

June 30, 2023



Natural Resource Fund
Quarterly Report
April 1 – June 30, 2023

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1.0 INTRODUCTION

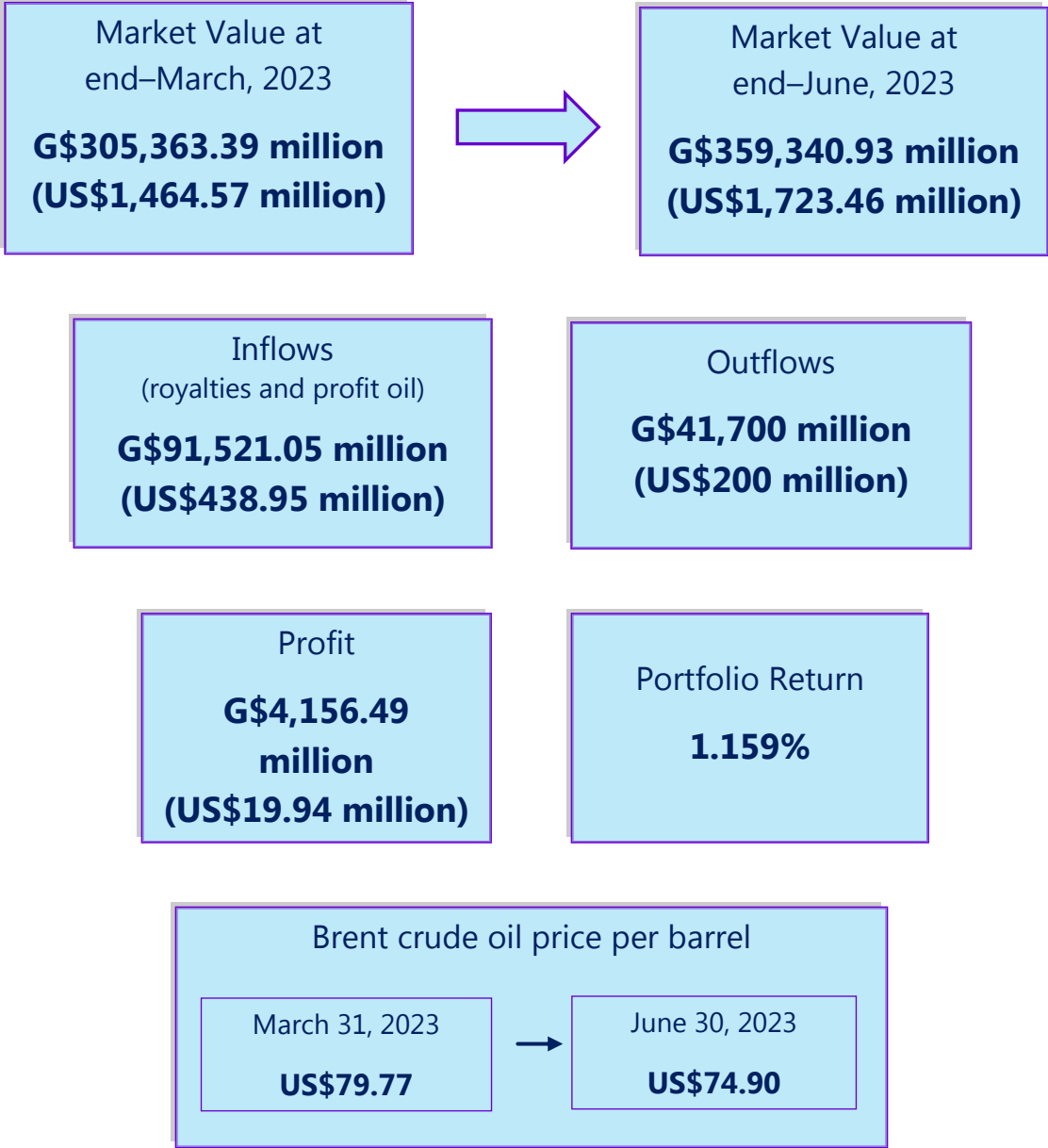
The Natural Resource Fund was formed by the enactment of the Natural Resource Fund Act 2019 which was passed in the National Assembly on January 3, 2019 and assented to by the President on January 23, 2019. This act was subsequently replaced with the Natural Resource Fund Act 2021 which was passed in the National Assembly on December 29, 2021 and assented to by the President on December 30, 2021. The Act gives the Bank of Guyana the responsibility for the operational management of the Fund.

This report is produced in fulfilment of the requirements set out in section 29 (2) of the Natural Resource Fund Act 2021 which requires the Bank of Guyana to report on the activities and financial performance of the Natural Resource Fund (referred to hereinafter as “the Fund”).

The financial statements in this report have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS). Foreign currency transactions have been translated to G\$ at the rate of exchange prevailing at the dates of the transactions. The rate of exchange at June 30, 2023 was GYD 208.50 = USD 1.

