

Longreach Energy Investments LLC

August 2019 Report

Market and Portfolio Commentary

1.1 Macro Industry Commentary

General Market Commentary

During August the ongoing trade war weighed on both crude oil and equity markets as both rely on demand growth which the trade war is hampering. On 1 August US President Donald Trump claimed that he would impose a new 10% tariff on \$300b worth of Chinese imports. Oil prices dropped by the most in four years, roughly 8%, following this announcement. China has threatened tariff retaliations should the tariffs be imposed, reigniting the threat of significant global economic slowdown.

The volatility of markets and exposure to whims of the US President are evidenced by the 4% rise in WTI on 13 August, after a tweet from Trump that stated that he had delayed the new tariffs because of a “very good call with China”.

On 22 August China announced that a 5% tariff on US crude oil imports would be imposed as of 1 September. WTI fell over 3% as the news broke.

The US is producing over 92 bcf/d of natural gas, an all-time high. LNG feed gas demand is approximately 6.2 bcf/d with two new facilities (Freeport LNG and Kinder Morgan’s Elba Facility) still ramping up to full production. There are currently 10 LNG facility applications pending with FERC and another 5 projects in the pre-filing process. The total capacity of proposed and pending projects equates to almost 23 bcf/d of demand.

The US Energy Information Agency (EIA) August Short-Term Energy Outlook has updated natural gas production, consumption and trade data, these are provided in Figure 1 and Figure 2.

Figure 1: US Natural Gas Production, Consumption and Net Imports (source EIA)

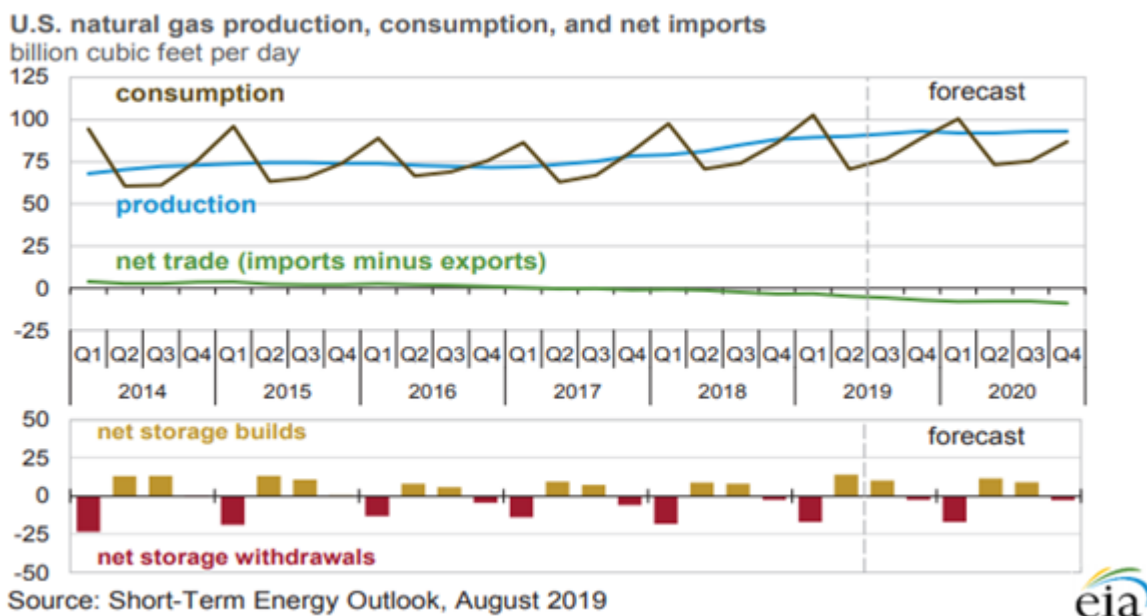
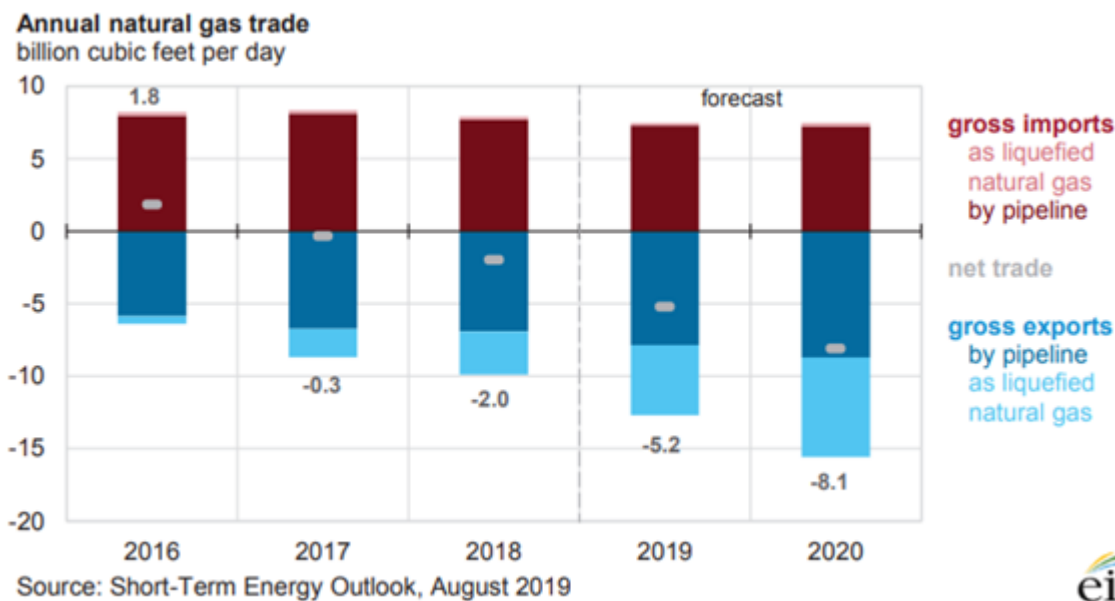


