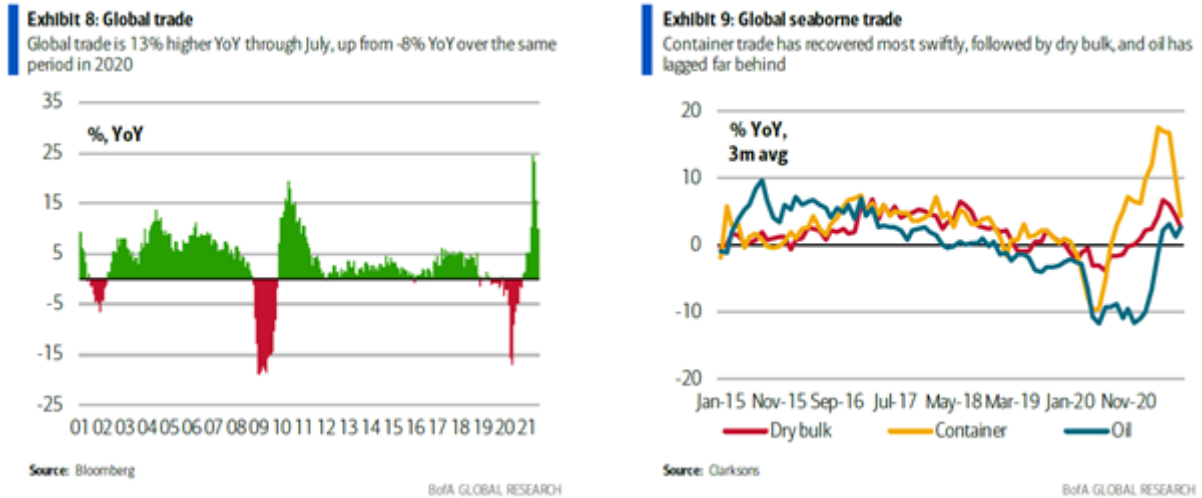


Figure 5: Driving Trips (Source: Google via FT)

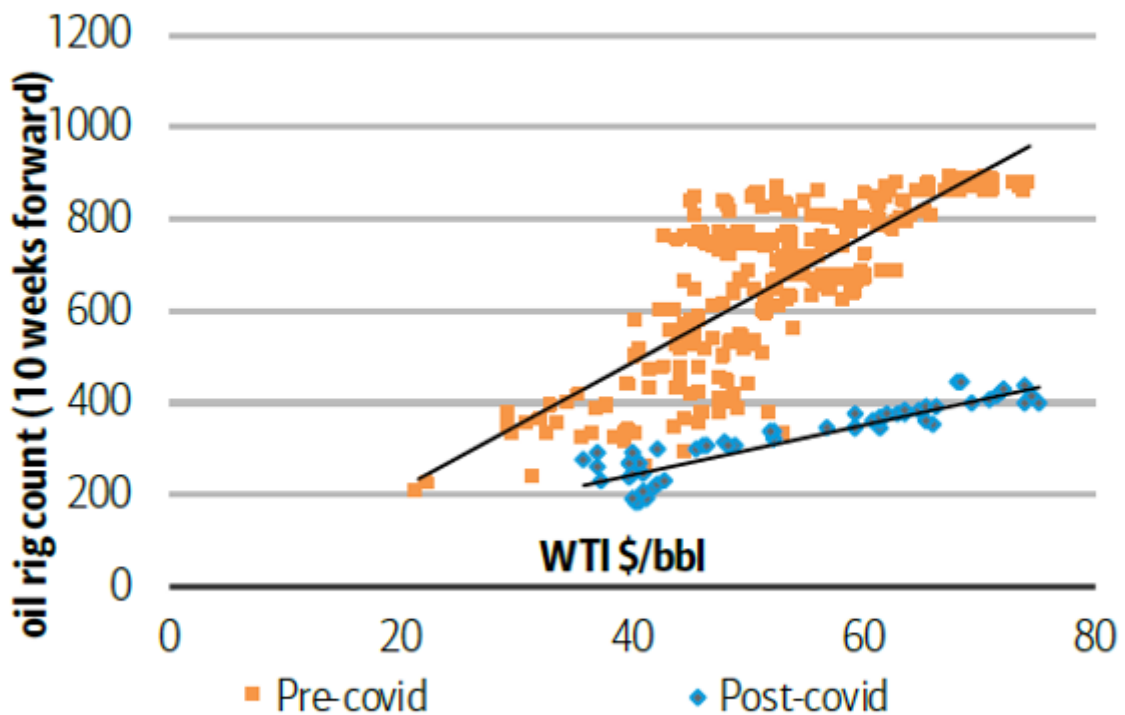


Underinvestment, driven by a lack of investor appetite for conventional energy, remains a key theme in the sector. Investors are wary of the poor investment returns of the past decade and green climate policies of the upcoming one. Reluctance to invest has changed the elasticity of supply (Figure 6) and is likely to set up both oil and gas markets for a period of strong outperformance as supply struggles to meet demand.

