

June 30, 2020



**Natural Resource Fund  
Quarterly Report  
April 1 - June 30, 2020**

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## 1.0 INTRODUCTION

This report is produced in accordance with section 38 (2) of the Natural Resource Fund Act 2019 which requires the Bank of Guyana to report on the performance and activities of the Natural Resource Fund (referred to hereinafter as the “Fund”).

The financial statements contained in this report have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS). All monetary references in this report have been reported in Guyana dollars (G\$) and are presented in thousands (G\$'000). Foreign currency transactions have been translated to G\$ at the rate of exchange prevailing at the dates of the transactions. Rate of exchange at June 30, 2020 was GYD 208.50 = USD 1.

## 2.0 EXECUTIVE SUMMARY

The Fund was formed by the enactment of the Natural Resource Fund Act 2019 which was passed in the National Assembly on January 3, 2019 and assented to by the President on January 23, 2019. The Act gives the Bank of Guyana the responsibility for the operational management of the Fund. This report covers the period April 1, 2020 – June 30, 2020

Key statistics for the quarter include:

- The capital of the Fund at end – June, 2020 was G\$19,791.53 million (US\$94.92 million) compared with G\$11,454.07 million (US\$54.94 million) at end - March, 2020
- The gross cash inflow to the Fund from royalties and profit oil was G\$8,336.47 million (US\$39.98 million).
- There was no outflow from the fund.
- The profit earned for the quarter was G\$992,741 (US\$4,761.35), due to capital gains from investments in one month, two month and three month US Treasury Bills as shown in Tables 2 and 3.

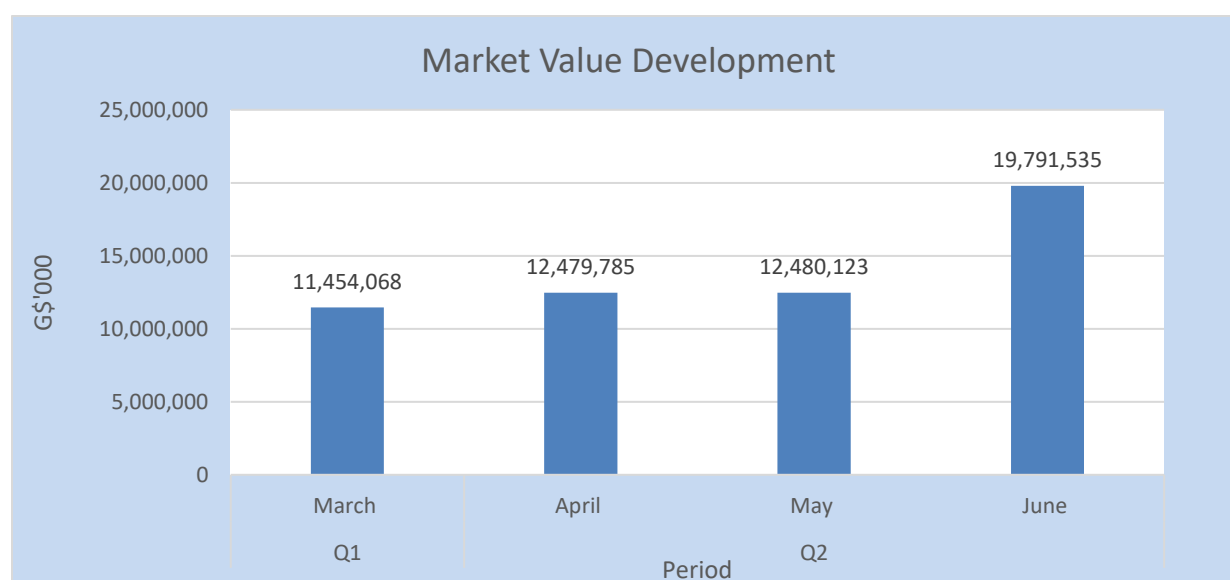
- Brent crude oil price per barrel was US\$26.35 at the beginning of the quarter and US\$41.15 as at June 30, 2020.
- The US interest rate remained at the range of 0% - 0.25%.

## Market Value of the Fund

The market value of the Fund at June 30, 2020 stood at G\$19,791.54 million (US\$94.92 million), an increase of 73% (G\$8,337.47 million / US\$39.99 million) from the previous quarter.

