



# Longreach Energy Holdings LLC

## FIRM INFORMATION

### Investment Manager

Longreach Alternatives Ltd  
ABN 25 082 852 364  
AFSL 246747

### Sub-Advisor

Longreach Energy Holdings LLC  
Delaware registered #565928

## KEY INVESTMENT PERSONNEL

### Andrew Sinclair

Principal – Commercial Director

### Thomas Wagenhofer

Principal – Technical Director

## 1. Market and Macro Industry Commentary

### General Market Commentary

US Henry Hub gas prices continued their rise in May, the prompt contract increased from \$7.24/mmbtu at close of business on 29 April to \$8.18/mmbtu at close on 31 May. Calendar 2022 prices increased from \$7.39/mmbtu to \$8.18/mmbtu over the same period.

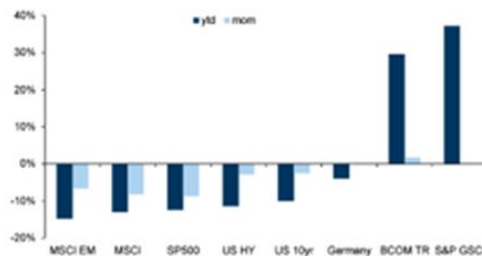
Oil prices also rose, with the prompt opening May at \$104.69/bbl and closing at \$114.67/bbl. Calendar 2022 was up from \$97.81/bbl to \$107.65/bbl.

In research released on 30 May, Goldman Sachs notes that “commodity and broad physical inflation has now returned to a level not seen since the 1970s, triggering a coordinated attempt by central bankers to drain liquidity from the global economy, with consequences felt across risk assets. As central bankers can drain liquidity faster than the economy can generate new production capacity, financial assets will continue to underperform physical assets like commodities.”

Across major risk assets commodities are the only source of value (LHS Figure 1), this is notwithstanding clear headwinds from Chinese lockdowns, slowing manufacturing and rising rates. Since the start of the year the standard 60% equities / 40% bonds portfolio has sold off 17%, with equities and bonds facing -20% and -12% falls respectively, something that has not happened since 1981 (RHS Figure 1).

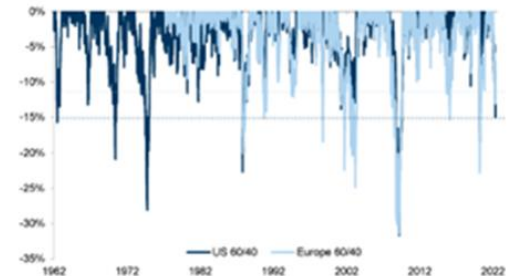
Figure 1: Risk Assets Performance and 60/40 Portfolio Losses (Source: various via GS)

Exhibit 9: Commodities are the only positive returning risk asset...



Source: Haver, Bloomberg, Goldman Sachs Global Investment Research

Exhibit 10: ...during one of the largest 60/40 drawdowns in the last 60 years



Source: Haver Analytics, Datastream, Goldman Sachs Global Investment Research

## CONTACT US

### Longreach Alternatives Ltd

Level 13  
1 Margaret Street  
Sydney NSW 2000

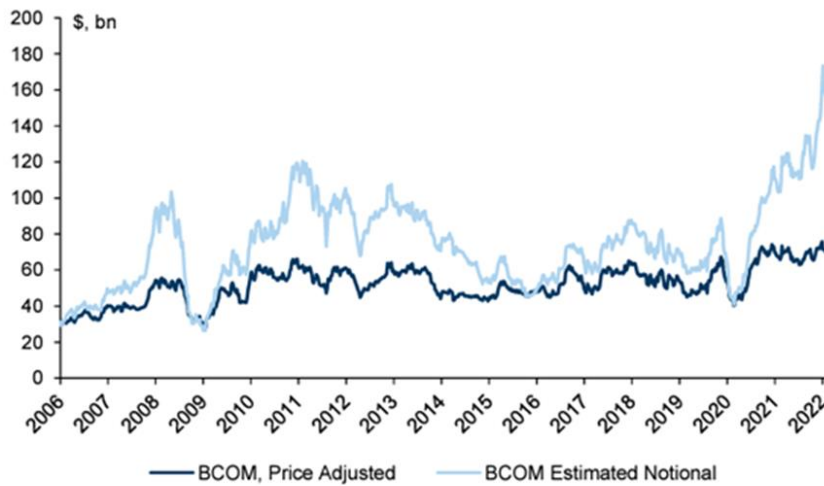
T+61 2 9135 0428

[client.services@longreachalternatives.com](mailto:client.services@longreachalternatives.com)

Despite the clear outperformance of commodities, it is not a crowded trade. Investor participation remains remarkably scarce. Goldman's estimates indicate that passive index exposure to the commodities sector remains barely above its 2020 levels, with new money inflows remaining limited despite a persistent rally in notional AUM as commodities have simply outperformed (Figure 2).

Figure 2: Bloomberg Commodity Index Investment (Source: Bloomberg, GS)

**Exhibit 5: Investor interest in commodities have barely moved, despite huge nominal AUM increases**

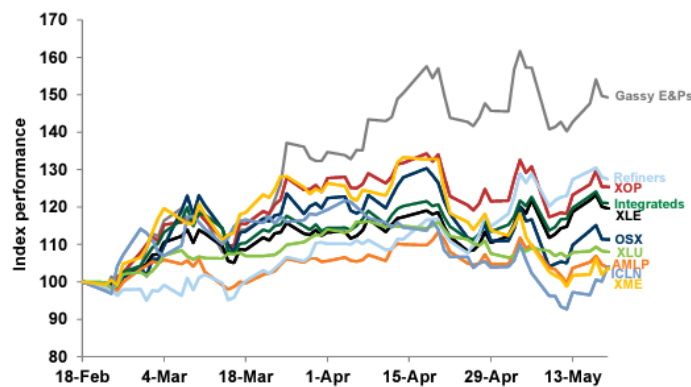


Source: Bloomberg, Goldman Sachs Global Investment Research

Since mid-March Gassy E&Ps have performed best among their Energy, Utilities and Mining sector colleagues (Figure 3).