Figure 6: US Oil Rigs and Front Month WTI (Source: Bloomberg via BofA)

Exhibit 22: US oil rigs and front month WTI prices

Looking at recent data, we note that the price elasticity of US shale supply seems to have dropped...



Source: Bloomberg, BofA Global Research

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The latest Baker Hughes rig count data follows. In October US total rigs increased by 11 from 533 to 544 and land rigs increased by 9 from 520 to 529. Oil rigs increased by 11 from 433 to 444 as producers continue a measured response to higher oil prices. Gas drilling continues to show restraint despite very strong prices, with gas rigs increasing by 1 from 99 to 100.

Baker Hughes rig count

Rotary Rig Count

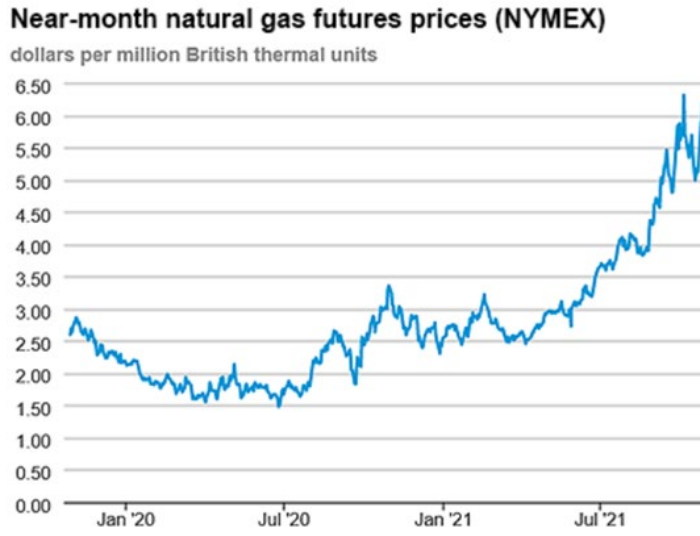
10/29/21

Location	Week	+/-	Week Ago	+/-	Year Ago
Land	529	2	527	247	282
Inland Waters	2	0	2	1	1
Offshore	13	0	13	0	13
United States Total	544	2	542	248	296
Gulf Of Mexico	13	0	13	0	13
Canada	166	2	164	80	86
North America	710	4	706	328	382
U.S. Breakout Information	This Week	+/-	Last Week	+/-	Year Ago
Oil	444	1	443	223	221
Gas	100	1	99	28	72
Miscellaneous	0	0	0	-3	3
Directional	32	0	32	10	22
Horizontal	483	1	482	229	254
Vertical	29	1	28	9	20

Gas Market

The Henry Hub contract was very volatile through October with the prompt contract starting the month with a settlement on 4 October at \$6.312/mmbtu, the highest in over 12 years. It then declined to under \$5/mmbtu mid-month based on warmer weather forecasts before returning to over \$6/mmbtu by the end of the month, as latest weather forecasts predicted colder weather (and higher demand) in November (Figure 7).

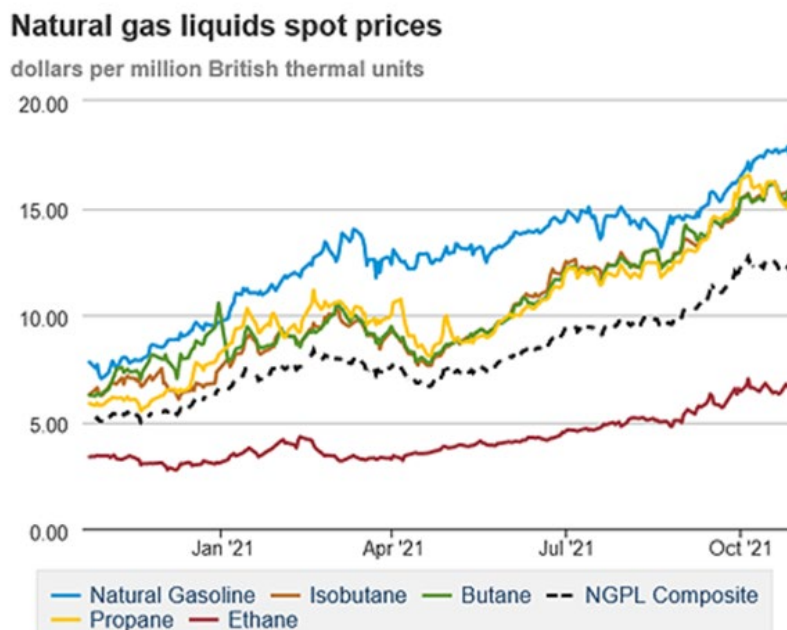
Figure 7: Near Month Henry Hub Futures (Source EIA)



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

Natural gas liquids (NGLs), the prices of which are somewhat of a hybrid between oil and dry natural gas, are also strong. NGLs are an important revenue component for a large portion of the Longreach Energy portfolio.