2.0 EXECUTIVE SUMMARY

This report covers the period April 1, 2023 – June 30, 2023



3.0 MARKET TRENDS DURING THE QUARTER

3.1 Global Market Conditions

The World Bank revised its global growth forecast for 2023 from 1.7% to 2.1%, according to the June Global Economic Prospects report, while the IMF's forecast stood at 2.8%. These levels are lower than the growth estimates reported for 2022 of 3.1% and 3.4% by the World Bank and IMF respectively. The World Bank and the IMF predict global growth for 2024 to rise marginally to 2.4% and 3% respectively amid the aggressive monetary policy tightening by global central banks. Global headwinds including Russia's invasion of Ukraine, tightening monetary policy measures and persistently high inflation continued to adversely weigh on economic growth in the second quarter of 2023. The recent banking turmoil has subsided and is now viewed by the New York Fed as being precipitated by a small group of banks with poor risk-management, elaborating that the banking sector is sound and resilient. Additionally, the US debt ceiling of \$31.4 trillion was removed until January 1, 2025, allowing the US government to meet its debt obligations, hence averting a potential default. This decision came after the US Treasury Department warned of its inability to pay all of its bills on June 5, 2023, if the debt ceiling was not raised by the US Congress prior to that date.

Inflation remains elevated globally despite the moderation of supply chain pressures in food and energy, with excess pent up demand appearing to be the main driver of continued high inflation. Global headline inflation is projected at 7% for 2023, down from 8.7% in 2022, while underlying core inflation is likely to reduce at a slower pace, the IMF indicated. Global central banks continue to exhibit a hawkish tone as it relates to monetary policy albeit with slight moderation as both the US Federal Reserve and the Bank of Canada paused their rate hikes once during the quarter.

The United States Federal Reserve raised their benchmark interest rates by 25bps earlier in the quarter before easing off from its aggressive monetary policy stance with a pause in rate hikes at its FOMC meeting in June. The Federal Funds target range is currently at

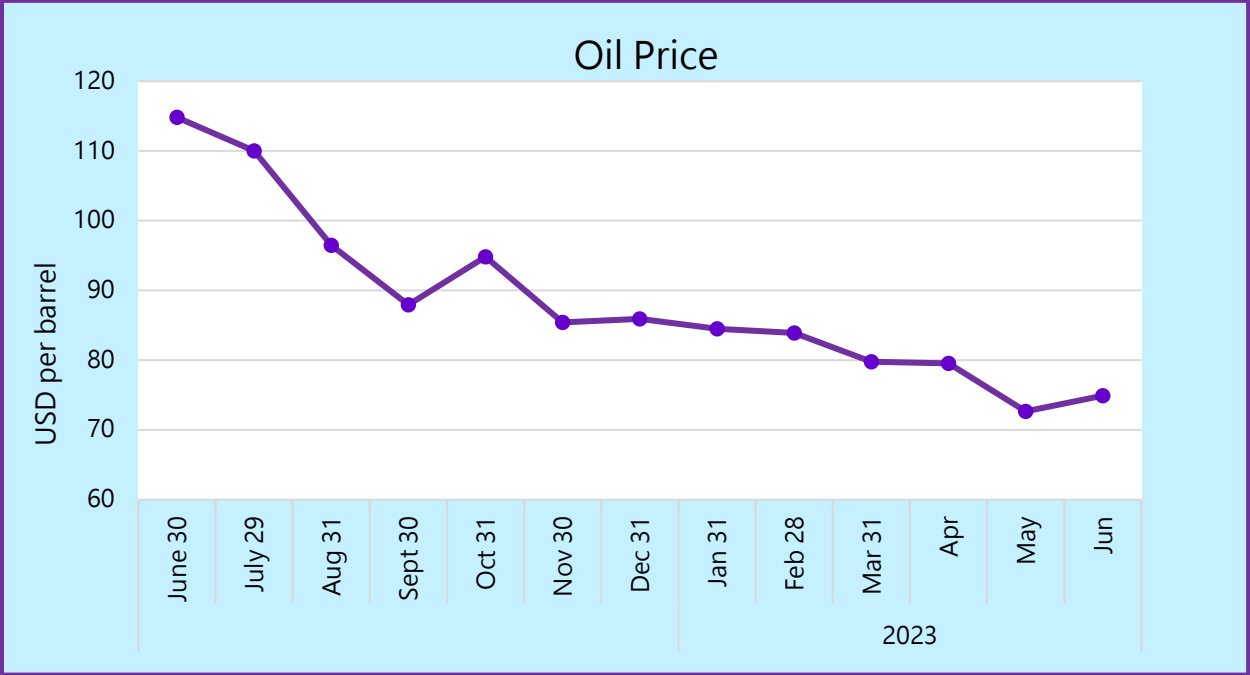
5%-5.25%, and it is expected that two more rate hikes are likely to occur before the end of 2023. Even though the Fed decided to pause rate hikes in June, other major global central banks maintained hawkish monetary policy stances. The European Central Bank approved two 25 bps rate hikes during the second quarter of 2023 taking their interest rate to 4%, up from 3.5%, while the Bank of England opted for an overall 75 bps rate increase, taking its interest rate level to 5%. On the other hand, the Bank of Canada only had one rate hike of 25 bps after pausing earlier in the quarter, increasing their benchmark rate to 4.75% as at end-June 2023.