Figure 3: Energy, Utilities & Mining sub-sector Performance (Source: FactSet, via GS)

**Exhibit 1: Energy, Utilities & Mining sub-sector performance**  
Past 90 days (02/18/2022-05/19/2022)

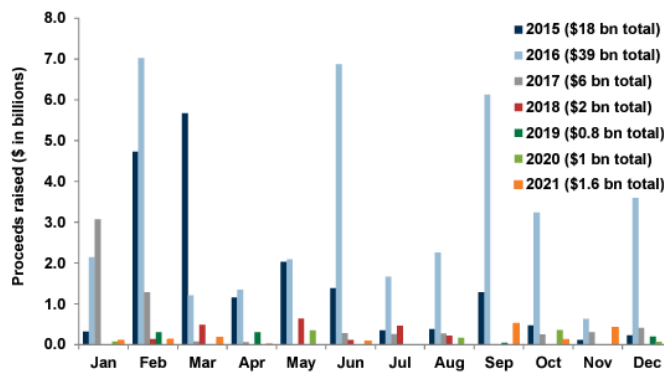


Source: FactSet, Goldman Sachs Global Investment Research

Upstream equity issuance will no doubt grow but is coming of 4 years of minimal activity (Figure 4).

Figure 4: Upstream Equity Issuance 2015 - 2021 (Source: GS)

**Exhibit 9: Upstream Equity Issuance – 2015 - 2021**  
 Proceeds raised as of November 2021 (\$ bn)



Source: Goldman Sachs Global Investment Research, Bloomberg

While energy prices have increased in the US and around the world, even at current levels the US benefits strongly from much lower energy prices as a share of GDP than the rest of the world (Figure 5). This will allow the US economy to withstand energy costs that other nations cannot and provides another reason to invest in US energy.

Figure 5: Primary Energy to Nominal GDP (Source: BP, Bloomberg, via BofA)

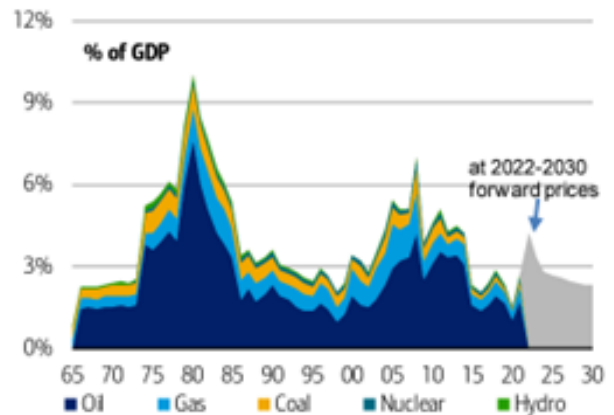
**Exhibit 26: Primary energy to nominal GDP ratio – World**  
 With gas and coal prices near records, energy as a share of GDP for the world economy is extremely high at the moment



Source: BP, Bloomberg, BofA Global Research estimates

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**Exhibit 27: Primary energy to nominal GDP ratio – USA**  
 Yet the picture is partially distorted by the much lower energy prices as a share of GDP that the US benefits from



Source: BP, Bloomberg, BofA Global Research estimates

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The Energy Information Administration's (EIA) May monthly energy review has updated US primary energy production and consumption data. Natural gas and oil maintained their dominance of both supply and demand (Figures 6 and 7).

Figure 6: US Primary Energy Production (Source: EIA)

