Longreach Energy Investments LLC

July 2019 Report

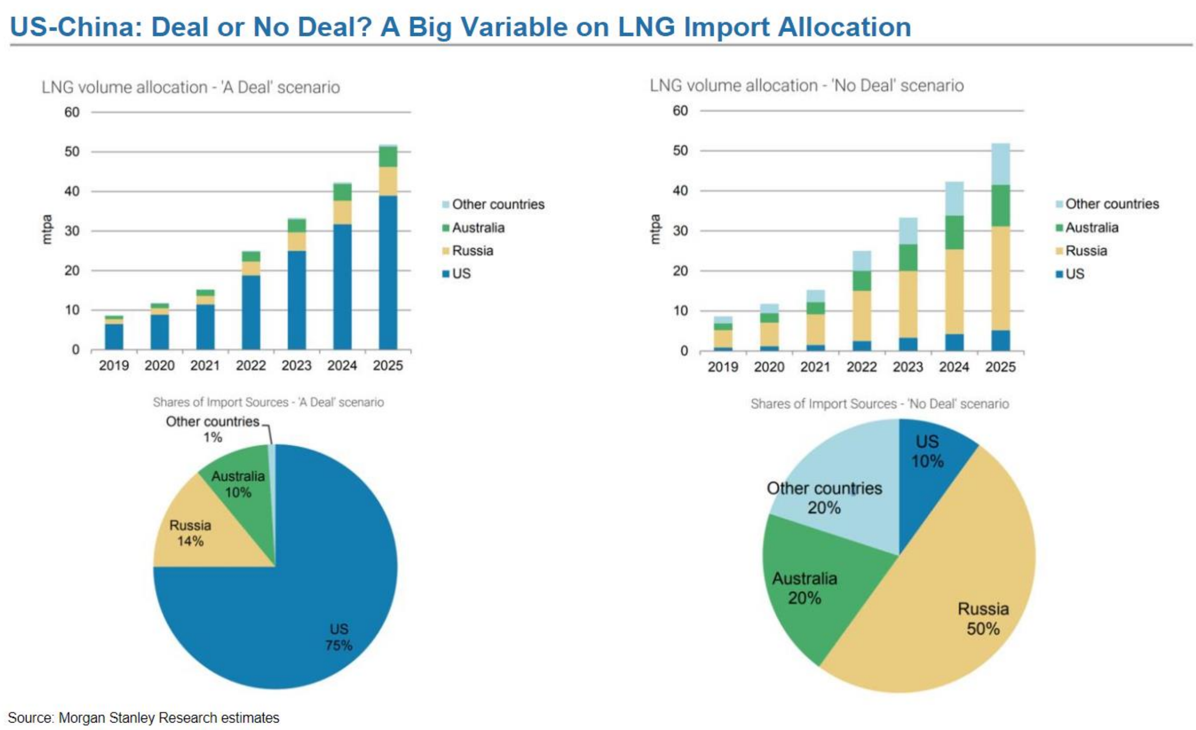
Market and Portfolio Commentary

1.1 Macro Industry Commentary

General Market Commentary

Trade tensions are steadily increasing. The resolution or otherwise of this dispute is likely to have material impact upon LNG trade flows over the next 5 years. If unresolved this could heavily restrict demand from China for US LNG as illustrated by the two scenarios provided by Morgan Stanley in Figure 1. Resolution of the trade dispute will allow the US-China LNG market to develop with very strong volume growth. Current gas prices in China are approximately $10/mcf, development of this market would result in clear benefits for both US producers (very profitable at $3/mcf) and Chinese consumers (for whom anything under $10/mcf is an improvement). If there is no trade deal - noting that this most likely remains entirely at the discretion of the US authorities - then US LNG exports to China will remain relatively modest. US LNG will likely go to the markets that would otherwise be served by Russian and Australian suppliers whose volumes have been redirected to China however we would expect that there will be some US LNG demand destruction and potentially some price reduction. It will be interesting to see whether the mostly Republican voting oil and gas producing states tolerate this self-inflicted adverse consequence.

Figure 1: US-China Deal or No Deal? Impact on Chinese LNG Import Allocation (source Morgan Stanley)



Data from the US Energy Information Administration (EIA) shown in Figure 2 shows that Australian LNG primarily goes to four countries all under long term contracts – Japan, China, South Korea and Taiwan. Given the current issues with domestic gas prices and recent LNG growth it is unclear how much genuine additional LNG export capacity Australia is likely to develop over the next few years, so perhaps the No Deal scenario for US LNG is a little pessimistic. The EIA has also published data showing that Australia is already close to becoming the world's largest LNG exporter and the US is growing fast (see Figure 4).