**Table 1**

Changes in Market Value			G\$'000
	2020		Since Inception
	Q1	Q2	
Starting Market Value	0	11,454,068	0
Inflows	11,452,487	8,336,474	19,788,961
Withdrawals	0	0	0
Interest Income	1,581	0	1,581
Capital Gains (Losses)	0	993	993
Admin., management and other costs	0	0	0
<b>Final Market Value</b>	<b>11,454,068</b>	<b>19,791,535</b>	<b>19,791,535</b>



### **3.0 INVESTMENT MANDATE**

To date, there has been no investment mandate for the Fund. However, Section 32 (1) of the Natural Resource Fund Act 2019 states that “Where the balance of the Fund is less than five hundred million United States Dollars then all of the Fund shall be invested in very safe investments.” Additionally, Section 32 (4) states that “For the purposes of this section, the term “very safe investments” means eligible bank deposits and eligible treasury bills only”.

A letter from the Minister of Finance dated June 8, 2020 stated that pending the constitution of the Investment Committee and preparation of the Investment Mandate, all petroleum revenue should be held as cash deposits in the NRF account.

### **4.0 MARKET TRENDS DURING THE QUARTER**

#### **4.1 Global Market Conditions**

The performance of the Global economy remains very important to Guyana’s new and emerging sector with respect to cash flows due to changes in prices and interest rates.

COVID-19 continued to spread and impacted economic activity worldwide resulting in the largest economic shock the world has experienced in decades. Some economies experienced an improvement in activity, although no country is approaching its pre-virus economic levels just yet.

Forecasts now predict a contraction in global GDP of 5.2% in 2020 despite the efforts of governments to assist the economy using fiscal and monetary policy tools. As a result, most countries are expected to experience a recession in 2020. According to an article published by The World Bank, “Over the longer horizon, the deep recessions triggered by the pandemic are expected to leave lasting scars through lower investment, an erosion of human capital through lost work and schooling, and fragmentation of global trade and supply linkages. The crisis highlights the need for urgent action to cushion the pandemic’s health and economic consequences, protect vulnerable populations, and set the stage for a lasting recovery. For

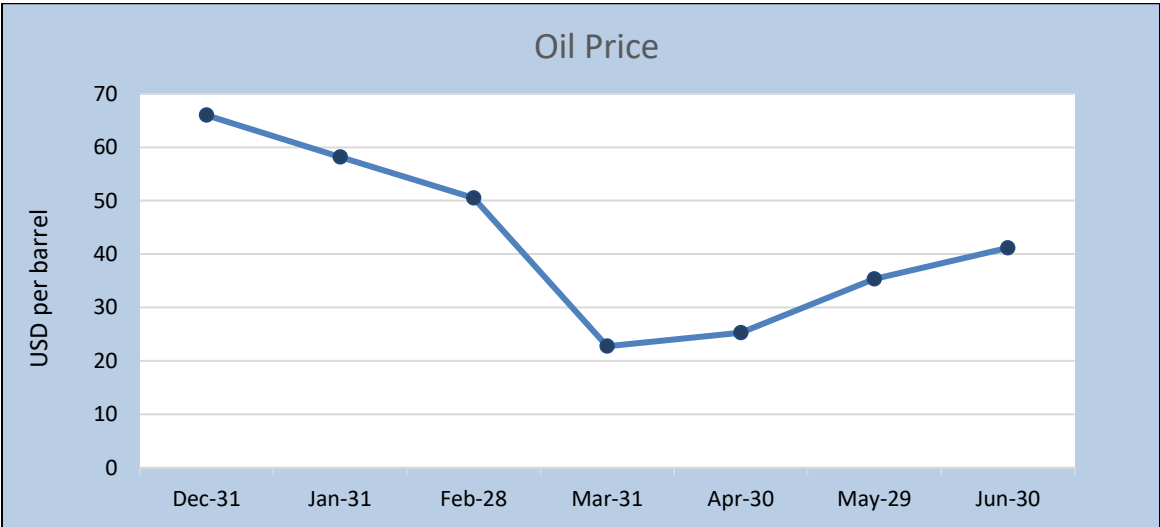
emerging market and developing countries, many of which face daunting vulnerabilities, it is critical to strengthen public health systems, address the challenges posed by informality, and implement reforms that will support strong and sustainable growth once the health crisis abates.”

