

December 31, 2021



Natural Resource Fund
Quarterly Report
October 1 - December 31, 2021

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1.0 INTRODUCTION

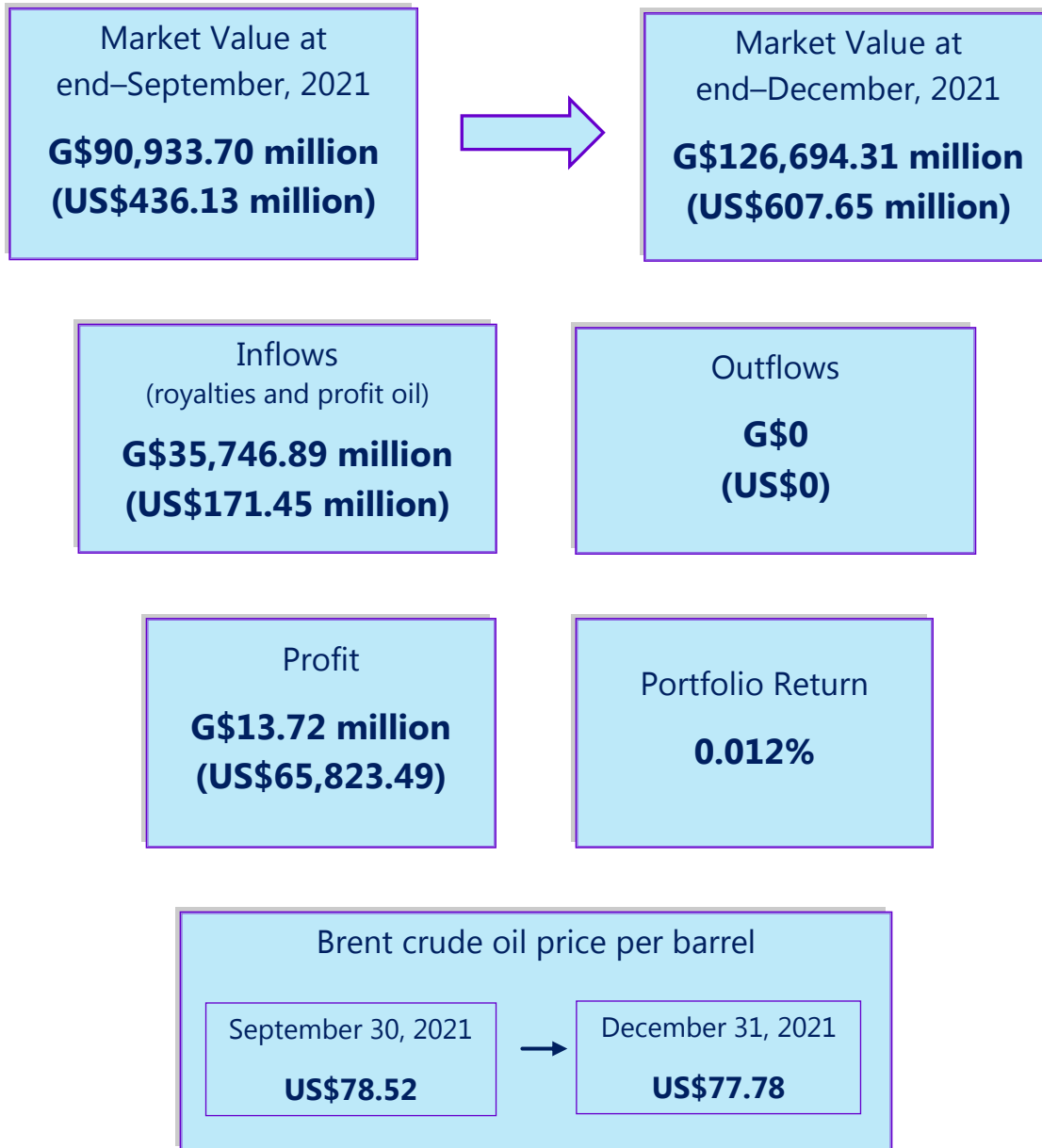
The Natural Resource Fund was formed by the enactment of the Natural Resource Fund Act 2019 which was passed in the National Assembly on January 3, 2019 and assented to by the President on January 23, 2019. This act was subsequently replaced with the Natural Resource Fund Act 2021 which was passed in 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 December 31, 2021 was GYD 208.50 = USD 1.