Figure 2: Annual Natural Gas Trade (source EIA)



US gas and oil companies continue to put greater discipline on cash flow rather than output growth. This has led to a fall in rig count with 887 active US land rigs as of 23 August, down from 1025 a year ago. The Baker Hughes rig count data are provided in Figure 3. Lower rig count will reduce production growth and over the medium term, support both gas and oil prices.

Figure 3: US Rig Count (source Baker Hughes)

North America BAKER HUGHES RIG COUNT		BAKER HUGHES a GE company			
Rotary Rig Count 8/23/19					
Location	Week	+/-	Week Ago	+/-	Year Ago
Land	887	-20	907	-138	1025
Inland Waters	1	0	1	0	1
Offshore	28	1	27	10	18
United States Total	916	-19	935	-128	1044
Gulf Of Mexico	26	1	25	10	16
Canada	139	-3	142	-90	229
North America	1055	-22	1077	-218	1273
U.S. Breakout Information	This Week	+/-	Last Week	+/-	Year Ago
Oil	754	-16	770	-106	860
Gas	162	-3	165	-20	182
Miscellaneous	0	0	0	-2	2
Directional	69	1	68	7	62
Horizontal	797	-18	815	-122	919
Vertical	50	-2	52	-13	63

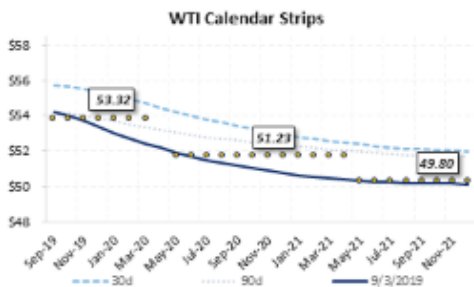
Gas Market

Gas prices remained low as the mild weather continued through early August. Hot weather onwards from mid-August has, however, provided good price support and as of time of writing spot gas has increased to \$2.59/mcf. New pipelines providing gas transport out of the Permian Basin have also reduced the basis discount for west Texas gas production.

Oil Market

In the Middle East Iran seized a British tanker in the Strait of Hormuz in late July, but crude oil transit in the region has not been significantly disrupted to date. In August continued demand-side concerns have generally added downward pressure to crude oil prices. The International Monetary Fund recently lowered its estimates for global economic growth in 2019 and 2020. In addition, China's annual gross domestic product growth for the second quarter of 2019 was 6.2%, the lowest growth rate for any quarter since estimates began in 1992. The July manufacturing Purchasing Managers' Index for the Eurozone, China and Japan all indicated contraction in manufacturing activity as well.

