

September 30, 2022



Natural Resource Fund
Quarterly Report
July 1 - September 30, 2022

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1.0 INTRODUCTION

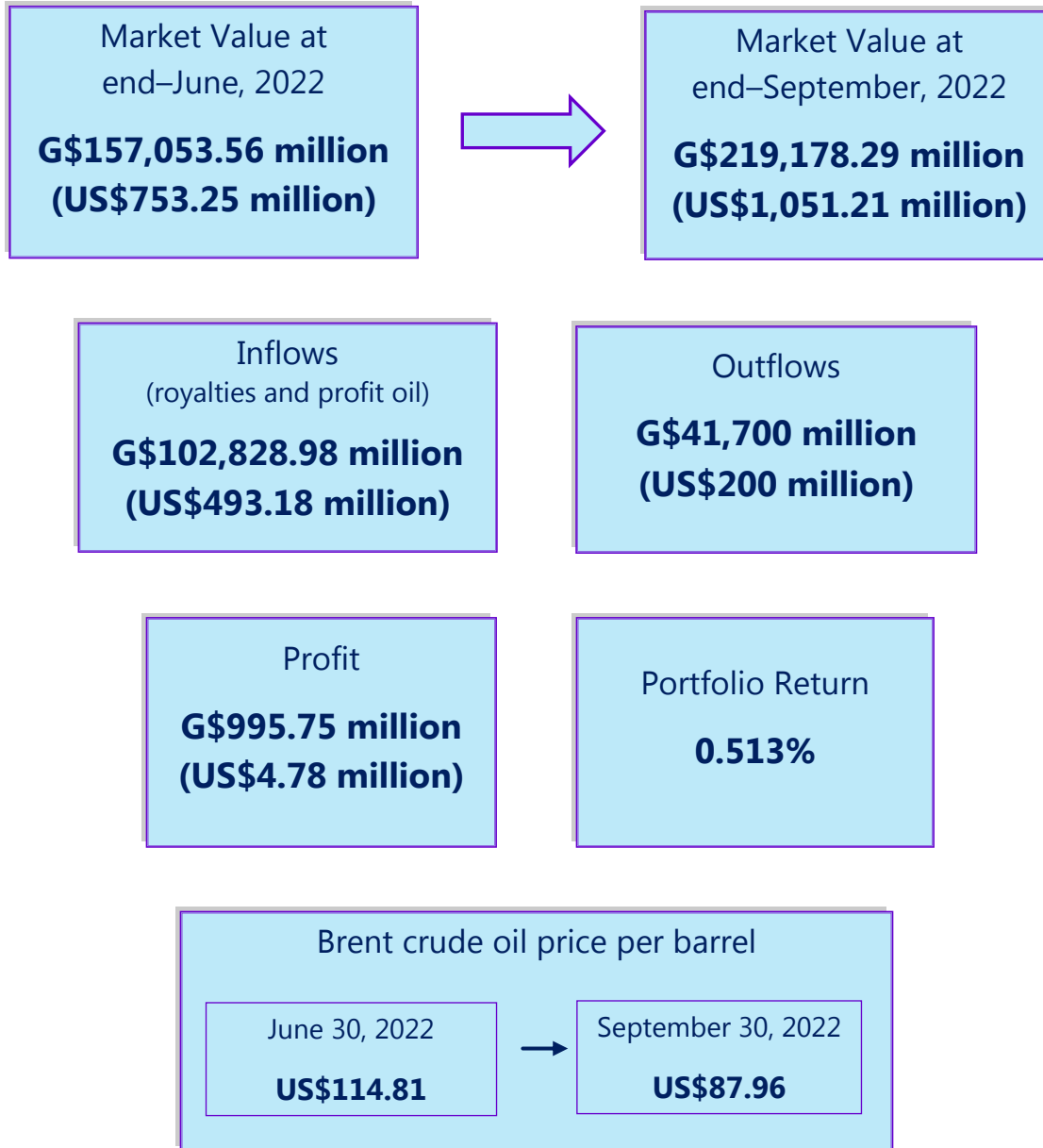
The Natural Resource Fund was formed by the enactment of the Natural Resource Fund Act 2019 which was passed in the National Assembly on January 3, 2019 and assented to by the President on January 23, 2019. This act was subsequently replaced with the Natural Resource Fund Act 2021 which was passed in 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 September 30, 2022 was GYD 208.50 = USD 1.