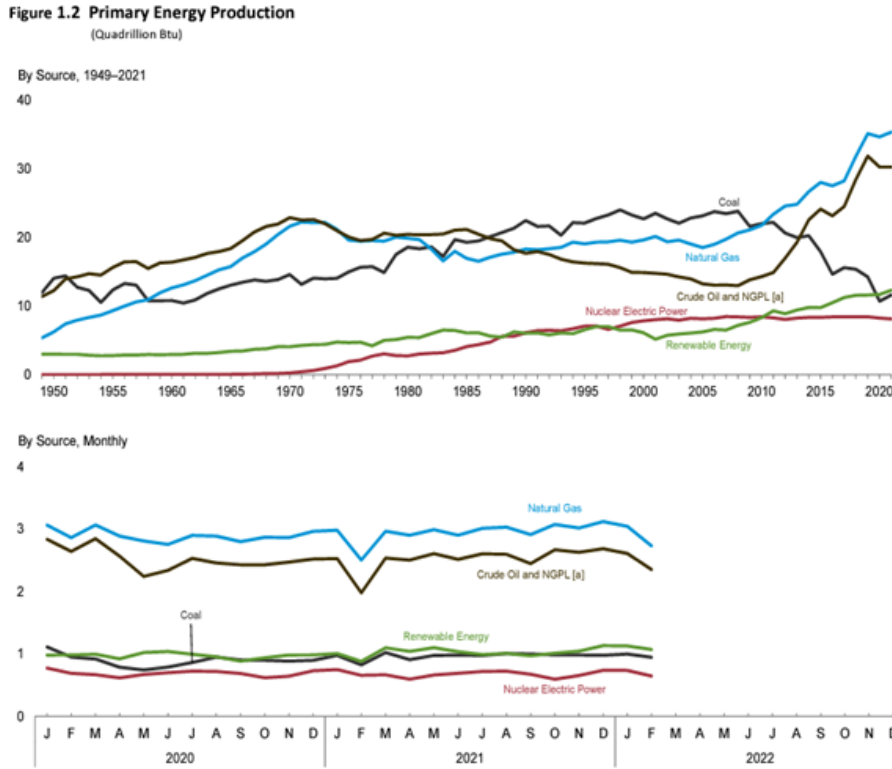
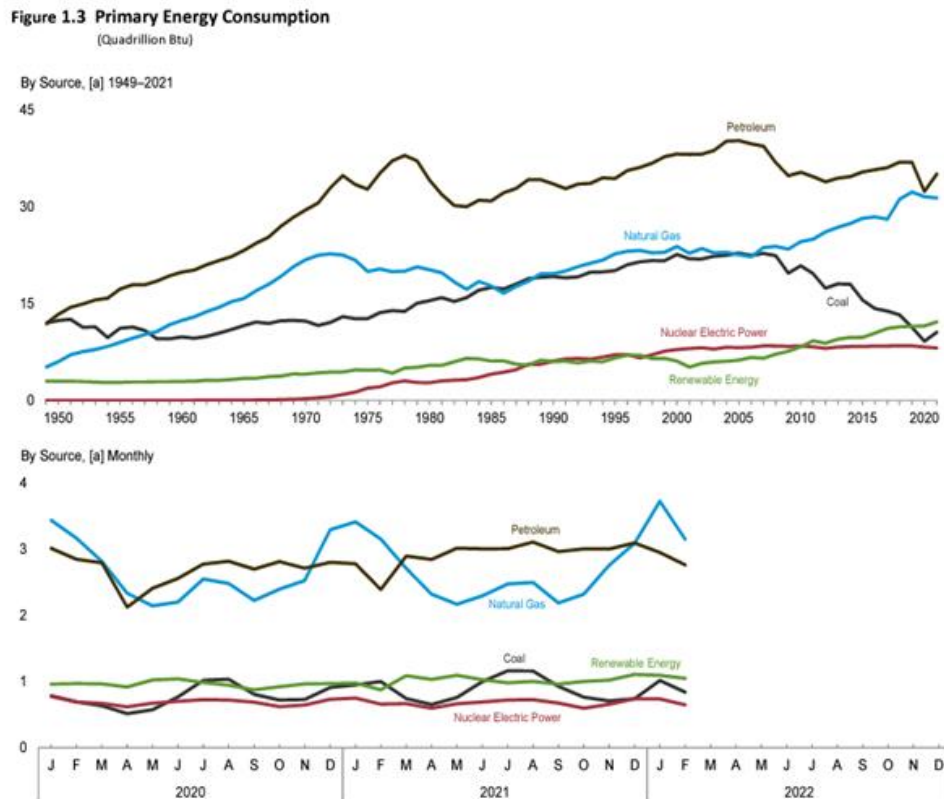



Figure 7: US Primary Energy Consumption (Source: EIA)



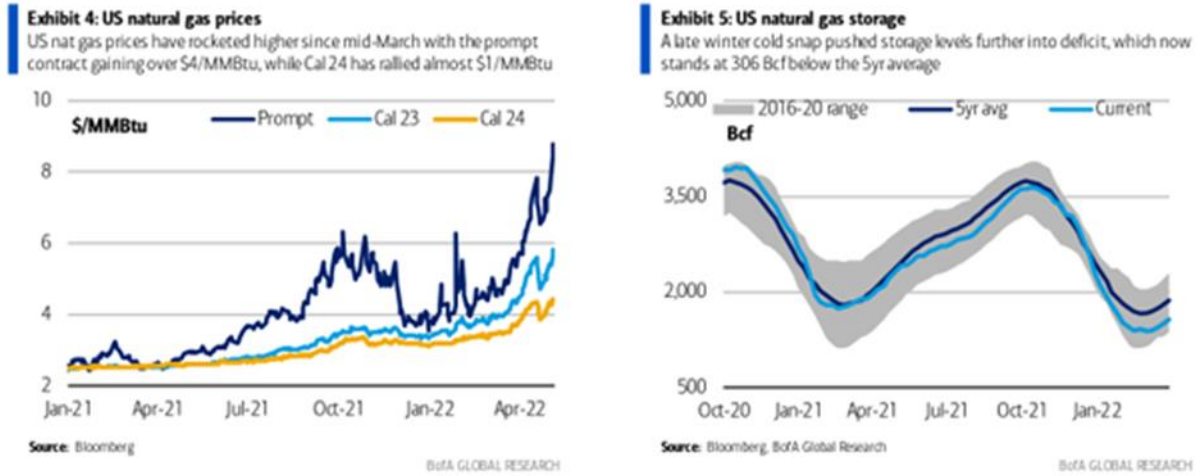
The latest Baker Hughes rig count data follows. In May US total rigs increased by 22 from 705 to 727. Oil rigs increased by 17 from 557 to 574 while gas rigs increased by 5 from 146 to 151.

Baker Hughes rig count		Baker Hughes 			
<b>Rotary Rig Count</b>					
6/3/22					
Location	Week	+/-	Week Ago	+/-	Year Ago
Land	710	0	710	268	442
Inland Waters	1	0	1	0	1
Offshore	16	0	16	3	13
<b>United States Total</b>	<b>727</b>	<b>0</b>	<b>727</b>	<b>271</b>	<b>456</b>
Gulf Of Mexico	15	0	15	2	13
Canada	117	14	103	40	77
North America	844	14	830	311	533
U.S. Breakout Information	This Week	+/-	Last Week	+/-	Year Ago
Oil	574	0	574	215	359
Gas	151	0	151	54	97
Miscellaneous	2	0	2	2	0
Directional	36	0	36	11	25
Horizontal	666	0	666	251	415
Vertical	25	0	25	9	16

## Gas Market

The rise in future dated natural gas prices has been steady but more subdued than the meteoric rise in the prompt (LHS Figure 8). Working gas in storage is about 300bcf below the 5-year average (RHS Figure 8).