Oil

In early-April, OPEC and its allies agreed to cut oil production by 1.16 million bpd, taking total cuts to 3.66 million bpd, representing 3.7% of global oil demand. Consequently, oil prices pushed upwards reaching a high of \$87.33/bbl. after opening the quarter at \$79.77/bbl. However, oil prices experienced a significant dip during the latter half of April and early-May, falling by approximately \$15/bbl. This was attributed mainly to higher interest rates coupled with weaker industrial activity contributing to recessionary concerns and a potential downward shift in global oil demand. Oil prices fluctuated throughout May and June reaching its lowest level for the quarter at \$71.84/bbl. Notwithstanding, oil prices rebounded towards the end of the quarter following a meeting between OPEC and its allies as they indicated their intentions to further cut oil production by 1 million bpd in July. To close the quarter, oil was traded at \$74.90/bbl.

The following graph shows the movement of oil prices over the period June 2022 to June 2023.

Graph 1



Gold

At the start of the quarter, gold traded at US\$1969.28 per ounce before trending upwards, as weaker than expected US economic data contributed to a depreciation of the US dollar and bolstered expectations that the Fed would pause rate hikes at its May FOMC meeting. However, this was not the case after hawkish commentary from Federal Reserve officials signaled that a rate pause was not probable. On May 3, 2023, the US Federal Reserve hiked interest rates by 25bps causing gold to fall briefly until weak CPI data published in May signaled cooling inflation within the US economy and increased expectations of a possible end to central bank’s rate hikes. Gold prices then rebounded reaching its highest value for the quarter at US\$2050.28 per ounce. However, this surge in gold prices was short lived as the asset experienced tremendous selloffs for the remainder of the quarter caused by a stronger US dollar and the expectations of future hawkish monetary policy measures from global central banks. Additionally, the US debt ceiling crisis which was averted contributed to selling pressure as the asset’s safe haven

appeal decreased. Continuing on a downward trend, gold reached its lowest value for the quarter at US\$1907.32 per ounce in June before closing the quarter at US\$1919.35 per ounce.

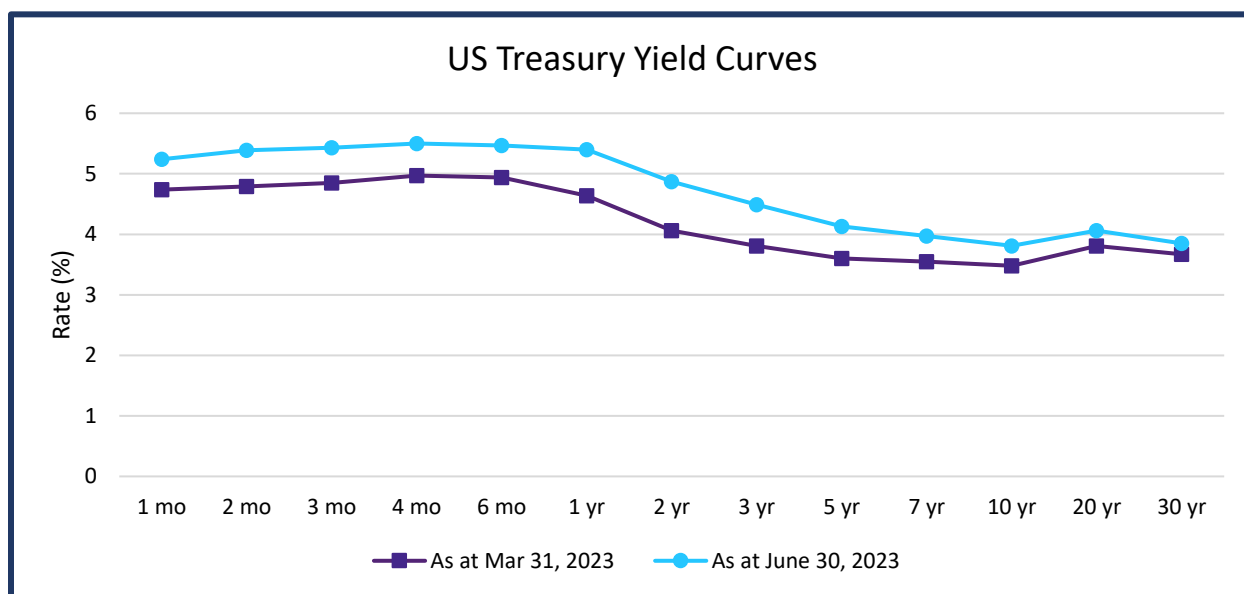
3.2 Global Fixed Income Bonds

Fixed Income markets fell from the previous quarter and prices fell yet again as major central banks continued to raise rates while the Federal Reserve chose to pause rate hikes in June. There was elevated volatility in the US during May as the probability existed that the country would not be able to increase its debt ceiling in early June and could default on debts if no agreement was reached on the issue. The global economy was resilient and inflation, despite declining slightly in some sectors, was still high, hence central banks remained hawkish and more rate hikes are expected later in the year.

The yields of 10-year government bonds rose moderately during the quarter reversing some of the gains made from the previous quarter. The US 10 – year bond yield increased from 3.49% to 3.84%, the UK's from 3.49% to 4.39%, Spain's from 3.31% to 3.39%, France's from 2.78% to 2.94% and Germany's from 2.30% to 2.39%.