Figure 8: Natural Gas Liquids Spot Prices (Source EIA)



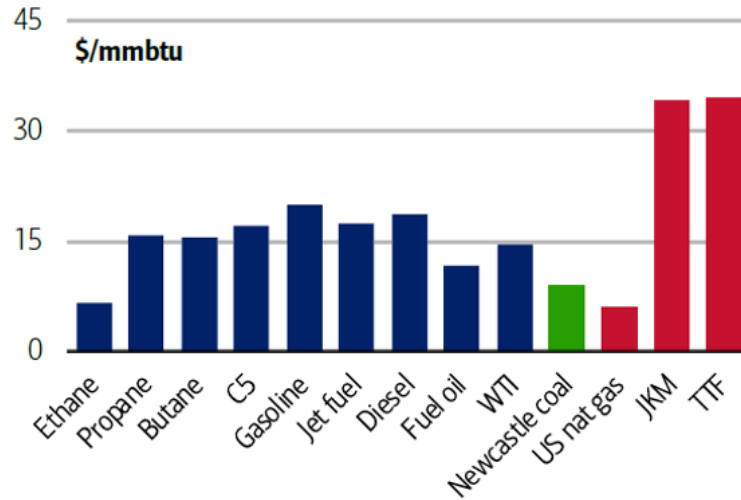
Source: Graph by the U.S. Energy Information Administration (EIA), based on data from EIA's *Petroleum Supply Monthly* and on Mont Belvieu, Texas, spot prices reported by Bloomberg, L.P.

Despite the strong recent increase in gas prices, US natural gas remains the cheapest fuel across the entire BTU chain (Figure 9) when based on heat content. These data provide strong validation of our US gas investment thesis.

Figure 9: Fuel Prices in mmbtu (Source Bloomberg, BofA)

Exhibit 8: Fuel prices in mmbtu

Looking across the entire BTU chain, petroleum products are now nearly the same price or cheaper than other fuels



Source: Bloomberg, BofA Global Research

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US LNG facilities continue to operate at maximum capacity with feed gas demand reaching 11.83bcf/d on 29 October.

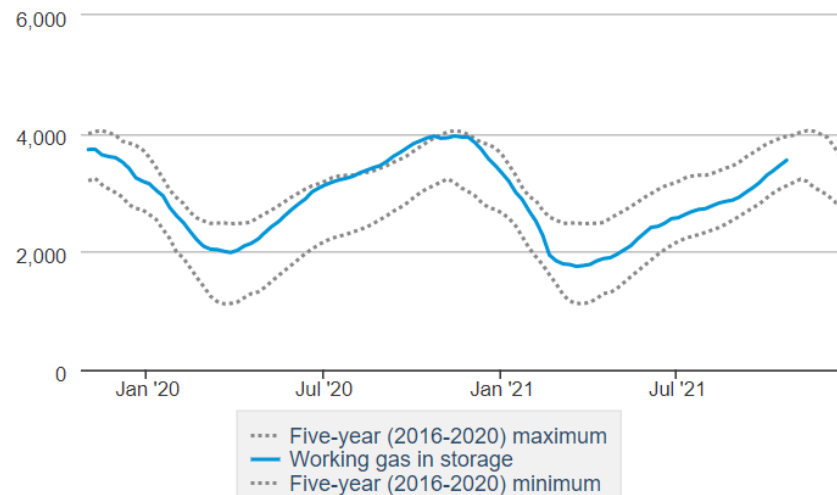
For the week ending 27 October working gas stocks were 10% less than year-ago levels and 4% down on the 5-year average (Figure 10).

Figure 10: Natural Gas Storage (Source: EIA)

Working natural gas in underground storage

[DOWNLOAD](#)

billion cubic feet



Source: U.S. Energy Information Administration Form EIA-912, Weekly Underground Natural Gas Storage Report