2.0 EXECUTIVE SUMMARY

This report covers the period July 1, 2022 – September 30, 2022



3.0 MARKET TRENDS DURING THE QUARTER

3.1 Global Market Conditions

Global growth is forecasted to be 3.2% in 2022 by the IMF, with 2.4% projected for advanced economies and 3.7% for emerging market and developing economies (EMDEs). Global growth is expected to decline to 2.7% in 2023. The global economy continued to face shocks and roadblocks to recovery.

Inflation is a major concern globally with some countries experiencing record highs, owing in part to persisting high food and energy prices and demand being met with inadequate supply, all exacerbated by Russia's invasion of Ukraine and its related effects. According to the IMF, global inflation is projected to be 8.8% in 2022 compared with 4.7% for 2021. In addition, the US dollar has appreciated against most currencies resulting in higher import costs and consequently, higher domestic prices in many EMDEs. These high prices pose challenges especially to low income households and countries.

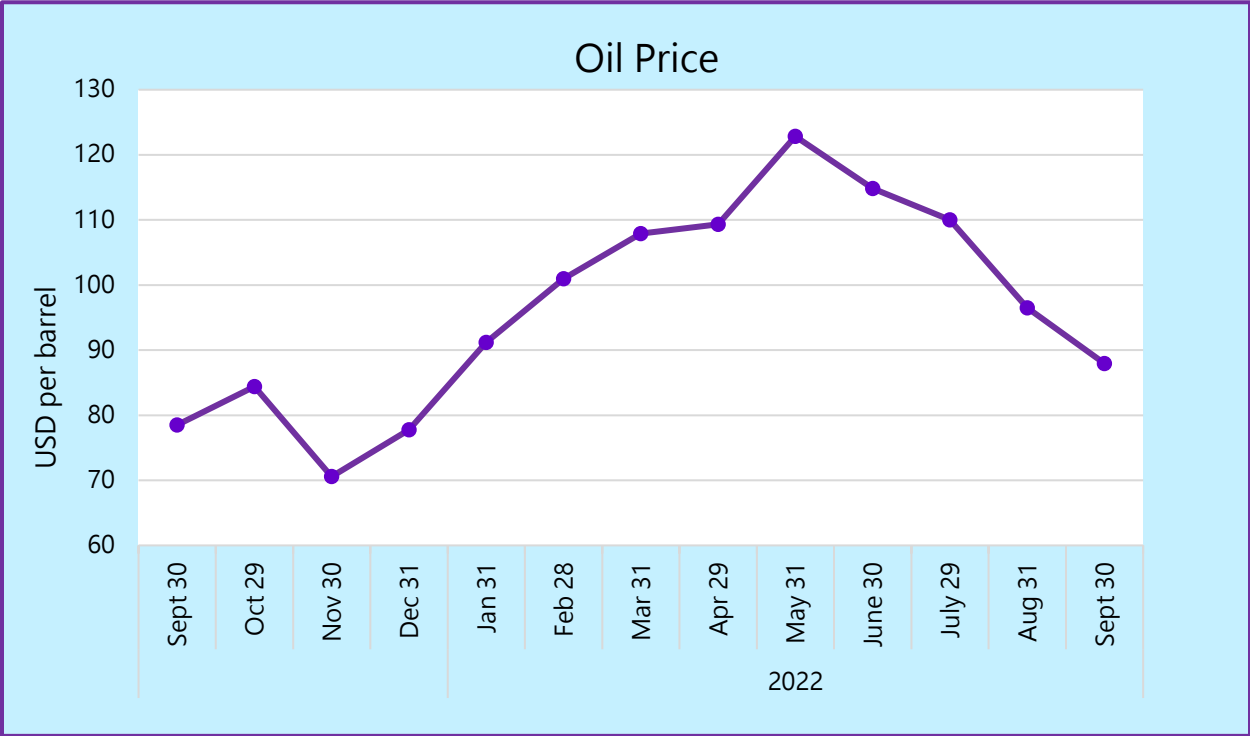
In order to combat the high levels of inflation, central banks worldwide implemented tighter monetary policies. In particular, the US increased the target range for the federal funds rate twice during the quarter – first from 1.5% - 1.75% to 2.25% - 2.5% and then to 3% - 3.25%. The Bank of England also raised its interest rate twice during the quarter, moving from 1.25% to 1.75% and then to 2.25% - the highest in 14 years. The European Central Bank did the same, raising rates to a positive level after more than a decade, first from -0.5 to 0% then to 0.75% even amid fears of a recession in the Eurozone as a result of high energy prices.