The graph below shows the US Treasury yield curve at March 31, 2023 and June 30, 2023. Yields at all maturities generally increased, with longer dated bonds showing smaller increases causing a slightly further worsening of the already inverted curve.

Graph 2



Corporate bonds

Corporate bonds remained strong over the quarter and outperformed government bonds. Risk sentiment was high as recessionary concerns eased and high yield bonds performed better than investment grade. According to the Bloomberg Barclays Global Aggregate Corporate Total Return Index, corporate bonds exhibited little change moving from 257.21 to 257.38.

3.3 Global Equities

As inflation seems to be cooling, stocks performed well and were able to gain positive returns in most major economies. The technology sector led during this quarter as enthusiasm over the potential growth of Artificial Intelligence (AI) pushed stock prices higher, especially in the US. The S&P 500 index went up by 9% while the NASDAQ index rose by 16%.

4.0 LOCAL UPDATES

Since 2015, 41 discoveries have been made offshore Guyana. Thirty-six (36) of those discoveries were made at the Stabroek block, 2 at the Orinduik block, 1 at the Kanuku

block and 2 at the Corentyne block. Of these discoveries, two were made during the quarter, one being at the prolific Stabroek block and the other at the Corentyne block. In the Stabroek block, the Liza Phase 1 Development began production in late 2019 and reached its peak capacity of 120,000 barrels per day (bpd) in December 2020. Production from Liza Phase 2 began in February 2022 and the project reached its full production capacity of 220,000 barrels per day (bpd) by the end of December 2022. On 30th September, 2020, the government of Guyana announced their approval of the Payara Offshore Development Project. With an estimated resource base of approximately 600 million oil-equivalent barrels, production of up to 220,000 bpd is expected to begin in 2023. Plans are in order for ExxonMobil's 4th project – the Yellowtail Development project - which is expected to start production of 250,000 bpd in 2025 taking Guyana to a production level of 810,000 bpd. It is projected that by 2027, 6 to 7 projects will be in operation and that by the end of the decade, Guyana's oil production will increase to more than 1 million bpd.

The Stabroek Block is estimated to contain resources of approximately 11 billion oil-equivalent barrels and is operated by ExxonMobil affiliate Esso Exploration and Production Guyana Limited. They hold a 45% interest in the block, Hess Guyana Exploration Ltd. holds 30% interest while CNOOC Petroleum Guyana Limited holds the remaining 25%.

During April 2023, the Government of Guyana approved the Uaru project – Guyana's 5th development project offshore Guyana. Additionally, approval for development of a sixth project - Whiptail is expected to be addressed later this year.

The Government of Guyana had launched its first competitive bidding round for 14 of its existing offshore oil blocks during December 2022 - 11 being located in shallow water and 3 in ultra-deepwater. The first bidding round was expected to conclude in April 2023 with new contracts to be awarded during the second quarter of the year. However, this was delayed as the government postponed its offshore licensing round to mid-July so as to facilitate a review of the country's oil and gas regulatory framework.

During the quarter, Guyana lifted five 1-million-barrel (approximate) oil cargoes as its share of profit oil in comparison to two lifts for the previous quarter. The country is expected to benefit from ten more lifts as seventeen were projected for 2023. To date, Guyana obtained twenty-nine lifts of profit oil since the inception of the Fund.

5.0 INVESTMENT MANDATE

The Board of Directors of the Natural Resource Fund at its meeting held on June 26, 2023 approved the updated investment mandate for the Fund. It was mandated that the funds be maintained in the deposit account held at the Federal Reserve Bank of New York earning overnight deposit interest at the prevailing federal funds rate of 5.05%. It was also agreed that the Bank of Guyana will continue to monitor the overnight interest rate and inform the Chairman of any changes by the Federal Reserve Bank to consider redeploying cash.