Gas and Oil Prices 3 September 2019



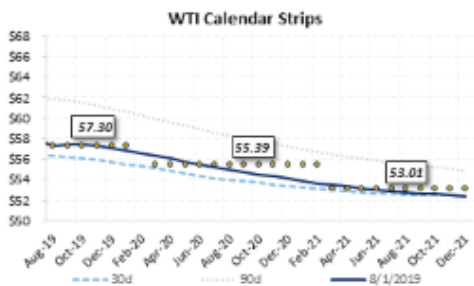
Swap Pricing				
	Bal 19	Cal 20	Cal 21	Cal 22
NYMEX WTI Crude	\$ 53.32	\$ 51.23	\$ 49.80	\$ 49.67
ICE Brent Crude	\$ 56.87	\$ 55.56	\$ 55.14	\$ 55.43
Louisiana Light Sweet	\$ 55.79	\$ 53.74	\$ 52.20	\$ 52.05
TM Midland Differential	\$ 0.29	\$ 0.40	\$ 0.60	
NYMEX Natural Gas	\$ 2.38	\$ 2.41	\$ 2.47	\$ 2.53

Source: Bloomberg LP
 Note: Midland diff changed to TM computation Oct 1. All prices indicative only.

Natural Gas Basis				
Location	Spot	Summer '19	Winter '19/'20	Summer '20
Henry Hub Fixed	\$2.34	\$ 2.29	\$ 2.49	\$ 2.31
MichCon	\$ (0.34)	\$ (0.30)	\$ (0.12)	\$ (0.19)
NGPL-Midcon	\$ (0.79)	\$ (0.54)	\$ (0.32)	\$ (0.45)
TETCO M3	\$ (0.84)	\$ (0.62)	\$ 1.33	\$ (0.33)
Dominion S	\$ (0.85)	\$ (0.75)	\$ (0.37)	\$ (0.44)
TETCO M2	\$ (0.88)	\$ (0.79)	\$ (0.38)	\$ (0.48)
CIG	\$ (0.89)	\$ (0.60)	\$ (0.35)	\$ (0.64)
Waha	\$ (0.97)	\$ (0.67)	\$ (0.67)	\$ (1.19)

All prices as of close yesterday

Gas and Oil Prices 1 August 2019



Swap Pricing				
	Bal 19	Cal 20	Cal 21	Cal 22
NYMEX WTI Crude	\$ 57.30	\$ 55.39	\$ 53.01	\$ 52.03
ICE Brent Crude	\$ 63.12	\$ 60.91	\$ 58.76	\$ 58.04
Louisiana Light Sweet	\$ 60.96	\$ 58.45	\$ 55.65	\$ 54.68
TM Midland Differential	\$ (0.38)	\$ 0.50	\$ 0.75	
NYMEX Natural Gas	\$ 2.38	\$ 2.49	\$ 2.54	\$ 2.57

Source: Bloomberg LP
 Note: Midland diff changed to TM computation Oct 1. All prices indicative only.

Natural Gas Basis				
Location	Spot	Summer '19	Winter '19/'20	Summer '20
Henry Hub Fixed	\$2.28	\$ 2.24	\$ 2.53	\$ 2.41
MichCon	\$ (0.22)	\$ (0.21)	\$ (0.11)	\$ (0.16)
TETCO M3	\$ (0.24)	\$ (0.35)	\$ 1.16	\$ (0.32)
TETCO M2	\$ (0.33)	\$ (0.47)	\$ (0.31)	\$ (0.46)
Dominion S	\$ (0.34)	\$ (0.46)	\$ (0.32)	\$ (0.43)
CIG	\$ (0.51)	\$ (0.57)	\$ (0.41)	\$ (0.67)
NGPL-Midcon	\$ (1.52)	\$ (0.56)	\$ (0.32)	\$ (0.45)
Waha	\$ (2.03)	\$ (0.90)	\$ (0.79)	\$ (1.37)

All prices as of close yesterday

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