Further increases in food and energy prices, monetary policy miscalculations, tighter financing conditions, debt concerns in emerging economies, a resurgence of COVID-19 and increased geopolitical tensions remain downside risks to growth and recovery.

Oil prices fluctuated throughout the quarter but experienced a general decline moving from US\$114.81/bbl. at the beginning of the quarter to US\$87.96/bbl. at end September. Prices reached a high of US\$113.50/bbl. in early July and a low of US\$84.06/bbl. towards the latter part of the quarter. Price declines were caused by fears of an economic recession in major economies and a global economic slowdown owing partly to interest rate hikes by central banks. Declines were also due to lower than expected demand including from China – the world’s biggest crude importer and a strong US dollar which makes crude oil more expensive for other currency holders.

The following graph shows the movement of oil prices over the period September 2021 to September 2022:

Graph 1



Gold prices also fluctuated over the quarter but experienced a downward trend after opening the quarter at US\$1,807.27 per ounce and reaching a high of US\$1,811.43 per ounce in early July. Although there were periods of slight increases owing to fears of a recession which enhanced its safe haven appeal, prices generally declined. This was

mainly as a result of a strong US dollar and rising Treasury yields due to interest rate hikes implemented by major central banks and which made holding gold less appealing. Gold prices reached its lowest level in over 2 and a half years, at US\$1,622.36 per ounce and closed the quarter at US\$1,660.61 per ounce.