The US federal funds rate remains at a target range of 0% - 0.25% and is expected to remain at that level until the US economy recovers and is on the path to achieving its maximum employment and price stability goals.

The US unemployment rate increased sharply from 4.4% in March to 14.7% in April followed by declines in May and June to 13.3% and 11.1% respectively. In the week ended June 27th, 2020 the number of Americans filing for unemployment benefits was 1.427 million, the lowest level since the spread of the virus in the US. This has been steadily falling since its high in March.

In commodities markets, both oil and gold prices experienced increases. Over the quarter, oil prices rose from US\$26.35 to US\$41.15. Prices fell to a low of US\$19.33 in April before beginning its rise, reaching a high of US\$43.08 in June. This increase reflects a recovery in the market owing to OPEC supply cuts of 9.7 million barrels per day and an easing of government lockdowns which paved the way for increases in demand in various countries.

The graph below shows the movement of oil prices for the past 6 months.



Gold prices increased from US\$1,596.60 to \$1,800.50 over the quarter reaching a low of US\$1,591.40 in early April and a high of US\$1800.50 in late June.

In an effort to further assist its economy, The European Central Bank expanded its Pandemic Emergency Purchase Programme (PEPP) by €600 billion, taking the total announced monetary stimulus to €1.35 trillion. This was extended to at least June 2021.

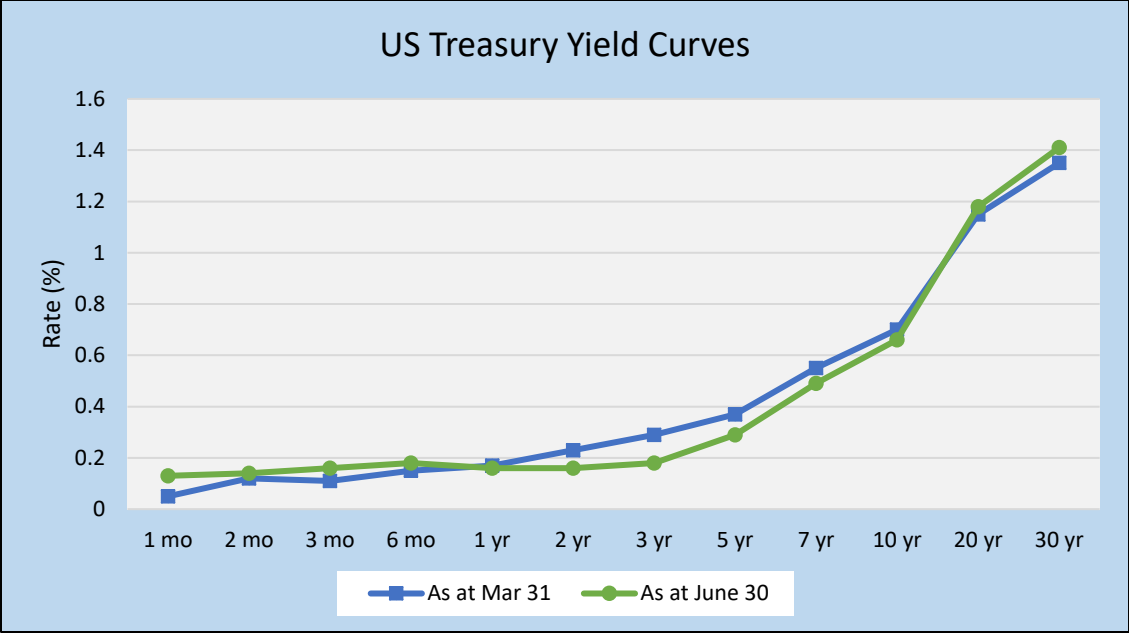
## **4.2 Global Fixed Income Bonds**

Government bond yields remained low after declining sharply in the previous quarter. There was an increased demand for high risk investments as lockdowns began to be gradually eased in April. Despite efforts by the Federal Reserve, bond prices for were not able to recover during the period under review.