Oil Market

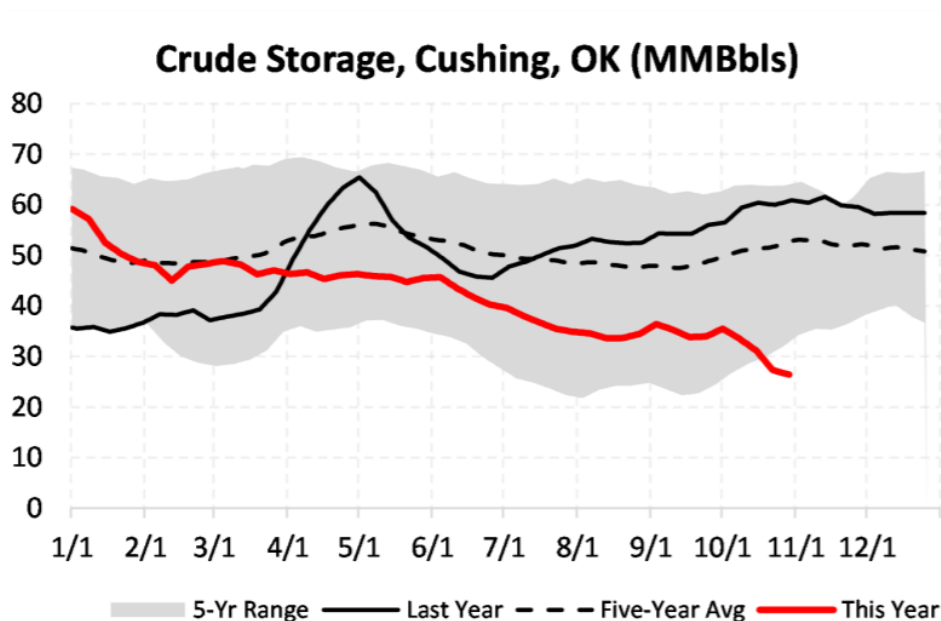
Oil has been one of the best performing commodities over the last couple of months, as the global gas crunch has increased demand for petroleum products that were already improving with the recovering of global trade and mobility as the world emerges from Covid-19 induced lockdowns. Increased demand is meeting restrained supply and this drove WTI to a series of 7-year highs during October, the prompt contract closing the month at \$83.57/bbl (Figure 11).

Figure 11: WTI Oil Prompt Contract (Source: Refinitiv via FT)



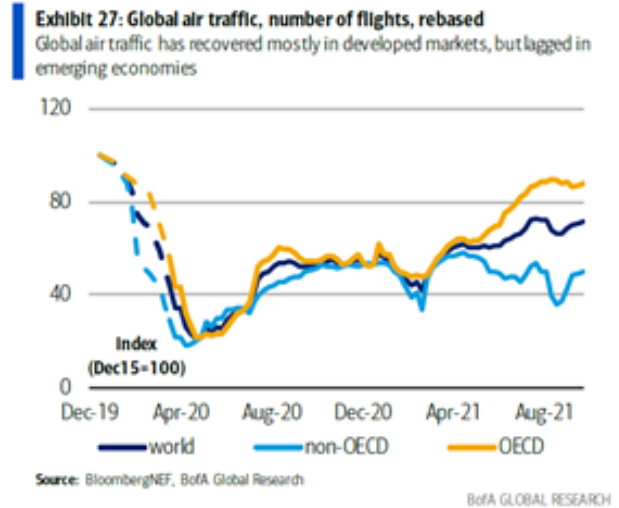
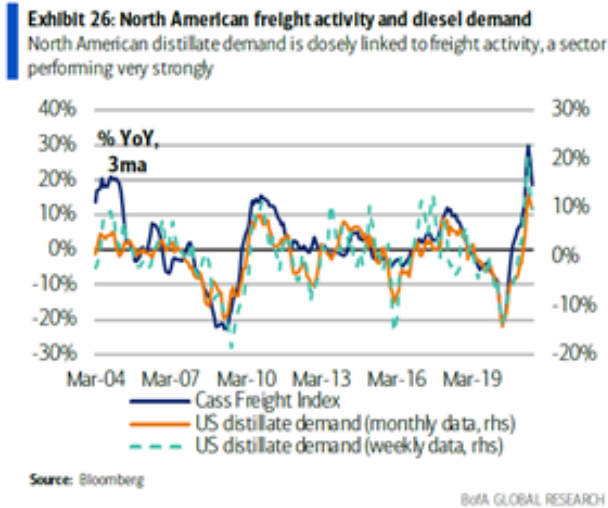
Oil storage at Cushing (the WTI delivery hub) hit their lowest level in 3 years on 20 October. A marked change since being completely full in April last year (Figure 12).

Figure 12: Crude Storage, Cushing, OK (Source: EIA via Aegis)



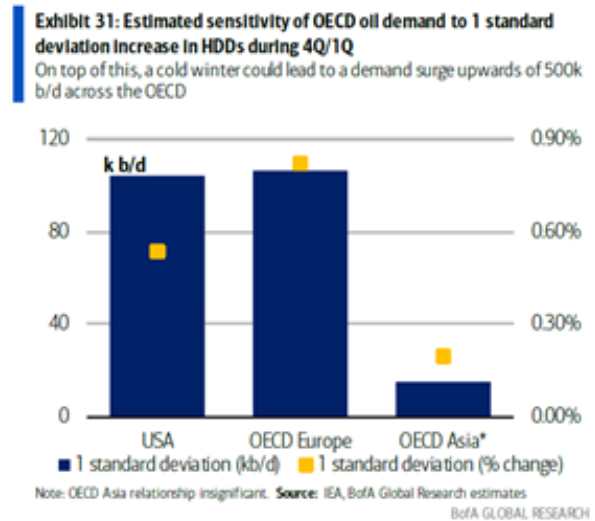
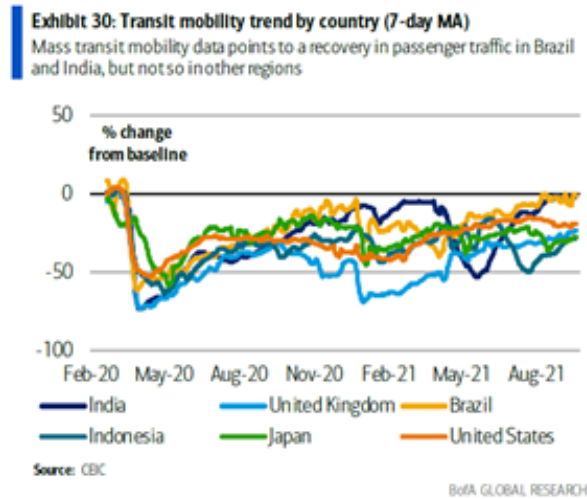
Freight activity and global air traffic are rising (Figure 13).