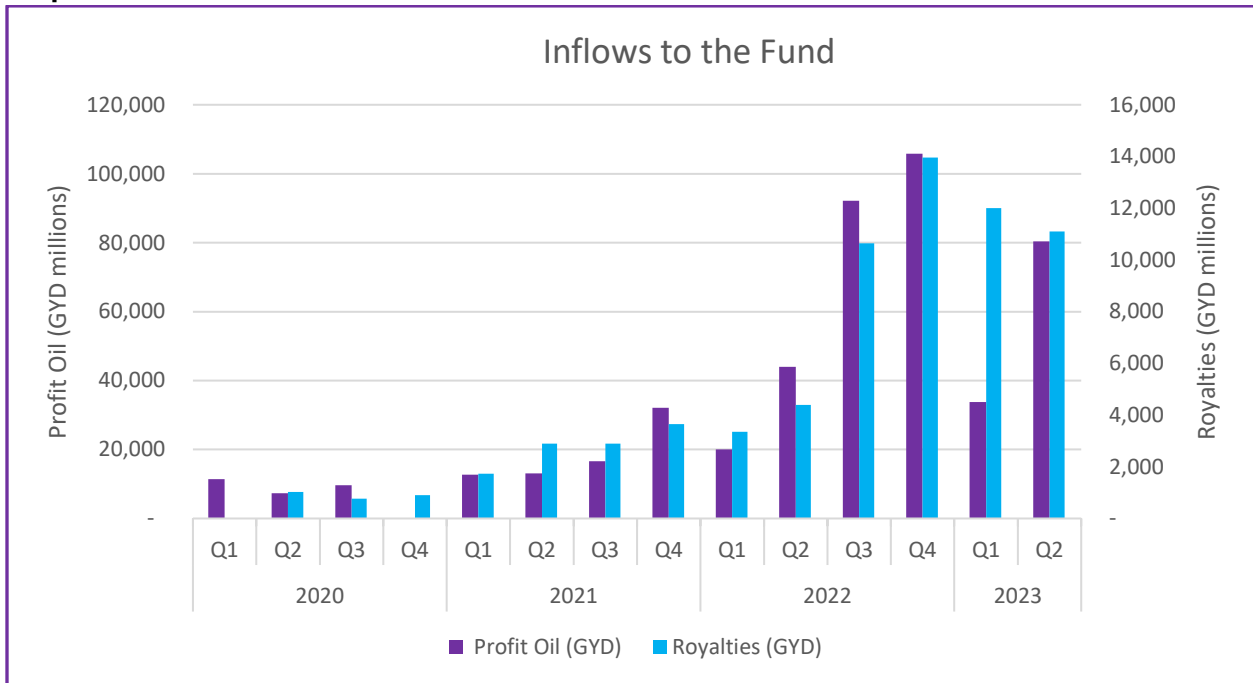
6.0 ACTIVITIES OF THE FUND

6.1 Receipts to the Fund

During the quarter, the Fund accounted for inflows amounting to G\$91,521.05 million (US\$438.95 million) comprising of profit oil - G\$80,416.99 million (US\$385.69 million) and royalties - G\$11,104.06 million (US\$53.26 million). Higher levels of profit oil and lower amount of royalties were recorded for this quarter in comparison to G\$33,748.34 million (US\$161.86 million) and G\$12,007.83 million (US\$57.59 million) respectively for the previous quarter. These funds were deposited into the Natural Resource Fund account held at the Federal Reserve Bank of New York.

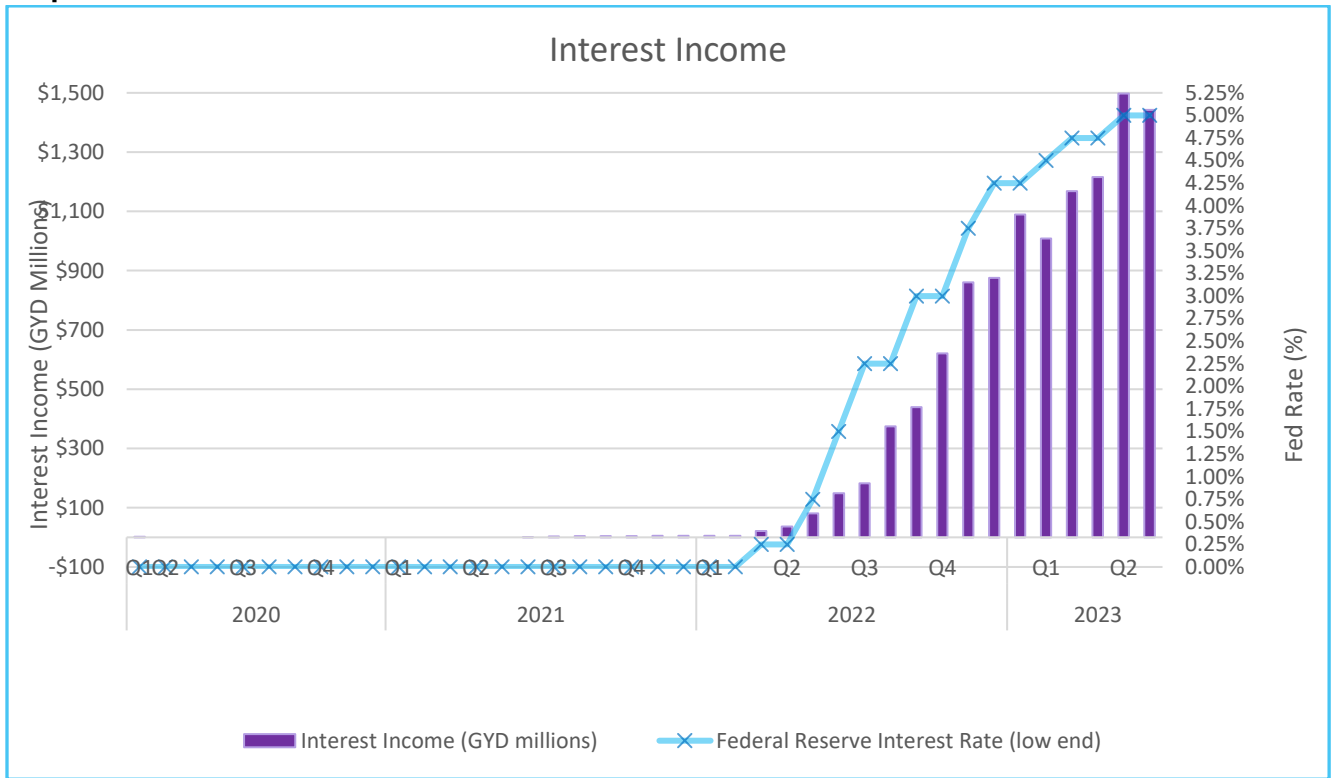
Since its inception, the Fund has accounted for G\$489,337.02 million (US\$2,346.94 million) from 29 lifts of profit oil and G\$68,997.05 million (US\$330.92 million) from royalties (see appendix).