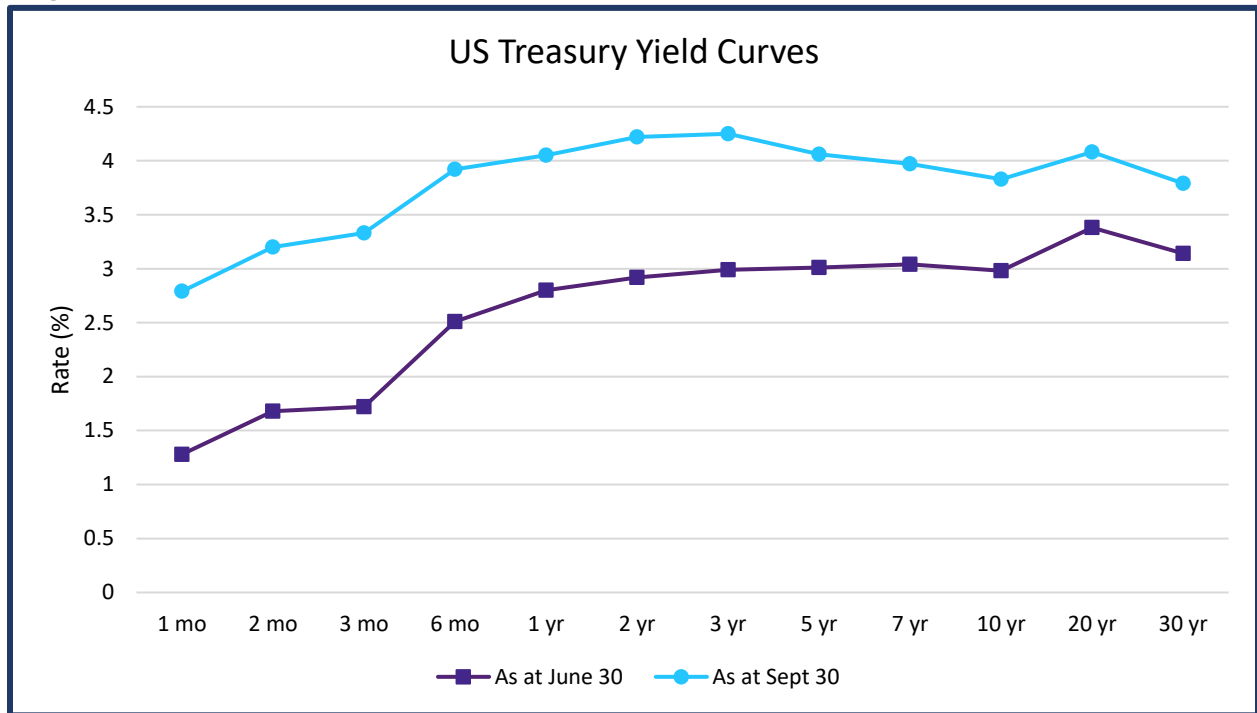
3.2 Global Fixed Income Bonds

The quarter started off with rising bond prices amidst increased growth concerns as the economy showed signs of slowing down. However, as the inflation outlook worsened, central banks kept their hawkish momentum and made it clear that they were determined to continue fighting inflation which led to increased bond yields, resulting in a dramatic fall in prices. The Federal Reserve Bank, the Bank of England and the European Central Bank all increased rates during the quarter despite declining macroeconomic conditions. Despite the rally early in the quarter, persistently high inflation leading to aggressive rate hikes and increased risks of recession has resulted in yet another poorly performing quarter for bonds.

The yields of 10-year government bonds rose drastically from the last quarter as central banks raised interest rates more aggressively. The global bond market suffered great losses with many nations having the highest yields seen in over a decade. The US 10 – year bond yield rose from 2.97% to 3.83%, the UK's increased from 2.24% to 4.13%, Spain's yield moved from 2.28% to 3.29, France's went up from 1.95% to 2.73% and Germany's yield moved up from 1.34% to 2.11%.

The graph below shows the US Treasury yield curve at June 30, 2022 and September 30, 2022. Bonds at all maturities saw major increases in yield with shorter dated bonds continuing to rise faster than longer dated bonds. Consequently, a significant portion of the yield curve spanning the medium to longer-term tenors has become inverted which is usually an indicator of an impending recession.

Graph 2



Corporate bonds also suffered in the current macroeconomic conditions and reported heavy losses over the quarter. Credit spreads widened as investors became more risk averse amid growing fears of an impending recession. According to the Bloomberg Barclays Global Aggregate Corporate Total Return Index, corporate bonds fell from 252.19 to 235.89, a decrease of 6%.

3.3 Global Equities

Equities rallied at the start of the quarter but fell during the last two months after it became clear that central banks intended to keep monetary policy tight to combat persistently high inflation. As a result, stocks and bonds followed similar trends and both reported losses for yet another quarter. The S&P 500 index fell by 5% while the NASDAQ index declined by 4%.

4.0 LOCAL UPDATES

Since 2015, 36 discoveries have been made offshore Guyana. Thirty-two (32) of those discoveries were made at the Stabroek block, 2 at the Orinduik block, 1 at the Kanuku block and 1 at the Corentyne block. Of these, 2 new discoveries were made during the quarter – both in the Stabroek 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 is expected to reach its capacity of 220,000 bpd later this year. 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 2024. 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 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 10 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 this quarter, Guyana received revenue for four lifts of 1-million-barrel (approximate) oil cargoes as its share of profit oil, taking the number received for 2022 to seven. It is expected that revenue from an additional six oil cargoes will be obtained this year resulting in an annual total of thirteen. As at September 30, 2022 Guyana received revenue for sixteen lifts since the inception of the Fund.

5.0 INVESTMENT MANDATE

To date, there has been no investment mandate for the Fund and all petroleum revenues are held as cash deposits in the Natural Resource Fund account. A revised Natural Resource Fund Act was passed in the National Assembly and assented to by the president on December 30, 2021. This revised Act assigns the responsibility for the preparation of the investment mandate to a Board of Directors.