2.0 EXECUTIVE SUMMARY

This report covers the period October 1, 2021 – December 31, 2021



3.0 MARKET TRENDS DURING THE QUARTER

3.1 Global Market Conditions

The global economy continued its uneven recovery from the effects of COVID-19 throughout the quarter with differences persisting between advanced and emerging market economies. According to the IMF's most recent World Economic Outlook, global growth is forecasted to be 5.9% in 2021 and 4.9% in 2022. Across the globe, concerns arose regarding the state of persons' health, supply chain constraints and rising food and energy prices. Additionally, some sectors were faced with severe labour shortages even as employment continues to recover from the pandemic. Inflation continued to rise to levels not seen in years.

As it relates to the pandemic, a new coronavirus variant – Omicron emerged and began its rapid spread from late November. It has so far proven to be less deadly but risks overwhelming healthcare systems. The risk also remains for new variants to emerge in places where vaccinations are low which can result in continued restrictions on mobility and cross-border travel.

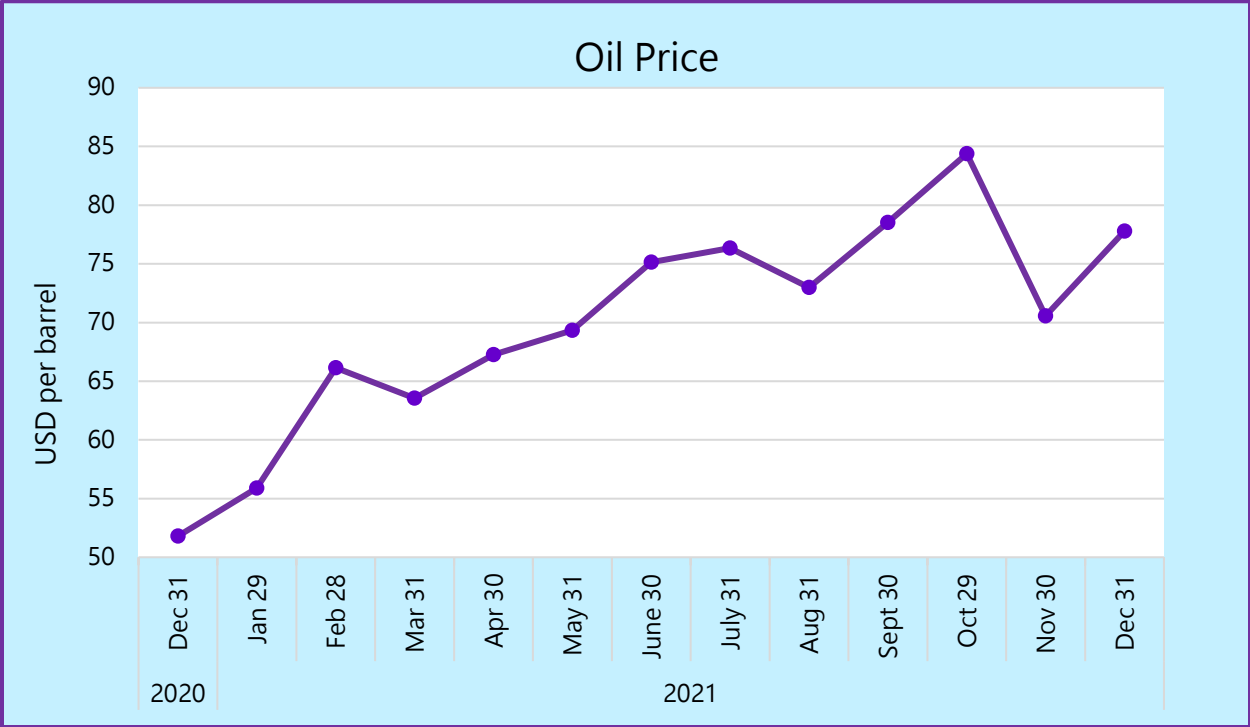
Countries continued to support their economies through fiscal and monetary policies. However, some support measures are being scaled back. In November, the Federal Reserve in the USA began tapering its bond buying program with the intention to complete this by March 2022. The European Central Bank also intend to put an end to its Pandemic Emergency Purchase Program at that time.