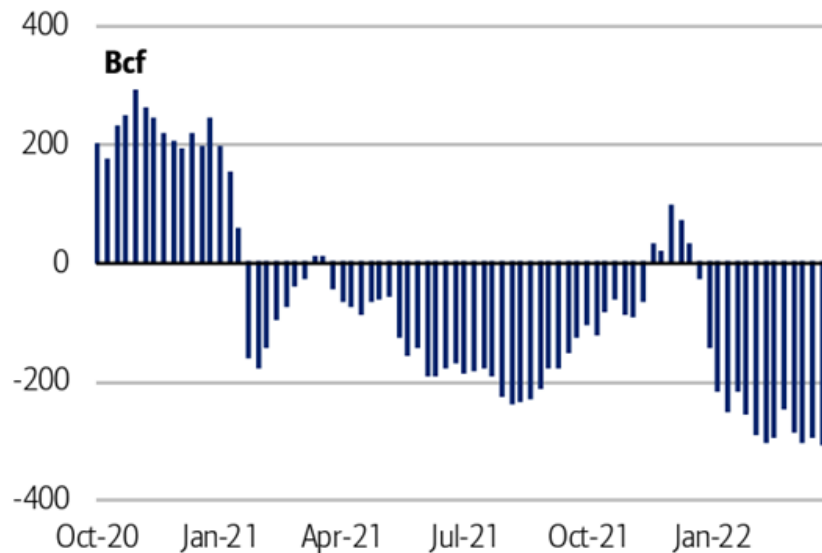
Figure 8: US Natural Gas Prices and Storage (Source: Bloomberg, via BofA)



The size of the storage deficit was driven by a cold second half of winter (Figure 9).

Figure 9: US Natural Gas Storage (Source: Bloomberg, via BofA)

**Exhibit 8: US nat gas storage surplus/deficit to 5yr average**  
After briefly flipping into a surplus in late December, a colder back half of winter pushed storage back into a deficit of over 300 Bcf



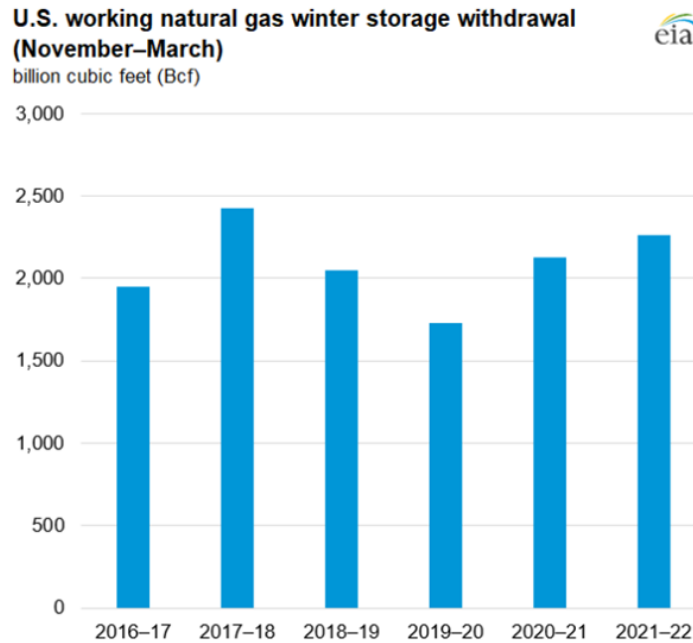
Source: Bloomberg, BofA Global Research

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Winter withdrawals (November through March) this year totalled 2.2 trillion cubic feet, the highest winter withdrawal since the winter of 2017/2018 and 10% more than the five-year average draw (Figure 10).

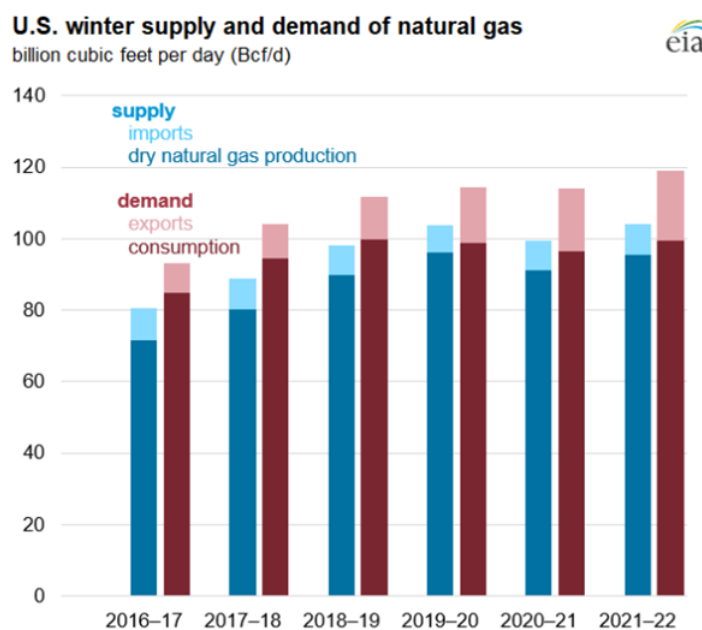
Figure 10: Total US Working Gas Inventories (Source: EIA, Aegis)



Data source: U.S. Energy Information Administration, *Natural Gas Monthly*

Winter production averaged 95.6bcf/d, close to its highest winter level of 96bcf/d reached in 2019/2020. US winter consumption of natural gas rose to 99.5bcf/d – just 0.4bcf/d below the 2018/2019 winter record – primarily because of higher natural gas consumption in the electric power sector but aided by heating demand from a colder-than-normal January. Total demand, which includes domestic consumption and exports, was the highest on record this US winter, averaging 119.2bcf/d. A 1.8bcf/d rise in LNG exports drove the growth (Figure 11).