6.0 ACTIVITIES OF THE FUND

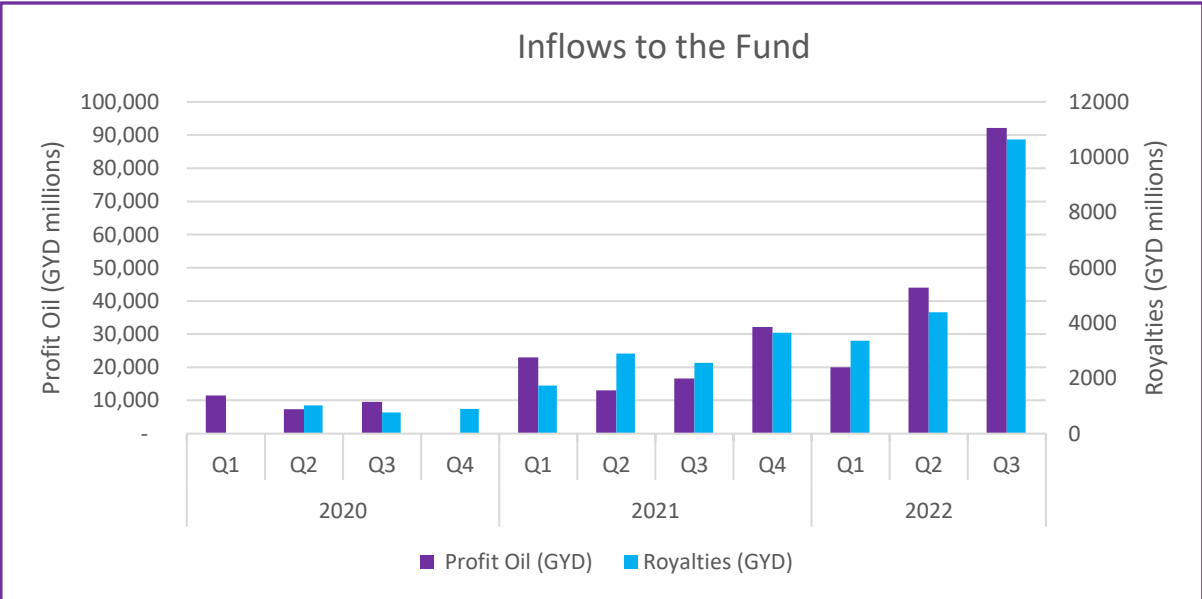
6.1 Receipts to the Fund

During the quarter, inflows to the Fund amounted to G\$102,828.98 million (US\$493.18 million) comprising of profit oil - G\$92,182.82 million (US\$442.12 million) and royalties - G\$10,646.16 million (US\$51.06 million). These funds were deposited into the Natural Resource Fund Account held at the Federal Reserve Bank of New York.

As a result of an additional FPSO being in operation, more lifts were made and hence, more profit oil received compared to previous quarters.

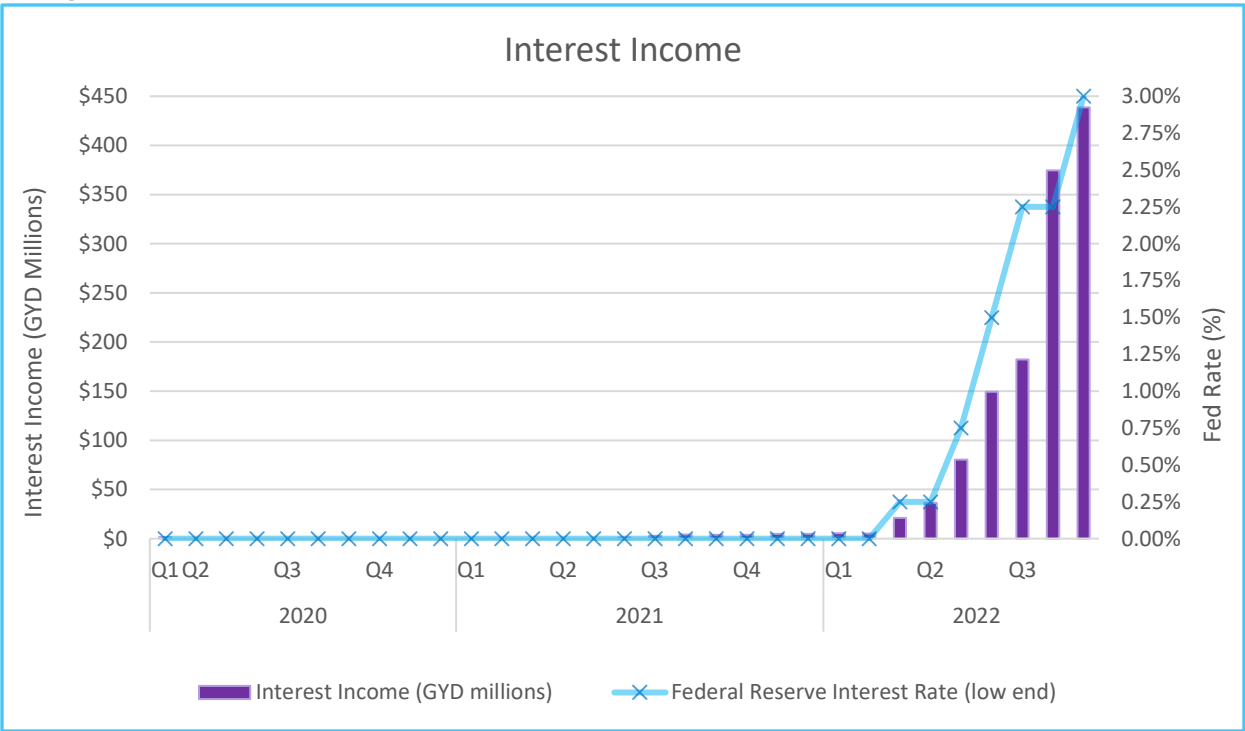
Since its inception, the Fund has received G\$269,329.77 million (US\$1,291.75 million) from 16 lifts of profit oil and G\$31,926.69 million (US\$153.12 million) from royalties (see appendix).