The US Federal Reserve maintained the target range for the federal funds rate at 0% - 0.25% with multiple interest rate rises projected to take place in 2022. The European Central Bank also maintained its rate of 0%. Meanwhile, the Bank of England increased its interest rate (for the first time in three and a half years) from 0.1% to 0.25% in order to combat rising inflation.

At the start of the quarter, oil prices remained relatively high, reaching a peak of US\$86.40/bbl. at the end of October. At end-November, after WHO termed Omicron a “variant of concern”, prices crashed due to fears of the variant’s impact on demand, reaching a low of US\$68.87/bbl. at the start of December. Prices subsequently rose before declining once again over renewed fears of lockdowns affecting demand. Prices recovered near the quarter-end finishing at US\$77.78/bbl.

The following graph shows the movement of oil prices from December 2020 to December 2021:

Graph 1



Gold prices fluctuated throughout the quarter. In early November, prices surged reaching a high of US\$1,870.20 per ounce as buyers sought to use gold as a hedge against high inflation amid low interest rates. The price then fell as strong US economic data increased both the US dollar and US Treasury yields and speculation arose about increased rates of tapering and interest rate hikes (which usually result in higher government bond yields, increasing the opportunity cost of holding gold). Additionally,

during the quarter prices rose due to concerns about the impact of the Omicron variant on the global economic recovery with investors preferring gold's safety over riskier assets. Prices were at its lowest in early October at US\$1,755.70 per ounce and ended the quarter at US\$1,828.60 per ounce.