Graph 3



Over the quarter the Federal Reserve increased its interest rates target range once moving it from 4.75% - 5% to 5% - 5.25%. As a result of these increases, interest rates on overnight deposits were higher. The higher rates as well as a higher account balance, resulted in the Fund earning a higher level of interest income on its overnight deposits than previous quarters. The Fund earned G\$4,156.49 million (US\$19.94 million) in interest income over the quarter compared to G\$3,266.13 million (US\$15.66 million) the previous quarter.

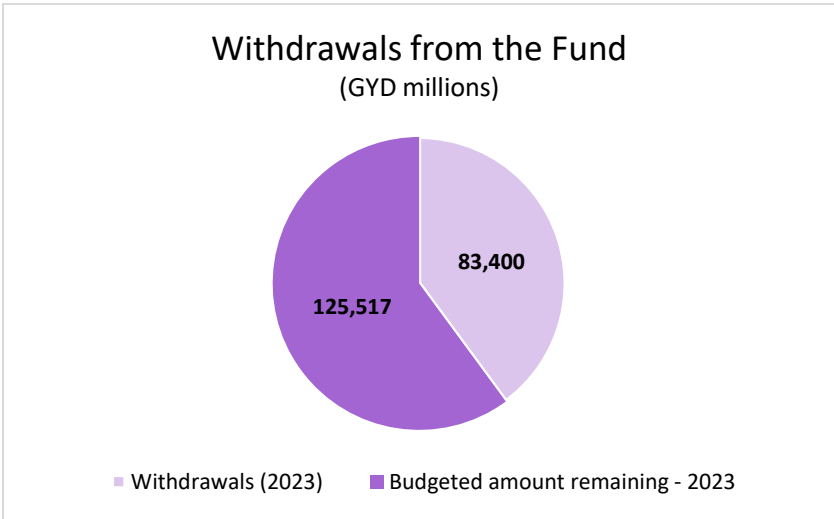
Graph 4



6.2 Transfers to the Consolidated Fund

According to section 16 of the Natural Resource Fund Act 2021, all withdrawals from the Fund shall be deposited into the Consolidated Fund. During the quarter, transfers to the Government of Guyana’s Consolidated Fund account amounted to G\$41,700 million (US\$200 million). For the year to date, a total of \$83,400 million (US\$400 million) has been transferred from the Fund, accounting for 39.92% of the estimated amount budgeted to be withdrawn in 2023 - G\$208,917 million (US\$1,002 million).