Figure 13: North American Freight Activity and Global Air Traffic (Source: Bloomberg, BofA)



Transit mobility is steadily returning to pre-pandemic levels (LHS Figure 14) while high gas prices are causing some switching from gas to oil. Estimates range from 500kbb/d to 1mmbbl/d of additional oil demand that could arise from the combination of high natural gas prices and a cold winter (RHS Figure 14).

Figure 14: Transit Mobility and OECD Oil Demand Sensitivity (Source: CEIC, OECD, BofA)



Global oil demand is now back at around 100mmb/d with growth forecast to continue for next couple of years (LEH Figure 15). Non-OPEC+ supply is growing too (RHS Figure 15), and while OPEC+ has more capacity, the fact that a number of OPEC+ countries have failed to keep up with their established quotas in recent months calls into question just how much real spare capacity the group has at hand (Figure 16).

Figure 15: Global Oil Demand and Non-OPEC+ Supply (Source: IEA, BofA)

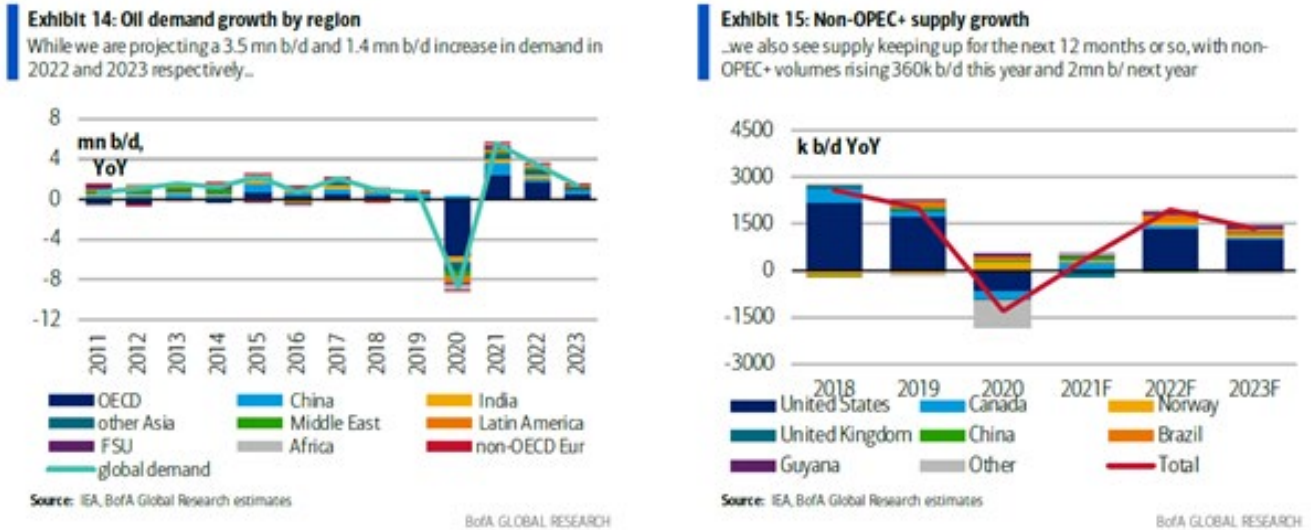
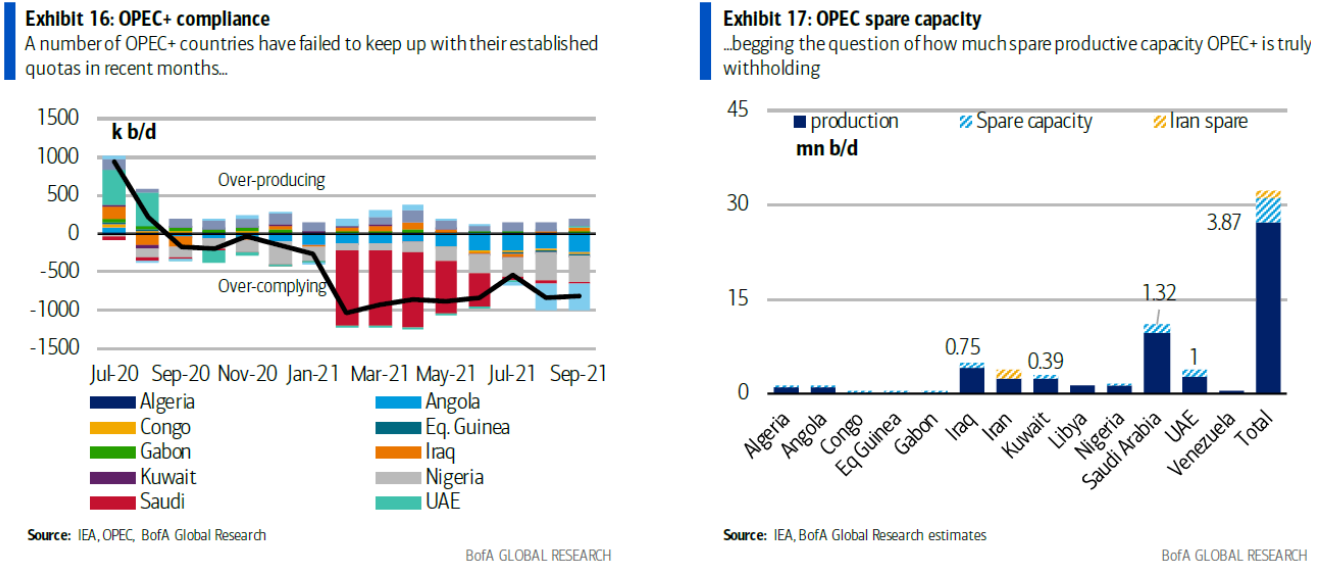
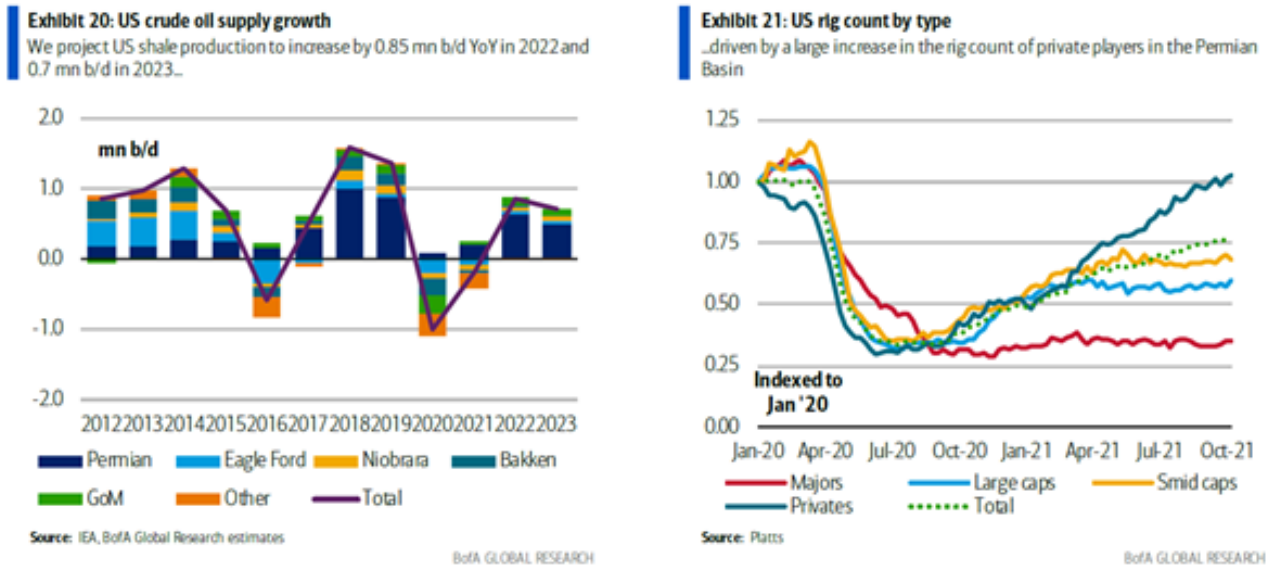


Figure 16: OPEC+ Compliance and Spare Capacity (Source: IEA, OPEC, BofA)