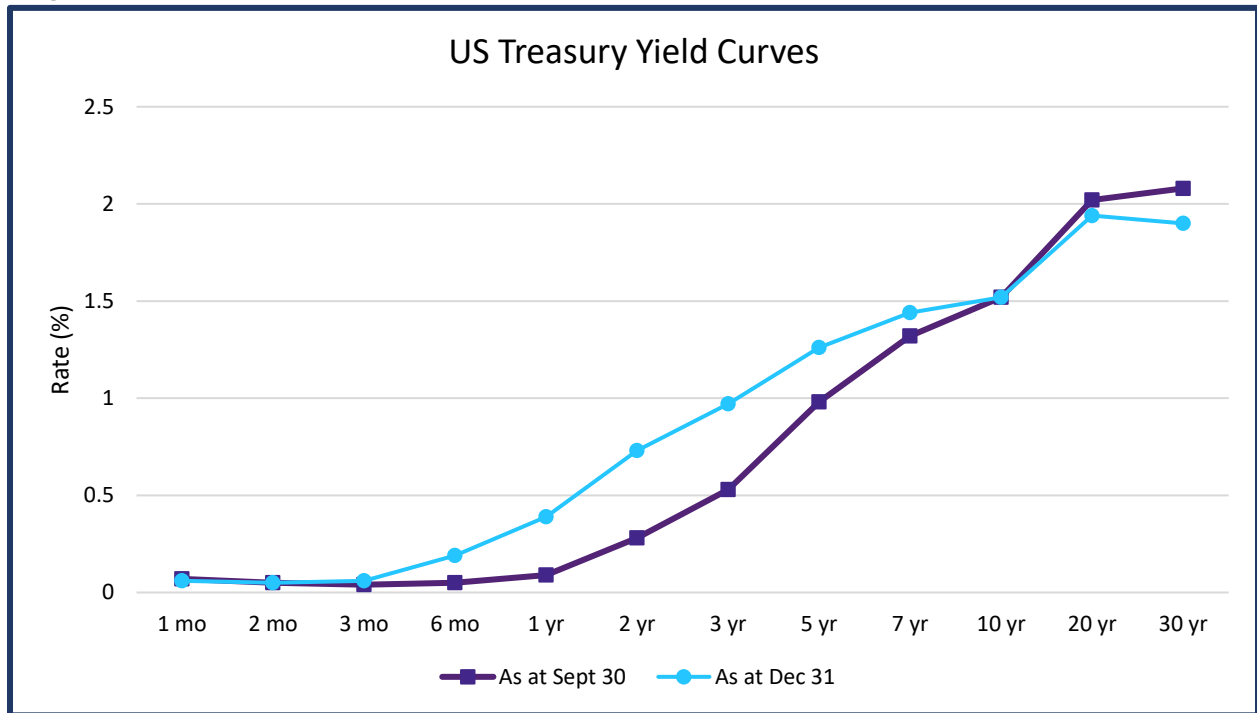
3.2 Global Fixed Income Bonds

The fixed income market continued to show high volatility during the quarter due to a myriad of factors such as the macroeconomic developments, reduction in quantitative easing, monetary policy and the discovery of the new covid-19 variant Omicron. The fear of the new variant resulted in yields for longer maturity bonds falling despite inflation remaining high. Yields for medium-term bonds rose significantly amid the increasingly hawkish stance many central banks took as they headed into the new year. The Federal Reserve announced at its FOMC meeting in December that they will accelerate the rate of tapering and projected making three rate hikes in 2022 which led to an increase in yields of shorter maturity bonds and a general decrease in spreads.

The yields of 10-year government bonds increased generally from the last quarter as central banks tightened monetary policy. However, the market was extremely volatile due to concerns about Omicron and the US 10 – year bond yield remained unchanged at 1.51% while the UK's decreased from 1.03% to 0.97%. On the other hand, Spain's yield rose from 0.46% to 0.57%, France's increased from 0.15% to 0.19% and Germany's yield moved up from -0.21% to -0.18%

The graph below shows the US Treasury yield curve at September 30, 2021 and December, 31 2021. The yields of shorter and medium-term bonds rose as investors actively sold off bonds due to expectations of rising rates in the near future. Even though yields are also rising for long-term bonds, yields had fallen earlier in the quarter amidst fears of how Omicron will impact the market. This has led to a general decrease in yields for longer-dated bonds across the quarter causing spreads to narrow significantly and the yield curve to flatten.

Graph 2



Corporate bonds underperformed government bonds for the quarter. According to the Bloomberg Barclays Global Aggregate Corporate Total Return Index, corporate bonds fell from 299.89 to 298.51, a slight decrease of 0.46%.

3.3 Global Equities

Equities generally rose during the quarter but the discovery of the covid-19 variant Omicron and the news of accelerated tapering led to a sharp downturn in prices. However, by the end of the quarter stocks rose, recovering earlier losses as economic recovery remained strong. The S&P 500 index increased by 10% while the NASDAQ index increased by 8%.

4.0 LOCAL UPDATES

Since 2015, 28 discoveries have been made offshore Guyana. Two of those discoveries were made at the Orinduik block and 1 at the Kanuku block. Over the quarter, 1 new discovery was made within the Stabroek block taking the total to 25, with estimated resources of approximately 10 billion oil-equivalent barrels. The Stabroek Block 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%.