Figure 11: US Winter Supply and Demand of Natural Gas (Source: EIA)

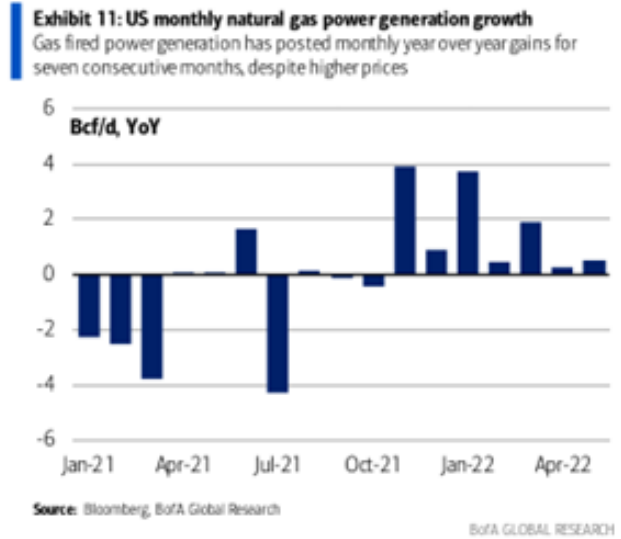
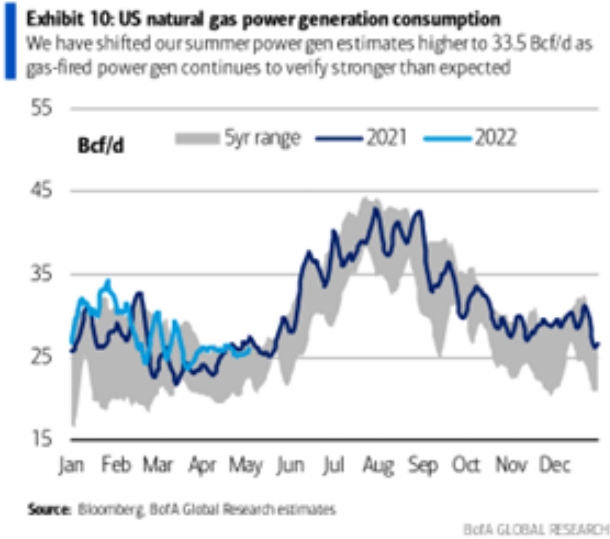


Data source: U.S. Energy Information Administration, *Natural Gas Monthly*



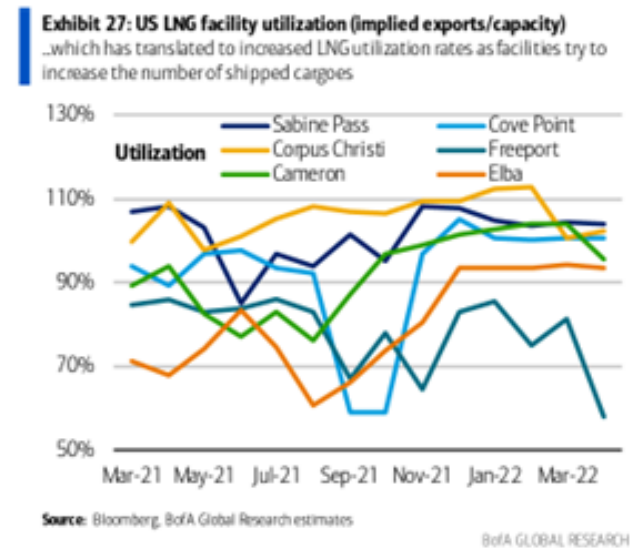
Consumption of natural gas for power generation is higher than the market expected (LHS Figure 12), posting monthly year over year gains for seven consecutive months despite higher prices (RHS Figure 12).

Figure 12: US Natural Gas Power Generation (Source: Bloomberg, via BofA)



US Gulf Coast export arbs continue to incentivise maximum LNG exports out of the US (LHS Figure 13), this has translated to increased LNG utilisation rates (RHS Figure 13).

Figure 13: US Gulf Coast to Europe LNG arb and LNG Utilisation (Source: Bloomberg, via BofA)

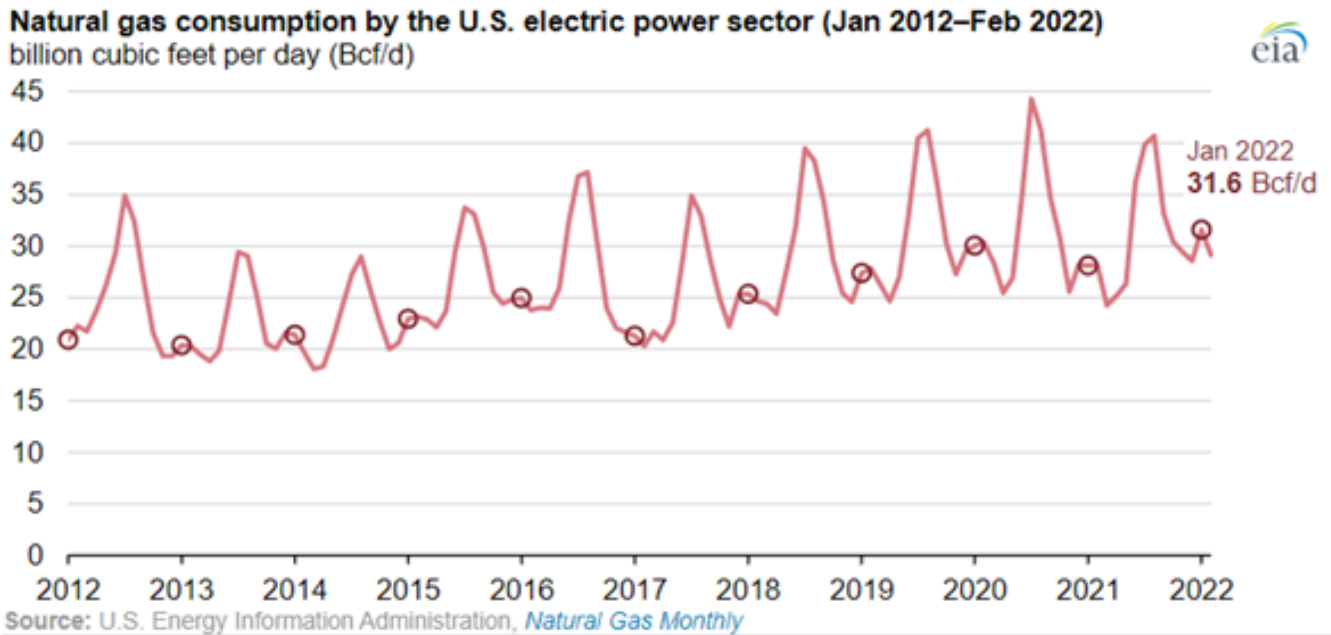




In January 2022, natural gas consumed for electric power in the United States averaged 31.6bcf/d, the highest January average on record and the highest amount for any winter month (Figure 14). This was due to a high demand for electricity in a colder-than-normal January combined with less coal-fired electric power generation.