Figure 3: Australian LNG Exports (source EIA)

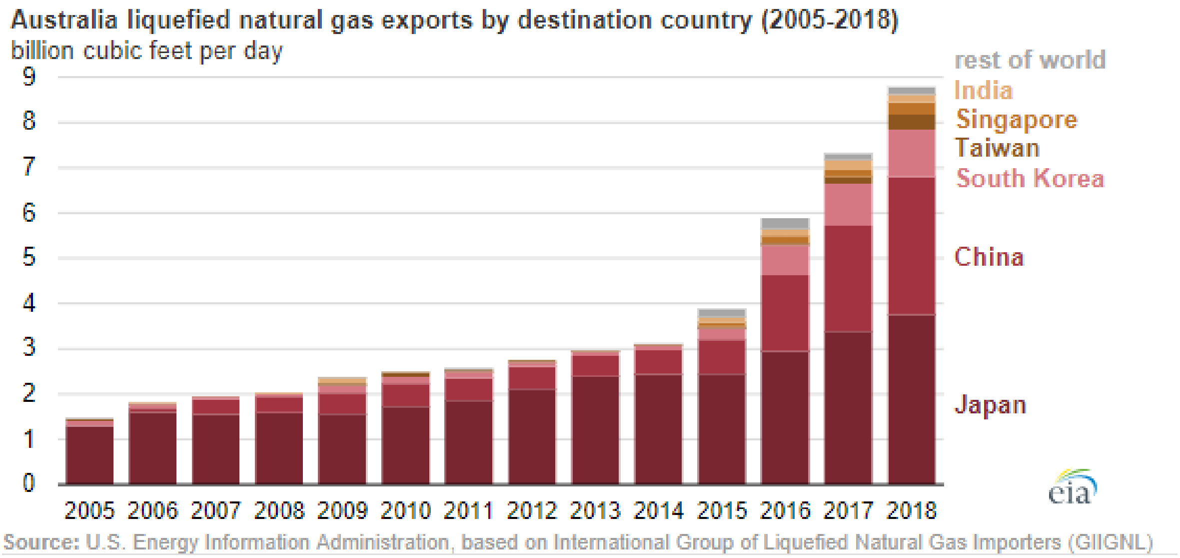
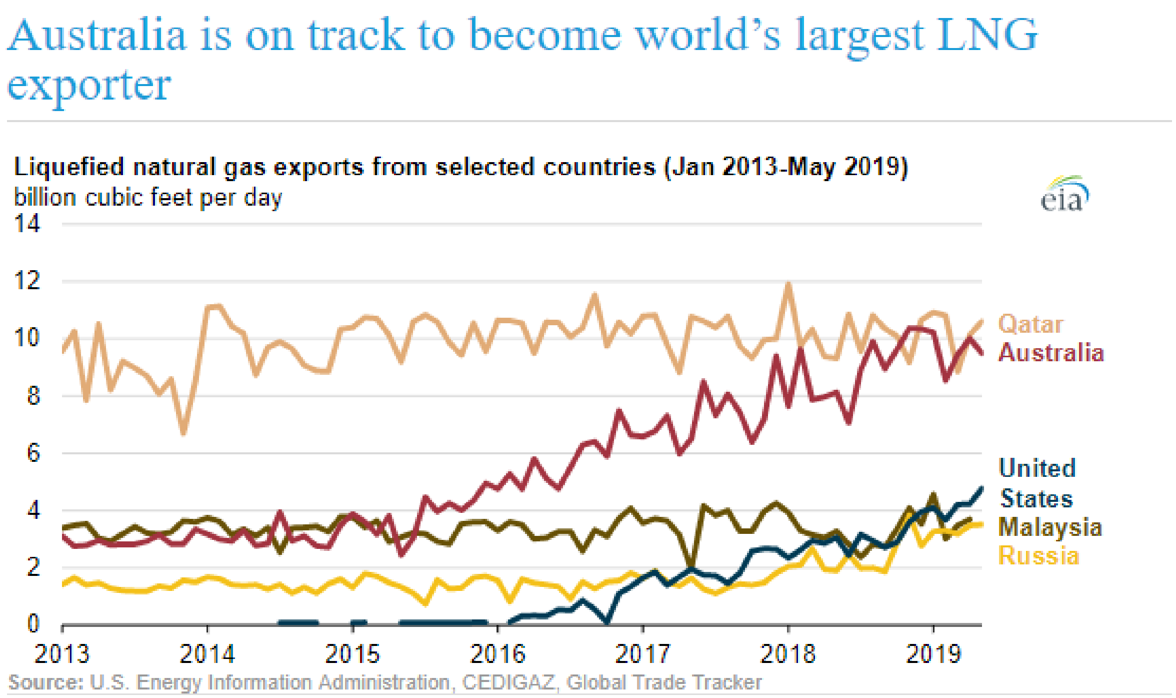
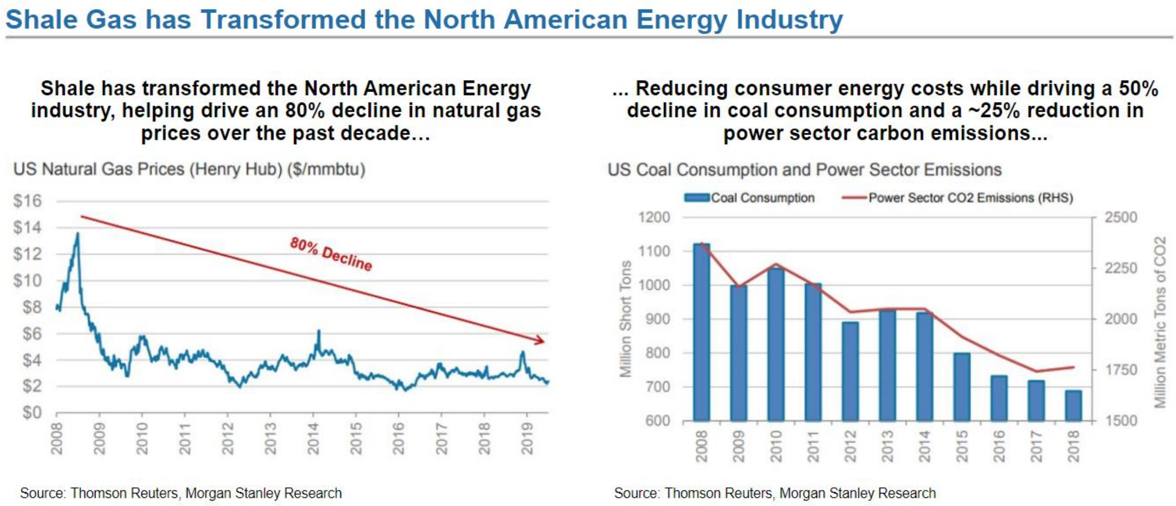