Graph 5



7.0 PORTFOLIO PERFORMANCE

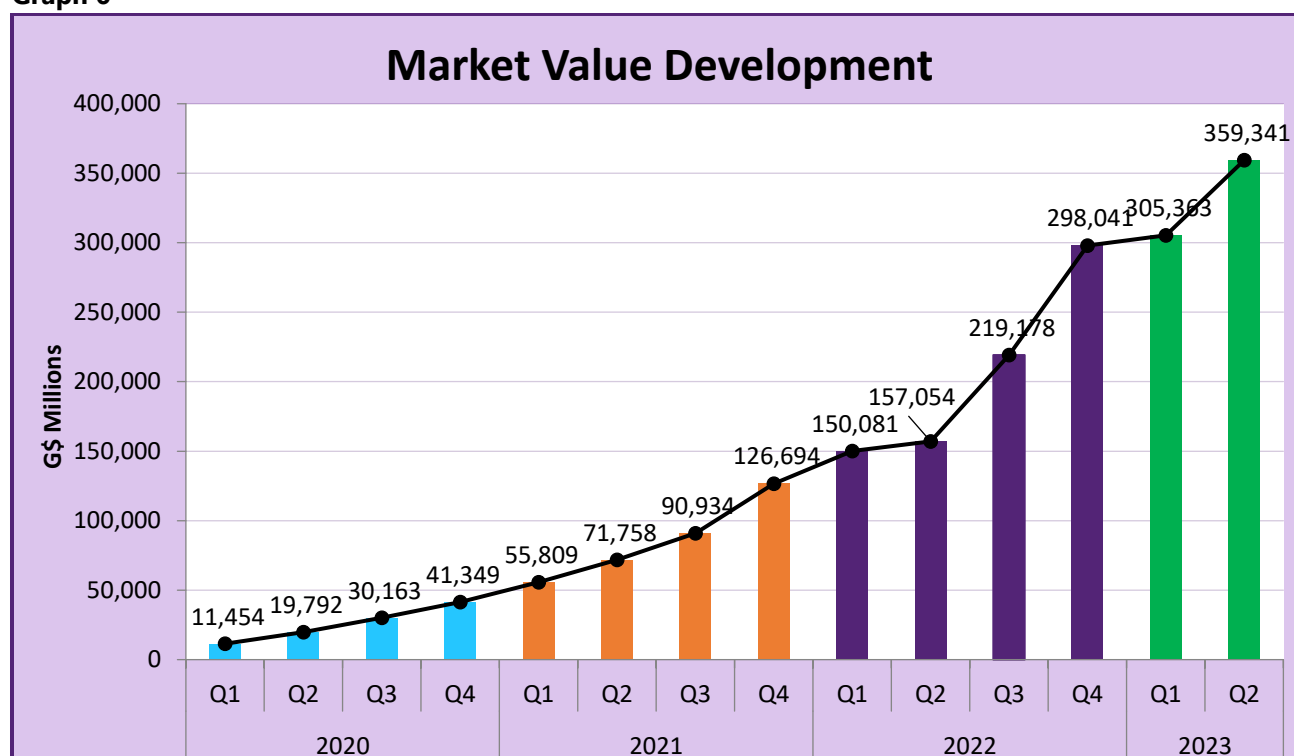
7.1 Market Value of the Fund

The value of the Fund amounted to G\$359,340.93 million (US\$1,723.46 million) at end-June 2023, and reflected an increase of 17.68% (G\$53,977.54 million / US\$258.89 million) from the previous quarter’s level of G\$305,363.39 million (US\$1,464.57 million).

Table 1

Changes in Market Value						G\$'000
	2022		2023			Since Inception
	Q3	Q4	Q1	Q2	YTD	
Starting Market Value	157,053,563	219,178,291	298,041,094	305,363,388	298,041,094	0
Inflows	102,828,982	119,800,378	45,756,167	91,521,053	137,277,220	558,334,064
Withdrawals	-41,700,000	-43,294,310	-41,700,000	-41,700,000	-83,400,000	-210,094,310
Interest Income	995,746	2,356,735	3,266,127	4,156,487	7,422,614	11,100,181
Capital Gains (Losses)	0	0	0	0	0	993
Admin., management and other costs	0	0	0	0	0	0
Final Market Value	219,178,291	298,041,094	305,363,388	359,340,928	359,340,928	359,340,928

Graph 6



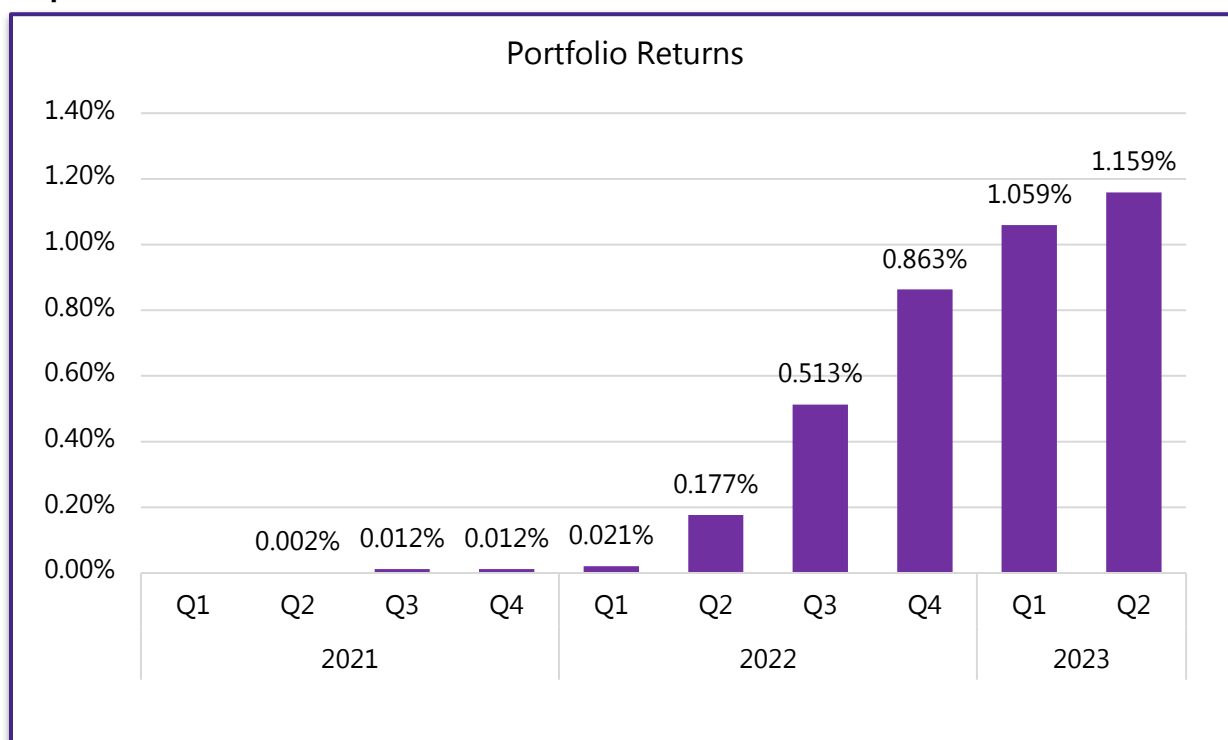
7.2 Performance

The Fund recorded a profit of G\$4,156.49 million (US\$19.94 million) this quarter in comparison with \$3,266.13 million (US\$15.66 million) for the preceding quarter solely due to interest earned on deposits. This resulted in a return¹ of 1.159% for the quarter compared with 1.059% in the previous quarter. The Fund earned an annualized return of 1.097% since its inception.