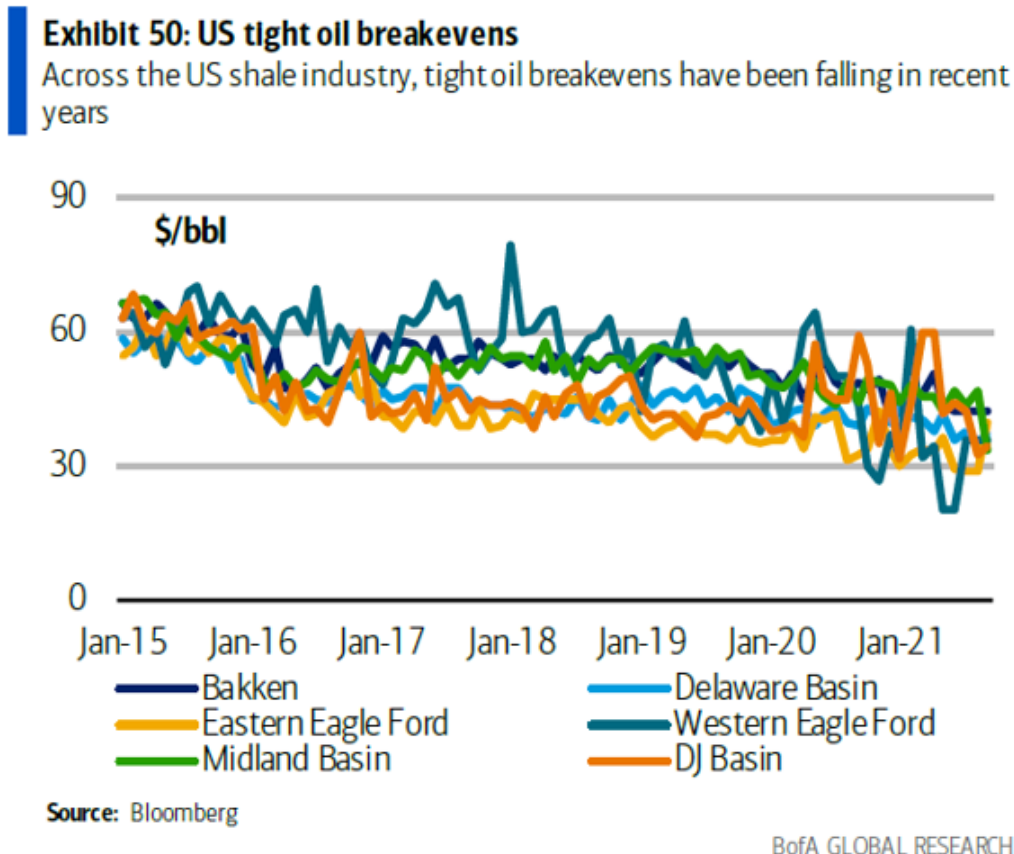
US producers are still exhibiting capital discipline with private players in the Permian basin responsible for much of the near-term production growth (Figure 17).

Figure 17: US Crude Supply and Rig Count by Type (Source: IEA, Platts via BofA)



Development and production costs have steadily declined over the last decade (Figure 18) however we expect tight labour markets and materials price inflation (particularly steel) to, at least temporarily, pause this decline in oil break-evens over the next 12 to 24 months. Increased costs will require higher prices to induce producers to deliver the supply that the market requires.

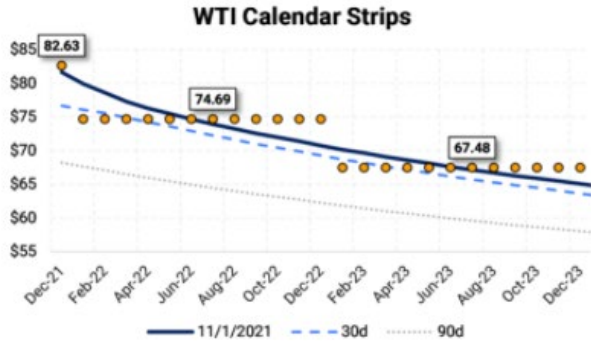
Figure 18: US Tight Oil Breakevens (Source: Bloomberg via BofA)



While US production is increasing, it is set to fall short of 2019 highs while global demand continues to rise (Figure 19).

Figure 19: US Oil Production and Global Demand (Source: EIA, IEA, via FT)



Gas and Oil Prices 1 November 2021

Swap Pricing

	Bal 21	Cal 22	Cal 23	Cal 24	Cal 25
NYMEX WTI Crude	\$ 82.63	\$ 74.69	\$ 67.48	\$ 62.82	\$ 59.72
ICE Brent Crude	\$ 83.63	\$ 77.59	\$ 71.34	\$ 67.15	\$ 64.41
Light Louisiana Sweet	\$ 83.76	\$ 76.36	\$ 69.20	\$ 64.21	\$ 61.03
TM Midland Differential	\$ 0.20	\$ 0.25	\$ 0.38		
WCS Differential	\$ (15.15)				
NYMEX Natural Gas	\$ 5.32	\$ 4.34	\$ 3.53	\$ 3.23	\$ 3.07