Graph 3



Over the quarter the Federal Reserve increased its target range for the federal funds rate twice moving it from 1.5% - 1.75% to 2.25% - 2.5% and then again to 3% - 3.25%. As a result of these increases which caused interest rates on overnight deposits to rise significantly, and a higher account balance, the Fund continued to earn a higher level of interest income on its overnight deposits than previous quarters. The Fund earned G\$995.75 million (US\$4.78 million) in interest income over the quarter compared to G\$266.04 million (US\$1.28 million) the previous quarter.

Graph 4

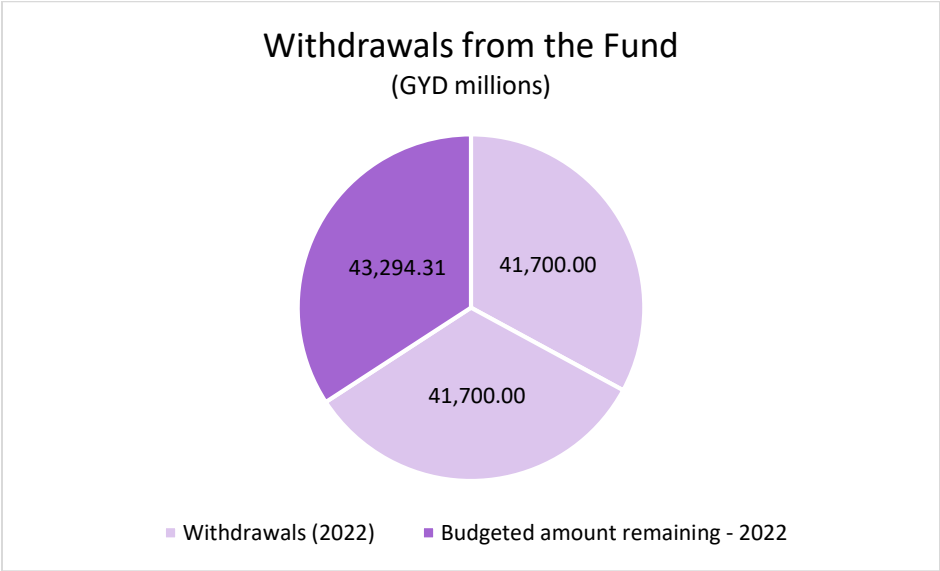


6.2 Transfers to the Consolidated Fund

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). This amount represents 32.91% of the total amount budgeted to be withdrawn in 2022 – G\$126,694.31 million (US\$607.65 million).

In 2022, a total of G\$83,400 million (US\$400 million) has been transferred from the Fund, amounting to 65.83% of the budgeted amount.