Figure 14: US Electric Power Sector Gas Consumption (Source: EIA)

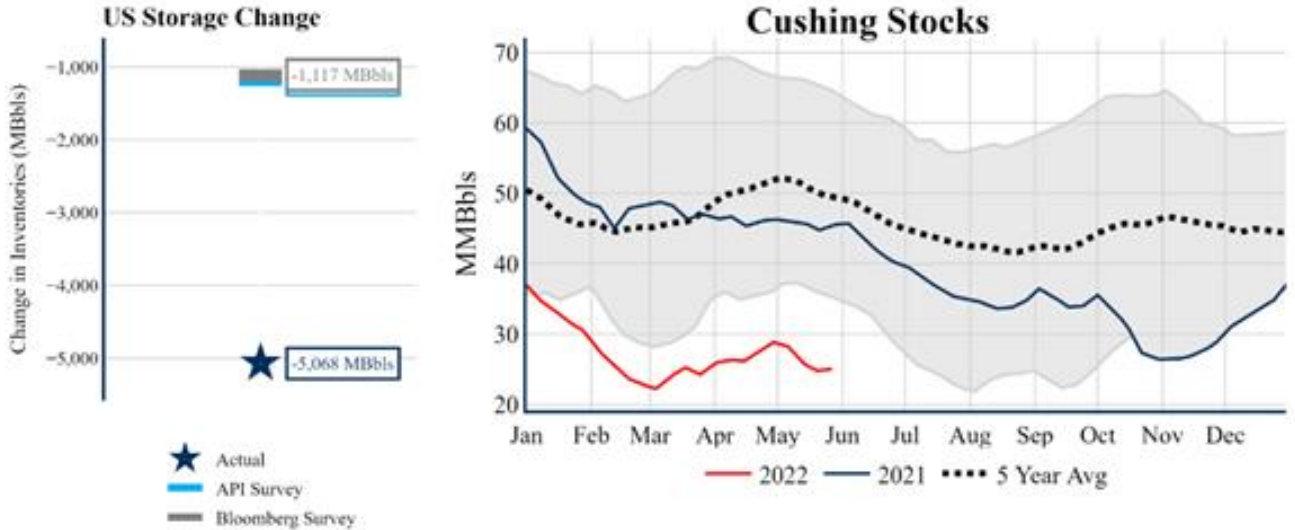
## Natural gas consumed by U.S. electric power sector sets January record in 2022



## Oil Market

Strong demand and flat production have delivered US oil inventories that are now at a deficit of 65.30mmbbls (-13.6%) to last year and a deficit of 72.90mmbbls (-14.9%) to the five-year average. Stocks at the WTI delivery facility at Cushing are at decade lows (Figure 15).

Figure 15: Cushing Oil Inventories (Source: EIA)

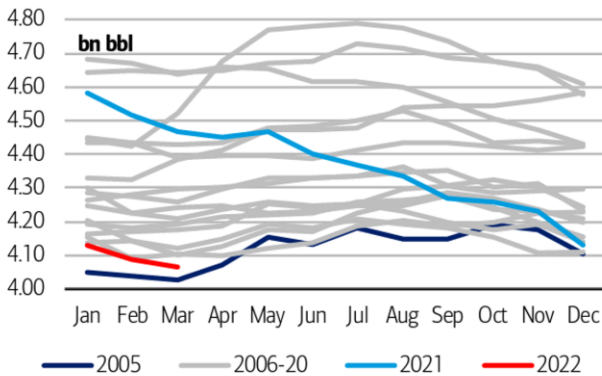


Low inventories are prevalent across the world, OECD oil stocks are at multi-year lows (LHS Figure 16). When adjusting for demand, the crude oil stocks to use ratio is at the lowest level in a decade (RHS Figure 16).

Figure 16: OECD Oil Stocks and Oil Stocks-to-Use (Source: IEA, Bloomberg, via BofA)

### Exhibit 12: OECD total petroleum stocks (government and industry)

Looking at a combination of government and commercial inventories, we noted last week that OECD petroleum stocks are at multi year lows



Source: IEA

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### Exhibit 13: Crude oil stocks-to-use

Similarly, when adjusting for demand, we note that the crude oil stocks-to-use ratio is at the lowest level in decades



Source: Bloomberg

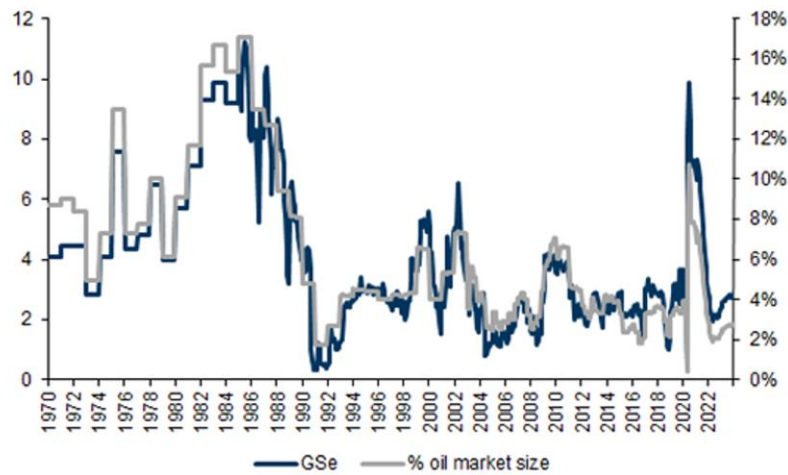
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Beyond storage, the secondary buffer of spare capacity is practically exhausted, with OPEC not yet willing to ramp up production – OPEC+ has lost its relevance with Russia no longer an acceptable supplier to much of the world.