Table 2

FUND PORTFOLIO	2022		2023			Since Inception (Annualized)
	Q3	Q4	Q1	Q2	YTD	
Return	0.513%	0.863%	1.059%	1.159%	2.230%	1.097%
Benchmark	-	-	-	-	-	-
Excess	-	-	-	-	-	-

Graph 7



¹ The Fund is not currently tracking an index as funds were not invested in securities as at June 30, 2023.

8.0 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 Internal Audit Department of Bank of Guyana.

Table 3

Capital Account		G\$'000	
Period	Q1 - 2023	Q2 - 2023	
Opening Balance at beginning of the period	298,041,094	305,363,388	
Inflows to Fund for the quarter:			
Royalties	12,007,828	11,104,059	
Profit Oil	33,748,339	80,416,994	
Outflows from Fund to Consolidated Fund a/c for the quarter	-41,700,000	-41,700,000	
Net Result for the quarter	3,266,127	4,156,487	
Closing Balance at the end of the quarter	305,363,388	359,340,928	

Table 4

Assets		G\$'000	
Period	Q1 - 2023	Q2 - 2023	
Cash and Cash Equivalents	305,363,388	359,340,928	
Other receivables	0	0	
Financial Assets held at fair value through profit and loss	0	0	
Less:			
Payables	(0)	(0)	
Total Net Assets	305,363,388	359,340,928	

Table 5

Income	G\$'000	
Period	Q1 - 2023	Q2 - 2023
Interest Income	3,266,127	4,156,487
Other Investment Income	0	0
Net gains/(losses) on market revaluation of financial assets	0	0
Net gains/(losses) on foreign exchange	0	0
Total Investment Income	3,266,127	4,156,487
Expenses		
Management fees	(0)	(0)
Transaction costs	(0)	(0)
Other expenses	(0)	(0)
Total Expenses	(0)	(0)
Net Result for the Quarter	3,266,127	4,156,487

9.0 APPENDIX

The following table shows the receipts of profit oil and royalties to the Natural Resource Fund since its inception.

Table 6

Inflows to the Natural Resource Fund				
Date	Profit Oil (USD)		Royalties (USD)	Total Inflows to Date (USD)
	Liza Destiny	Liza Unity		
11-Mar-2020	54,927,994.80			54,927,994.80
28-Apr-2020			4,919,505.30	59,847,500.10
9-Jun-2020	35,063,582.06			94,911,082.16
3-Aug-2020			3,698,152.63	98,609,234.79
24-Aug-2020	46,046,937.03			144,656,171.82
19-Oct-2020			4,304,275.30	148,960,447.12
11-Jan-2021	49,341,810.55			198,302,257.67
20-Jan-2021			8,332,957.12	206,635,214.79
3-Mar-2021	50.00			206,635,264.79
9-Mar-2021	61,021,098.64			267,656,363.43
20-Apr-2021			13,869,099.18	281,525,462.61
14-May-2021	62,617,616.23			344,143,078.84
23-Jul-2021			12,301,462.65	356,444,541.49
28-Jul-2021	79,617,561.87			436,062,103.36
22-Oct-2021	80,373,718.56			516,435,821.92
26-Oct-2021			17,492,005.29	533,927,827.21
24-Dec-2021	73,582,168.11			607,509,995.32
27-Jan-2022			16,087,959.27	623,597,954.59
28-Feb-2022	95,928,020.91			719,525,975.50
28-Apr-2022			21,059,488.63	740,585,464.13
25-May-2022		102,548,225.10		843,133,689.23
2-Jun-2022	108,556,874.23			951,690,563.46
20-Jul-2022		122,973,502.40		1,074,664,065.86
27-Jul-2022	117,445,452.90		51,060,711.00	1,243,170,229.76
29-Aug-2022		102,543,769.89		1,345,713,999.65
13-Sep-2022	99,161,132.32			1,444,875,131.97
7-Oct-2022		88,996,551.12		1,533,871,683.09
25-Oct-2022			66,947,083.73	1,600,818,766.82
7-Nov-2022	89,149,227.73			1,689,967,994.55
14-Nov-2022		87,993,773.93		1,777,961,768.48
30-Dec-2022		83,808,725.98		1,861,770,494.46

3-Jan-2023	82,612,294.01			1,944,382,788.47
23-Jan-2023		75,074,493.46		2,019,457,281.93
30-Jan-2023			57,591,504.37	2,077,048,786.30
16-Feb-2023	82,248,712.42			2,159,297,498.72
20-Mar-2023		79,613,822.68		2,238,911,321.40
10-Apr-2023	74,054,727.58	74,216,496.21		2,387,182,545.19
28-Apr-2023			53,256,878.46	2,440,439,423.65
10-May-2023		87,145,733.95		2,527,585,157.60
14-Jun-2023	74,729,733.63			2,602,314,891.23
16-Jun-2023		75,546,324.85		2,677,861,216.08
Total	1,366,478,713.58	980,461,419.57	330,921,082.93	2,677,861,216.08

Dated: 11th July, 2023

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Chief Accountant
Bank of Guyana

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Governor
Bank of Guyana