In the Stabroek block, output from the Liza Phase 1 Development which began production in late 2019, reached its peak capacity of 120,000 barrels per day (bpd) in December 2020 while Liza Phase 2 is on track to begin production in early 2022, and is expected to produce up to 220,000 bpd. The government of Guyana on 30th September, 2020 announced their approval of the Payara Offshore Development Project which will target an estimated resource base of approximately 600 million oil-equivalent barrels. Production of up to 220,000 bpd from this block 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 barrels per day. It is projected that by 2027, 6 to 7 projects will be in operation, and Guyana's oil production will increase to more than 1 million bpd by the end of the decade.

According to a study by Wood Mackenzie, the Liza Phase 1 and 2 developments account for about 25% of the resources in the Stabroek block while phase 3, which includes Payara, Pacora and Liza Deep, account for 16%.

As at December 31, 2021 Guyana has lifted nine 1-million-barrel (approximate) oil cargoes of which five were completed in 2021.

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.

The government has publicly disclosed their intentions to let the funds remain untouched in the account until a series of reforms are enacted to strengthen the regulatory infrastructure of the oil and gas sector. Such reforms were enacted on December 29, 2021 when a revised Natural Resource Fund Bill was passed in the National Assembly and assented to by the president on December 30, 2021. Notable amendments to the previous Act include the establishment of a Board of Directors which is responsible for the overall management and monitoring of the fund and the preparation of the Investment Mandate; modifications to the Public Accountability and Oversight Committee; the removal of the Macroeconomic Committee; and modifications to the withdrawal rules.

6.0 ACTIVITIES OF THE FUND

During the quarter, inflows into the Fund amounted to G\$35,746.89 million (US\$171.45 million) comprising of profit oil - G\$32,099.80 million (US\$153.96 million) and royalties - G\$3,647.08 million (US\$17.49 million). 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 received G\$113,130.54 million (US\$542.59 million) from nine lifts of profit oil and G\$13,535.29 million (US\$64.92 million) from royalties.

In March 2020, the target range for the federal funds rate was lowered to 0% - 0.25%. According to an announcement following the June 2021 meeting of the Federal Open Market Committee, this interest rate range remained unchanged while rates on overnight deposits increased to 0.05% effective June 17, 2021. As a result, the Fund was able to earn interest on overnight deposits. The Fund earned G\$13.72 million (US\$65,823.49) in interest income over the quarter.