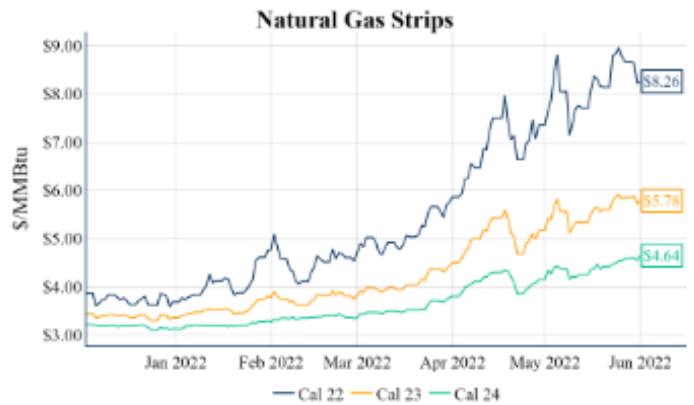
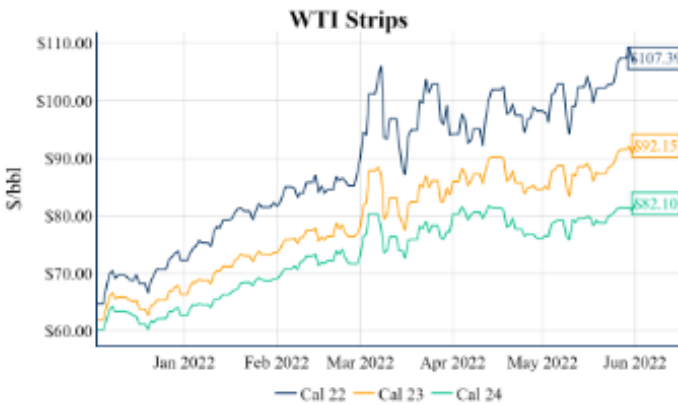
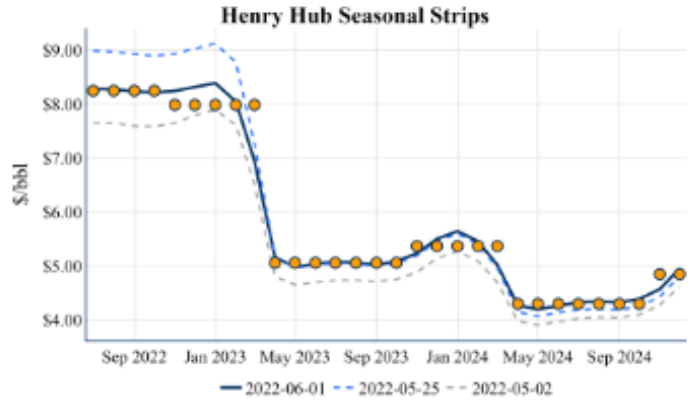
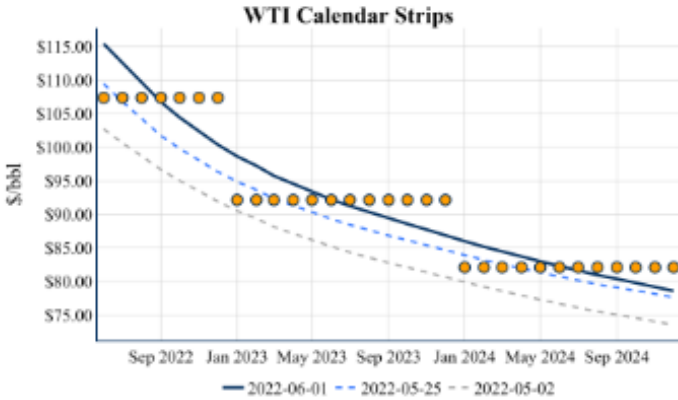
Figure 17: Global Spare Oil Production Capacity (Source: IEA, EIA, Platts via GS)