The US 10-year Treasury bond yields changed very little and ended the quarter at 0.66%, a decrease of 0.01% from the previous quarter. The 10-year yield of many other government bonds also declined during the quarter. In the UK, yields fell from 0.36% to 0.17%, Spain's dropped from 0.68% to 0.47%, France's decreased from 0% to -0.12%, Italy's moved from 1.53% to 1.33% and Germany's from -0.47% to -0.45%.

Corporate Bonds outperformed government bonds as investors favoured higher risk assets. Global Investment grade bonds saw their strongest monthly total return in April at 4.6%. According to the Bloomberg Barclays Global Aggregate Corporate Total Return Index, returns moved from 263.44 to 285.97, corresponding to an 8.55% increase.

The graph below shows the movement of the US Treasury yield curve from March 31 to June 30, 2020. Small declines were observed in the yields of 1 to 10 year securities. Overall, yields remained relatively unchanged when compared to the end of the previous quarter as bonds were traded in a relatively tight range during the quarter.



### 4.3 Global Equities

Equities recovered during the review period after suffering heavy losses due to COVID-19. As lockdowns were slowly being lifted and the Federal Reserve continued its efforts to support the US economy, the stock market was able to bounce back to normal.

Stocks rallied during the quarter as S&P 500 increased by 21%, MSCI World increased by 14% and the NASDAQ index increased by over 30% soaring to record highs. Even as a second wave of coronavirus cases hit the US in June, the stock market was still on the rise with the NASDAQ index showing unprecedented growth exceeding pre COVID-19 levels up 12% year to date.



## 5.0 MANAGEMENT DURING THE QUARTER

The Fund received revenue of G\$8,336.47 million (US\$39.98 million) from profit oil (G\$7,310.76 million/US\$35.06 million) and royalties (G\$1,025.72 million / US\$4.92 million) during the quarter. These funds were deposited into the Natural Resource Fund Account held at the Federal Reserve Bank of New York.

During the first quarter, overnight deposits were available with interest rates within a range of 1.50% - 1.75%. This was lowered to 1% - 1.25% on March 3, 2020 and then again to 0% - 0.25% on March 15, 2020. As a result, during the second quarter, overnight deposits earned no interest. The Central Bank as the operational manager of the Fund, through its internal management invested the Fund in safe short-term US Treasury Bills so as to earn a return. The amount of US\$37,999,340.00 was placed in one month T-Bills which matured on June 16, 2020 while US\$9,998,288.90 and US\$9,996,840.30 was invested in two and three month T-Bills respectively. These were sold for US\$9,999,097.22 and US\$9,998,133.33 respectively on June 18, 2020.

**Table 2**

Security	Face Value (USD)	Settlement Date	Maturity Date	Purchase Value (USD)	Maturity Value (USD)	Capital Gain (USD)
1 month T-Bills	38M	19-May-20	16-Jun-20	37,997,340.00	38,000,000.00	2,660.00
<b>TOTAL</b>						<b>2,660.00</b>