Graph 5



7.0 PORTFOLIO PERFORMANCE

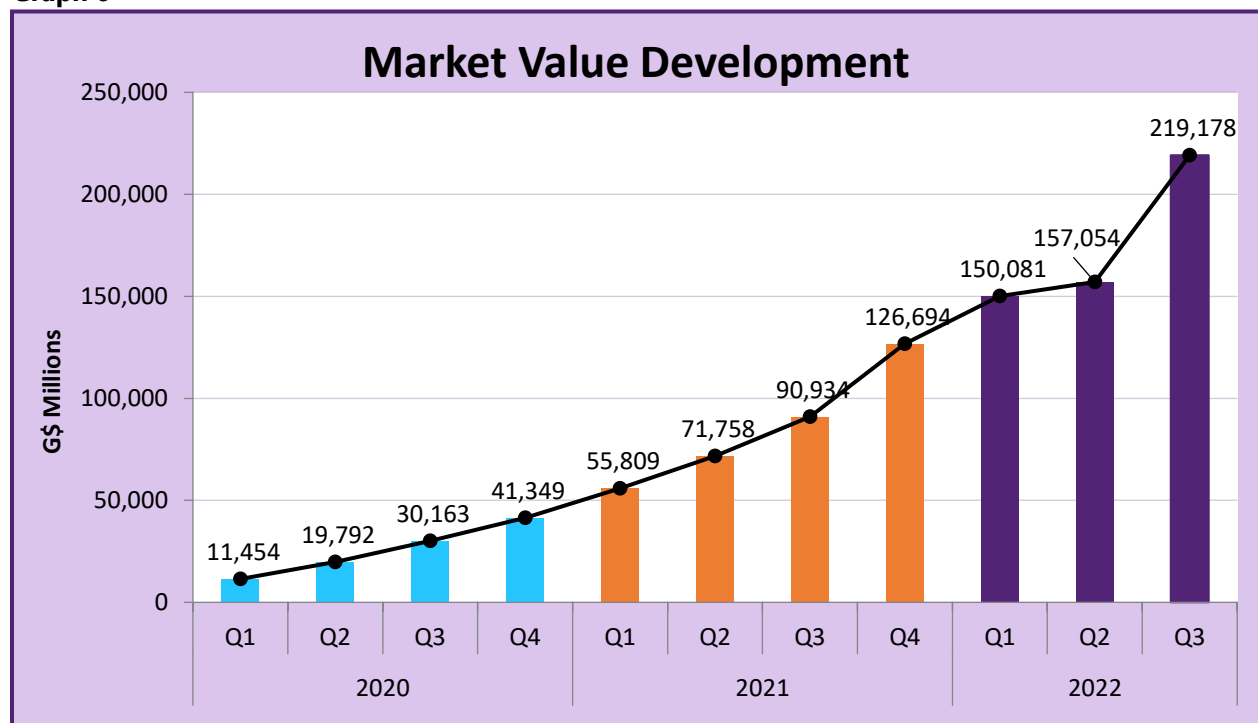
7.1 Market Value of the Fund

The market value of the Fund at September 30, 2022 stood at G\$219,178.29 million (US\$1,051.21 million), an increase of 39.56% (G\$62,124.73 million / US\$297.96 million) from the previous quarter.

Table 1

Changes in Market Value						G\$'000
	2021	2022				Since Inception
	Q4	Q1	Q2	Q3	YTD	
Starting Market Value	90,933,700	126,694,310	150,081,211	157,053,563	126,694,310	0
Inflows	35,746,886	23,355,332	48,406,317	102,828,982	174,590,630	301,256,464
Withdrawals	0	0	-41,700,000	-41,700,000	-83,400,000	-83,400,000
Interest Income	13,724	31,569	266,035	995,746	1,293,351	1,320,834
Capital Gains (Losses)	0	0	0	0	0	993
Admin., management and other costs	0	0	0	0	0	0
Final Market Value	126,694,310	150,081,211	157,053,563	219,178,291	219,178,291	219,178,291