Figure 4: Selected Countries' LNG Exports (source EIA)



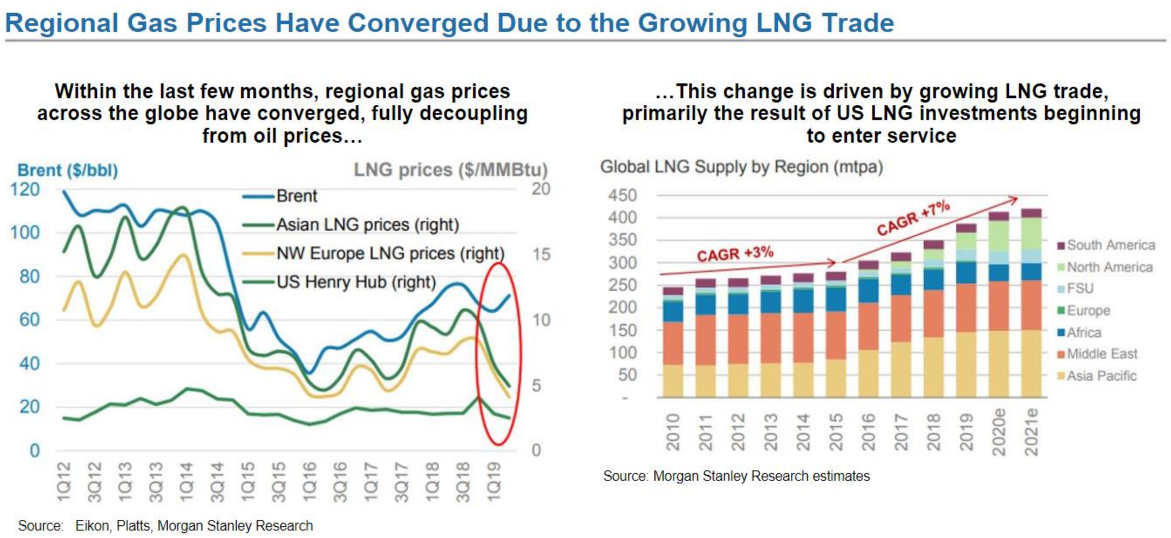
Morgan Stanley has published research looking at global LNG and the impact of US shale gas on energy markets. Figure 5 illustrates how the astounding increase in low cost US domestic production (remembering that in 2010 all forecasts were of material US natural gas supply shortages – the Cheniere LNG export facility commenced construction as an import facility before being repurposed 12 months into construction) has transformed the North American energy industry.