7.0 PORTFOLIO PERFORMANCE

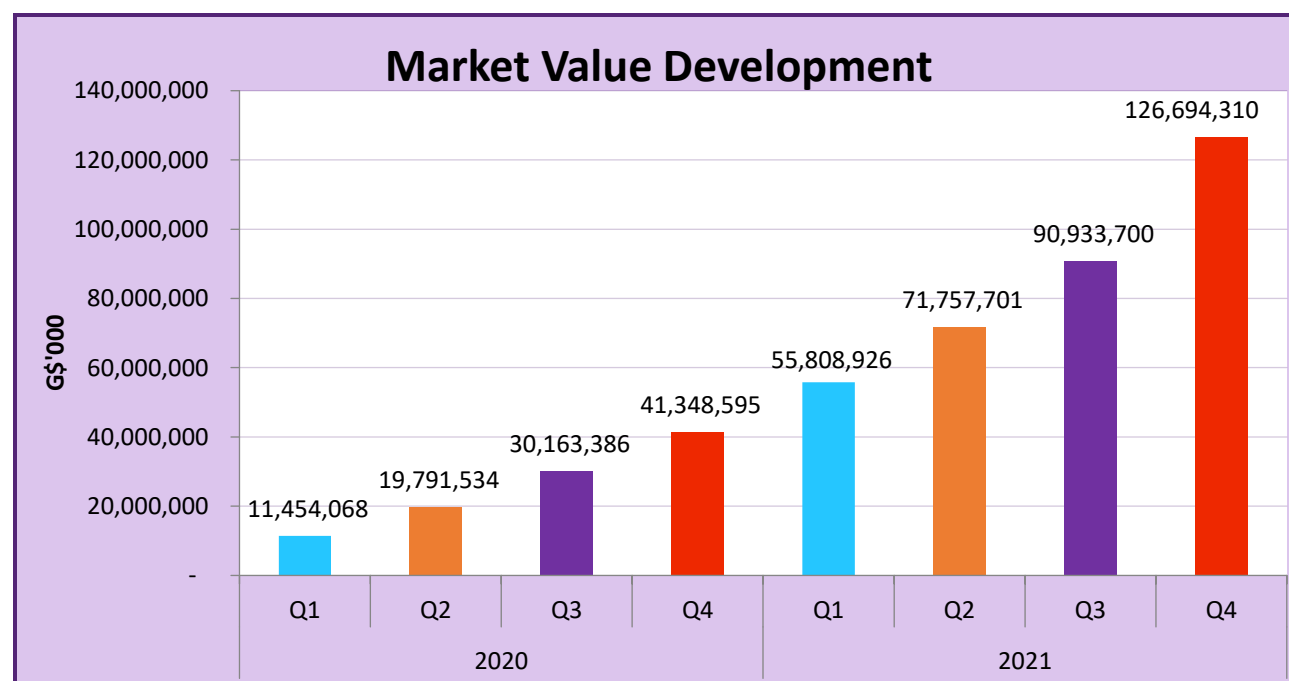
7.1 Market Value of the Fund

The market value of the Fund at December 31, 2021 stood at G\$126,694.31 million (US\$607.65 million), an increase of 39.33% (G\$35,760.61 million / US\$171.52 million) from the previous quarter. The fund's value more than doubled, experiencing a 206.41% (G\$85,345.72 million / US\$409.33 million) increase over the year. This was due mainly to payments received from profit oil and royalties relating to the 5 oil lifts made in 2021.

Table 1

Changes in Market Value						G\$'000
	2021					Since Inception
	Q1	Q2	Q3	Q4	YTD	
Starting Market Value	41,348,595	55,808,926	71,757,701	90,933,700	41,348,595	0
Inflows	14,460,331	15,947,480	19,165,116	35,746,886	85,319,813	126,665,834
Withdrawals	0	0	0	0	0	0
Interest Income	0	1,295	10,883	13,724	25,902	27,483
Capital Gains (Losses)	0	0	0	0	0	993
Admin., management and other costs	0	0	0	0	0	0
Final Market Value	55,808,926	71,757,701	90,933,700	126,694,310	126,694,310	126,694,310