Graph 6



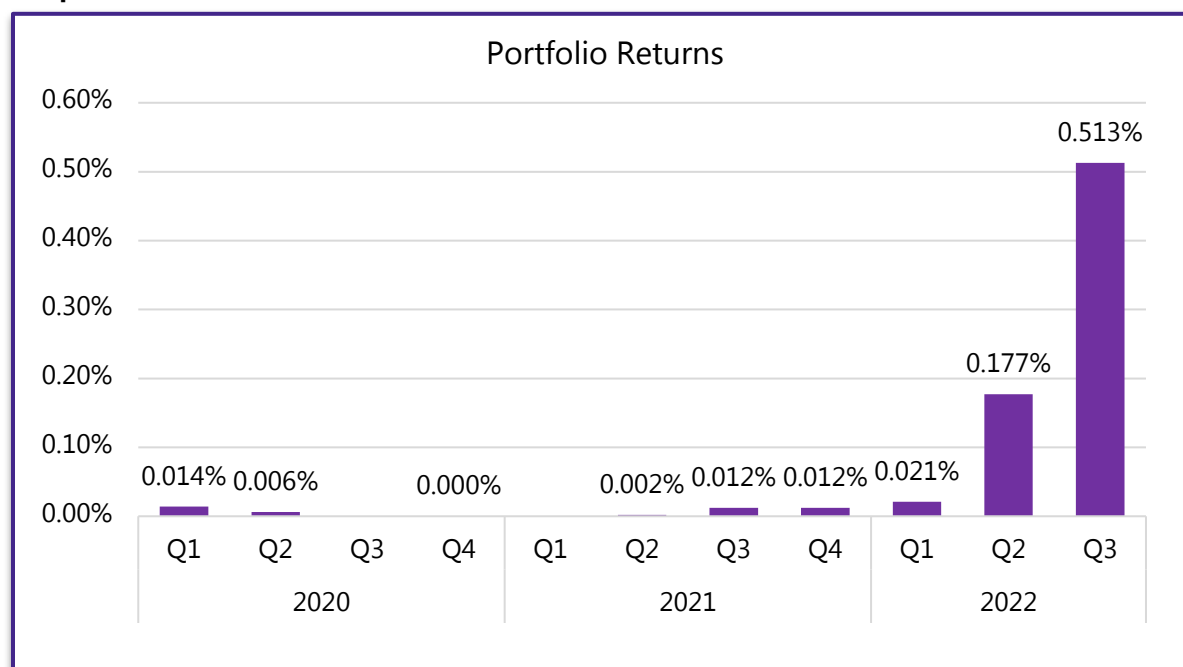
7.2 Performance

The Fund recorded a profit of G\$995.75 million (US\$4.78 million) this quarter solely due to interest earned on deposits. This resulted in a return¹ of 0.513% for the quarter compared with 0.177% in the previous quarter. The fund earned an annualized return of 0.275% since its inception.

Table 2

FUND PORTFOLIO	2021		2022			Since Inception (Annualized)
	Q4	Q1	Q2	Q3	YTD	
Return	0.012%	0.021%	0.177%	0.513%	0.712%	0.275%
Benchmark	-	-	-	-	-	-
Excess	-	-	-	-	-	-

Graph 7



¹ The Fund is not currently tracking an index as funds were not invested in securities as at September 30, 2022

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		Q2 - 2022	Q3 - 2022
Opening Balance at beginning of the period		150,081,211	157,053,563
Inflows to Fund for the quarter:			
	Royalties	4,390,904	10,646,158
	Profit Oil	44,015,413	92,182,824
Outflows from Fund to Consolidated Fund a/c for the quarter		-41,700,000	-41,700,000
Net Result for the quarter		266,035	995,746
Closing Balance at the end of the quarter		157,053,563	219,178,291

Table 4

Assets		G\$'000	
Period		Q2 - 2022	Q3 - 2022
Cash and Cash Equivalents		157,053,563	219,178,291
Other receivables		0	0
Financial Assets held at fair value through profit and loss		0	0
Less:			
Payables		(0)	(0)
Total Net Assets		157,053,563	219,178,291

Table 5

Income	G\$'000	
Period	Q2 - 2022	Q3 - 2022
Interest Income	266,035	995,746
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	266,035	995,746
Expenses		
Management fees	(0)	(0)
Transaction costs	(0)	(0)
Other expenses	(0)	(0)
Total Expenses	(0)	(0)
Net Result for the Quarter	266,035	995,746

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
Total	963,684,018.21	328,065,497.39	153,125,616.37	