Figure 5: Impact of Shale Gas on North American Energy (source Morgan Stanley)



Morgan Stanley has also collected data that demonstrates the growing fulfilment of a core plank of the LEI investment thesis – growing US LNG volumes will deliver a global gas price benchmarked on US Henry Hub.

Figure 6: Convergence of Regional Gas Prices (source Morgan Stanley)



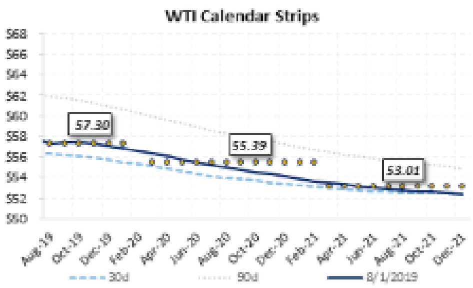
Gas Market

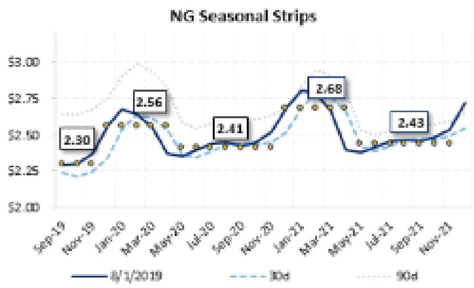
The mild summer weather in the US has continued. This has reduced cooling demand for energy and as a result US Gas prices remain depressed. Total US gas production is approximately 91 bcfd, the largest contributor to this is the Appalachian Basin (Utica and Marcellus formations) with approximately 12 bcfd of production. At current prices new wells are not economic and public companies operating in the region including EOG and Cabot have announced significant reduction in capital expenditure until prices improve.

Oil Market

Economic growth is weak, this is partially, but not entirely, due to US-China trade pressures. OECD Central Banks are reducing interest rates and looking at versions of quantitative easing to stimulate demand. These factors are generally negative for oil demand. Political tensions in the Gulf of Hormuz are still high, with Iran seizing one UK owned oil tanker during the month. OPEC+ (OPEC plus Russia) has committed to maintain supply restrictions though 2020. US supply continues to increase albeit at slightly lower rate. The aggregate result has been quite stable oil prices in the $52 to $60/bbl range.

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

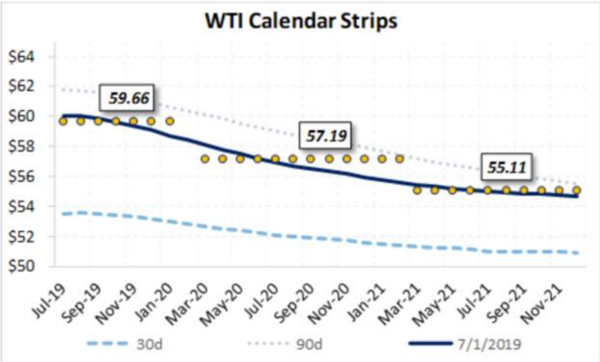
Source: Bloomberg LP

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

Gas and Oil Prices 1 July 2019



Swap Pricing

	Bal 19	Cal 20	Cal 21	Cal 22
NYMEX WTI Crude	$ 59.66	$ 57.19	$ 55.11	$ 54.43
ICE Brent Crude	$ 65.53	$ 63.47	$ 61.70	$ 61.04
Louisiana Light Sweet	$ 63.60	$ 60.80	$ 57.79	$ 57.13
TM Midland Differential	$ 0.24	$ 0.70	$ 0.95	
NYMEX Natural Gas	$ 2.34	$ 2.52	$ 2.58	$ 2.60

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	$ 2.42	$ 2.30	$ 2.60	$ 2.45
MichCon	$ (0.29)	$ (0.25)	$ (0.16)	$ (0.20)
TETCO M3	$ (0.36)	$ (0.36)	$ 1.13	$ (0.35)
Dominion S	$ (0.41)	$ (0.47)	$ (0.34)	$ (0.47)
TETCO M2	$ (0.44)	$ (0.49)	$ (0.34)	$ (0.51)
NGPL-Midcon	$ (0.61)	$ (0.61)	$ (0.34)	$ (0.42)
CIG	$ (0.65)	$ (0.61)	$ (0.46)	$ (0.67)
Waha	$ (2.54)	$ (1.21)	$ (0.77)	$ (1.40)

All prices as of close yesterday

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