**Table 3**

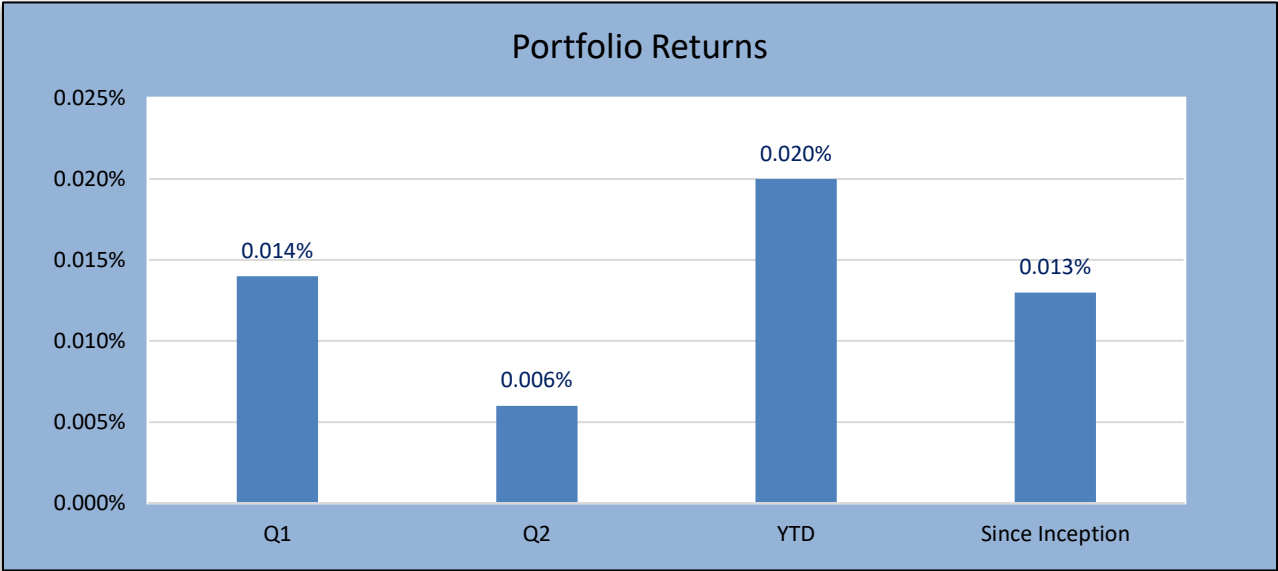
Security	Face Value (USD)	Settlement Date	Maturity Date	Sale Date	Purchase Value (USD)	Sale Value (USD)	Capital Gain (USD)
2 month T-Bills	10M	19-May-20	14-Jul-20	18-Jun-20	9,998,288.90	9,999,097.22	808.32
3 month T-Bills	10M	14-May-20	13-Aug-20	18-Jun-20	9,996,840.30	9,998,133.33	1,293.03
<b>TOTAL</b>							<b>2,101.35</b>

## 6.0 PORTFOLIO PERFORMANCE

The Natural Resource Fund balance amounted to G\$19,791.54 million (US\$94.92 million) as at June 30, 2020. The profit of the fund for the quarter was G\$992,741 (US\$4,761.35), due to capital gains on US Treasury Bills. This represented a return<sup>1</sup> of 0.006% during the quarter in comparison with 0.014% for the previous quarter. This reflected the continued low level of interest rates in the market

**Table 4**

FUND PORTFOLIO	2020			Since Inception
	Q1	Q2	YTD	
Return	0.014%	0.006%	0.020%	0.013%
Benchmark	-	-	-	-
Excess	-	-	-	-



<sup>1</sup> The Fund is not currently tracking an index as funds were not invested in securities as at June 30, 2020

## 7.0 Financial Summary

The following financial information is presented for the purpose of providing a detailed overview of the performance of the Fund. The figures have been audited by the Bank of Guyana auditors.

**Table 5**

<b>Capital Account</b>		<b>G\$'000</b>	
<b>Period</b>		<b>Q1</b>	<b>Q2</b>
Opening Balance at beginning of the period		0	11,454,068
Inflows to Fund for the quarter:	Royalties	0	1,025,717
	Receipts	11,452,487	7,310,757
Outflows from Fund to Consolidated Fund a/c for the quarter		(0)	(0)
Net Result for the quarter		1,581	993
<b>Closing Balance at the end of the quarter</b>		<b>11,454,068</b>	<b>19,791,535</b>

**Table 6**

<b>Assets</b>		<b>G\$'000</b>	
<b>Period</b>		<b>Q1</b>	<b>Q2</b>
Cash and Cash Equivalentents		11,454,068	19,791,535
Other receivables		0	0
Financial Assets held at fair value through profit and loss		0	0
<b>Less:</b>			
Payables		(0)	(0)
<b>Total Net Assets</b>		<b>11,454,068</b>	<b>19,791,535</b>

**Table 7**

<b>Income</b>	<b>G\$'000</b>	
<b>Period</b>	<b>Q1</b>	<b>Q2</b>
Interest Income	1,581	0
Other Investment Income	0	993
Net gains/(losses) on market revaluation of financial assets	0	0
Net gains/(losses) on foreign exchange	0	0
<b>Total Investment Income</b>	<b>1,581</b>	<b>993</b>
<b>Expenses</b>		
Management fees	(0)	(0)
Transaction costs	(0)	(0)
Other expenses	(0)	(0)
<b>Total Expenses</b>	<b>(0)</b>	<b>(0)</b>
<b>Net Result for the Quarter</b>	<b>1,581</b>	<b>993</b>