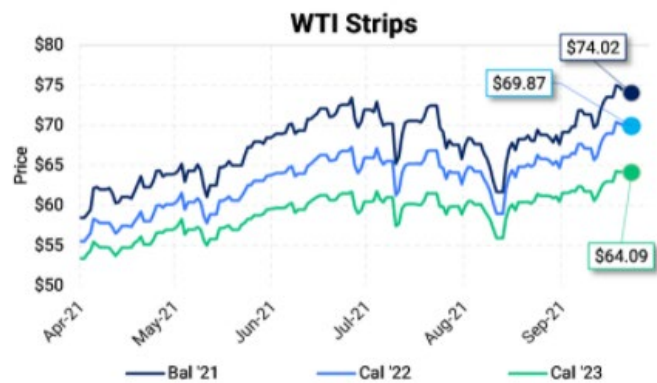
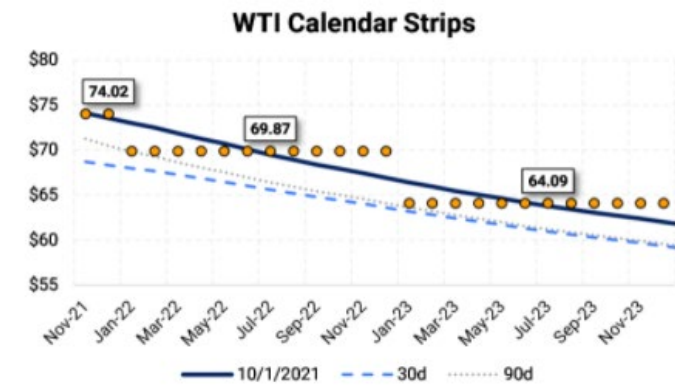
Source: Bloomberg LP
indicative only

Natural Gas Basis

Location	Spot	Summer '21	Winter '21/'22	Summer '22	Winter '22/'23
Henry Hub Fixed	5.42	5.80	5.38	4.02	4.22
Malin	\$ 0.03	\$ 0.01	\$ 0.58	\$ (0.18)	\$ 0.35
Opal	\$ (0.22)	\$ (0.06)	\$ (0.02)	\$ (0.29)	\$ 0.28
Chicago CG	\$ (0.23)	\$ (0.36)	\$ (0.21)	\$ (0.20)	\$ (0.17)
Sumas	\$ (0.24)	\$ 0.59	\$ 0.78	\$ (0.32)	\$ 0.66
PEPL	\$ (0.45)	\$ (0.39)	\$ 0.15	\$ (0.31)	\$ (0.10)
AECO	\$ (0.61)	\$ (1.87)	\$ (0.86)	\$ (0.93)	\$ (0.85)
Waha	\$ (0.64)	\$ (0.87)	\$ 0.10	\$ (0.55)	\$ (0.24)
TETCO M3	\$ (1.02)	\$ (1.17)	\$ 2.24	\$ (0.67)	\$ 1.54
Dominion S	\$ (1.13)	\$ (1.29)	\$ (0.55)	\$ (0.83)	\$ (0.64)

All prices as previous trading day close
Source: Bloomberg

Gas and Oil Prices 1 October 2021



Swap Pricing					
	Bal 21	Cal 22	Cal 23	Cal 24	Cal 25
NYMEX WTI Crude	\$ 74.02	\$ 69.87	\$ 64.09	\$ 60.02	\$ 57.03
ICE Brent Crude	\$ 77.12	\$ 72.82	\$ 68.06	\$ 64.56	\$ 62.00
Light Louisiana Sweet	\$ 75.66	\$ 71.85	\$ 66.09	\$ 61.71	\$ 58.71
TM Midland Differential	\$ 0.56	\$ 0.35	\$ 0.35		
WCS Differential	\$ (11.96)				
NYMEX Natural Gas	\$ 5.79	\$ 4.35	\$ 3.45	\$ 3.15	\$ 3.00

Source: Bloomberg LP
Indicative only

Natural Gas Basis					
Location	Spot	Summer '21	Winter '21/22	Summer '22	Winter '22/23
Henry Hub Fixed	5.55	5.80	5.88	3.90	4.06
Malin	\$ (0.03)	\$ 0.01	\$ 0.89	\$ (0.09)	\$ 0.38
Opal	\$ (0.06)	\$ (0.06)	\$ 0.86	\$ (0.17)	\$ 0.37
Sumas	\$ (0.13)	\$ 0.59	\$ 1.30	\$ (0.24)	\$ 0.77
Chicago CG	\$ (0.28)	\$ (0.36)	\$ (0.24)	\$ (0.21)	\$ (0.19)
PEPL	\$ (0.29)	\$ (0.39)	\$ 0.11	\$ (0.29)	\$ (0.06)
Waha	\$ (0.45)	\$ (0.87)	\$ (0.05)	\$ (0.44)	\$ (0.25)
TETCO M3	\$ (0.86)	\$ (1.17)	\$ 1.84	\$ (0.72)	\$ 1.46
Dominion S	\$ (0.91)	\$ (1.29)	\$ (0.62)	\$ (0.93)	\$ (0.67)
AECO	\$ (2.64)	\$ (1.87)	\$ (1.68)	\$ (1.04)	\$ (0.92)

All prices as previous trading day close
Source: Bloomberg