Graph 3



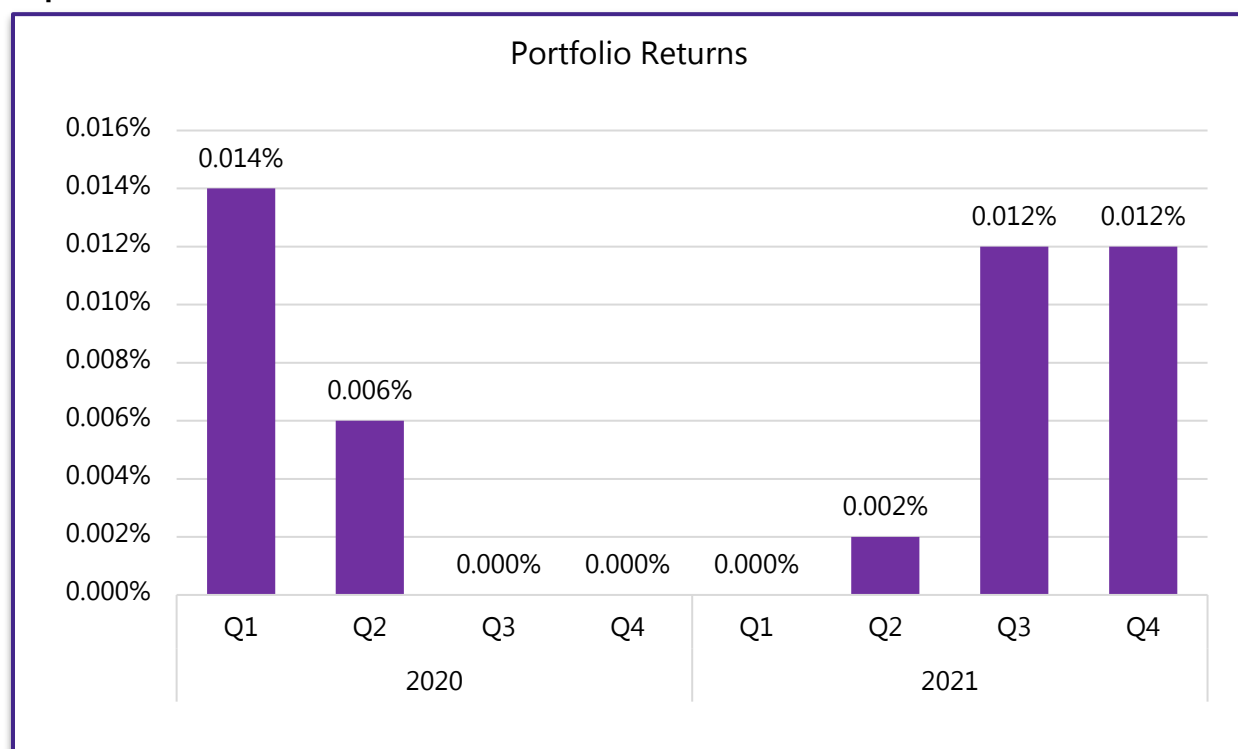
7.2 Performance

The Fund recorded a profit of G\$13.72 million (US\$65,823.49) this quarter solely due to interest earned on deposits as the overnight deposit rate increased by 5 basis points to 0.05% in the latter half of June 2021. This resulted in a return¹ of 0.012% for the quarter – the same as the previous quarter. The fund attained a return of 0.026% in 2021 and an annualized return of 0.023% since its inception.

Table 2

FUND PORTFOLIO	2021					Since Inception (Annualized)
	Q1	Q2	Q3	Q4	YTD	
Return	0.000%	0.002%	0.012%	0.012%	0.026%	0.023%
Benchmark	-	-	-	-	-	-
Excess	-	-	-	-	-	-

Graph 4



¹ The Fund is not currently tracking an index as funds were not invested in securities as at December 31, 2021

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		Q3	Q4
Opening Balance at beginning of the period		71,757,701	90,933,700
Inflows to Fund for the quarter:	Royalties	2,564,855	3,647,083
	Profit Oil	16,600,261	32,099,803
Outflows from Fund to Consolidated Fund a/c for the quarter		(0)	(0)
Net Result for the quarter		10,883	13,724
Closing Balance at the end of the quarter		90,933,700	126,694,310

Table 4

Assets		G\$'000	
Period		Q3	Q4
Cash and Cash Equivalents		90,933,700	126,694,310
Other receivables		0	0
Financial Assets held at fair value through profit and loss		0	0
Less:			
Payables		(0)	(0)
Total Net Assets		90,933,700	126,694,310

Table 5

Income	G\$'000	
Period	Q3	Q4
Interest Income	10,883	13,724
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	10,883	13,724
Expenses		
Management fees	(0)	(0)
Transaction costs	(0)	(0)
Other expenses	(0)	(0)
Total Expenses	(0)	(0)
Net Result for the Quarter	10,883	13,724

9.0 APPENDIX

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

Table 6

Receipts to the Natural Resource Fund			
Date	Profit Oil (USD)	Royalties (USD)	Total Receipts to Date (USD)
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