### Global spare oil production capacity in mb/d (lhs) and % (rhs)



Source: IEA, EIA, Platts, Goldman Sachs Global Investment Research

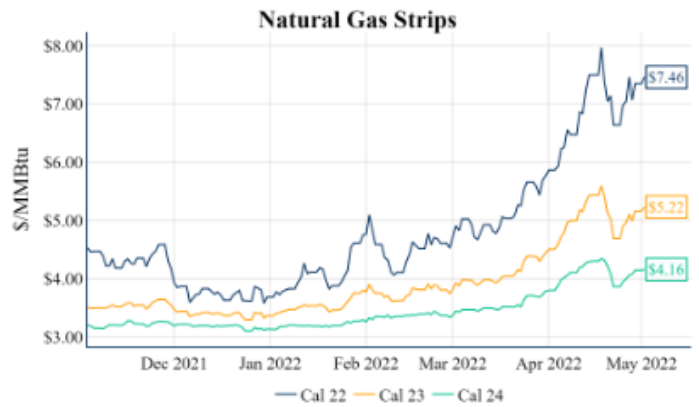
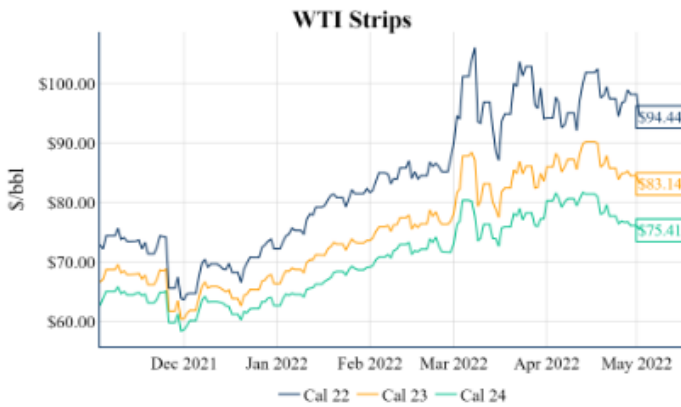
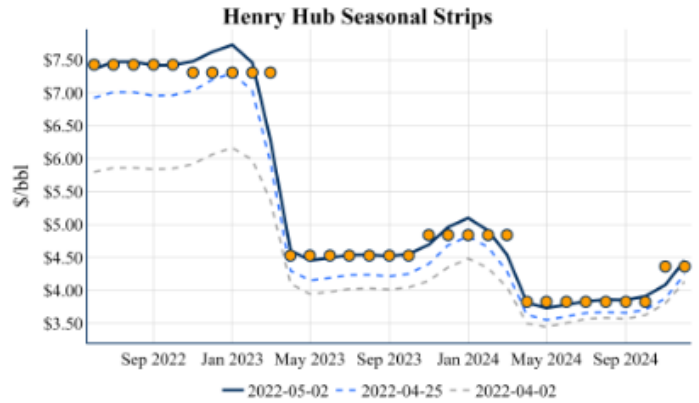
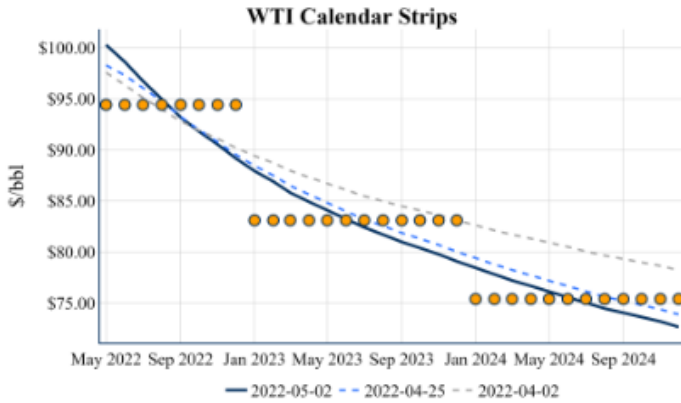
## Gas and Oil Prices 1 June 2022



Swap Pricing	Bal 22	Cal 23	Cal 24	Cal 25
NYMEX WTI	\$107.38	\$92.16	\$82.11	\$75.48
JCE Brent	\$109.71	\$95.98	\$86.20	\$79.92
LLS	\$109.06	\$95.12	\$84.30	\$76.87
Mars	\$104.68	\$90.79	\$81.12	\$74.44
Western Canadian Crude (WCC)	\$89.54	\$76.32	\$66.33	\$60.38
West TX Sour (WTS)	\$106.72	\$91.64	\$81.56	\$74.93

Swap Pricing	Month 1	Summer 22	Winter 22/23	Summer 23	Winter 23/24
Henry Hub Fixed	\$8.281	\$8.251	\$7.990	\$5.059	\$5.368
Eastern Gas South	-\$0.941	-\$1.226	-\$0.873	-\$1.381	-\$0.893
Waha	-\$0.827	-\$1.101	-\$1.411	-\$2.048	-\$1.090
TETCO M3	-\$0.516	-\$0.947	\$4.629	-\$1.193	\$2.834
Houston Ship Channel	-\$0.086	-\$0.097	\$0.150	-\$0.170	\$0.067
Columbia Gulf/Mainline	-\$0.556	-\$0.666	-\$0.284	-\$0.354	-\$0.226
Panhandle East	-\$0.521	-\$0.516	\$0.160	-\$0.583	-\$0.020
NGPL MidCon	-\$0.410	-\$0.440	\$0.079	-\$0.525	-\$0.081
SoCal	\$1.215	\$0.860	\$1.104	\$0.128	\$0.853
AECO	-\$3.168	-\$3.199	-\$2.384	-\$1.460	-\$1.224
Chicago City-Gates	-\$0.203	-\$0.238	\$0.513	-\$0.235	\$0.317

## Gas and Oil Prices 2 May 2022



Swap Pricing	Bal 22	Cal 23	Cal 24	Cal 25
NYMEX WTI	\$94.40	\$83.10	\$75.39	\$69.94
ICE Brent	\$98.00	\$87.63	\$80.03	\$75.00
LLS	\$95.18	\$85.08	\$76.61	\$70.87
Mars	\$93.13	\$82.00	\$74.30	\$68.85
Western Canadian Crude (WCC)	\$81.17	\$69.92	\$59.67	\$53.84
West TX Sour (WTS)	\$93.66	\$82.40	\$74.69	\$69.24

Swap Pricing	Month 1	Summer 22	Winter 22/23	Summer 23	Winter 23/24
Henry Hub Fixed	\$7.360	\$7.427	\$7.312	\$4.530	\$4.838
Eastern Gas South	-\$1.100	-\$1.279	-\$0.917	-\$1.353	-\$0.986
Waha	-\$0.763	-\$1.022	-\$1.215	-\$2.020	-\$0.922
TETCO M3	-\$0.710	-\$0.867	\$3.398	-\$0.950	\$2.675
Houston Ship Channel	-\$0.156	-\$0.141	\$0.068	-\$0.170	-\$0.041
Columbia Gulf Mainline	-\$0.431	-\$0.507	-\$0.262	-\$0.375	-\$0.241
Panhandle East	-\$0.535	-\$0.533	\$0.016	-\$0.604	-\$0.096
NGPL MidCon	-\$0.468	-\$0.490	-\$0.058	-\$0.562	-\$0.204
SoCal	-\$0.056	\$0.489	\$0.891	-\$0.043	\$0.645
AECO	-\$1.980	-\$2.133	-\$1.470	-\$1.130	-\$1.109
Chicago City-Gates	-\$0.258	-\$0.269	\$0.423	-\$0.274	\$0.300



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