

June 30, 2021



Natural Resource Fund
Quarterly Report
April 1 - June 30, 2021

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1.0 INTRODUCTION

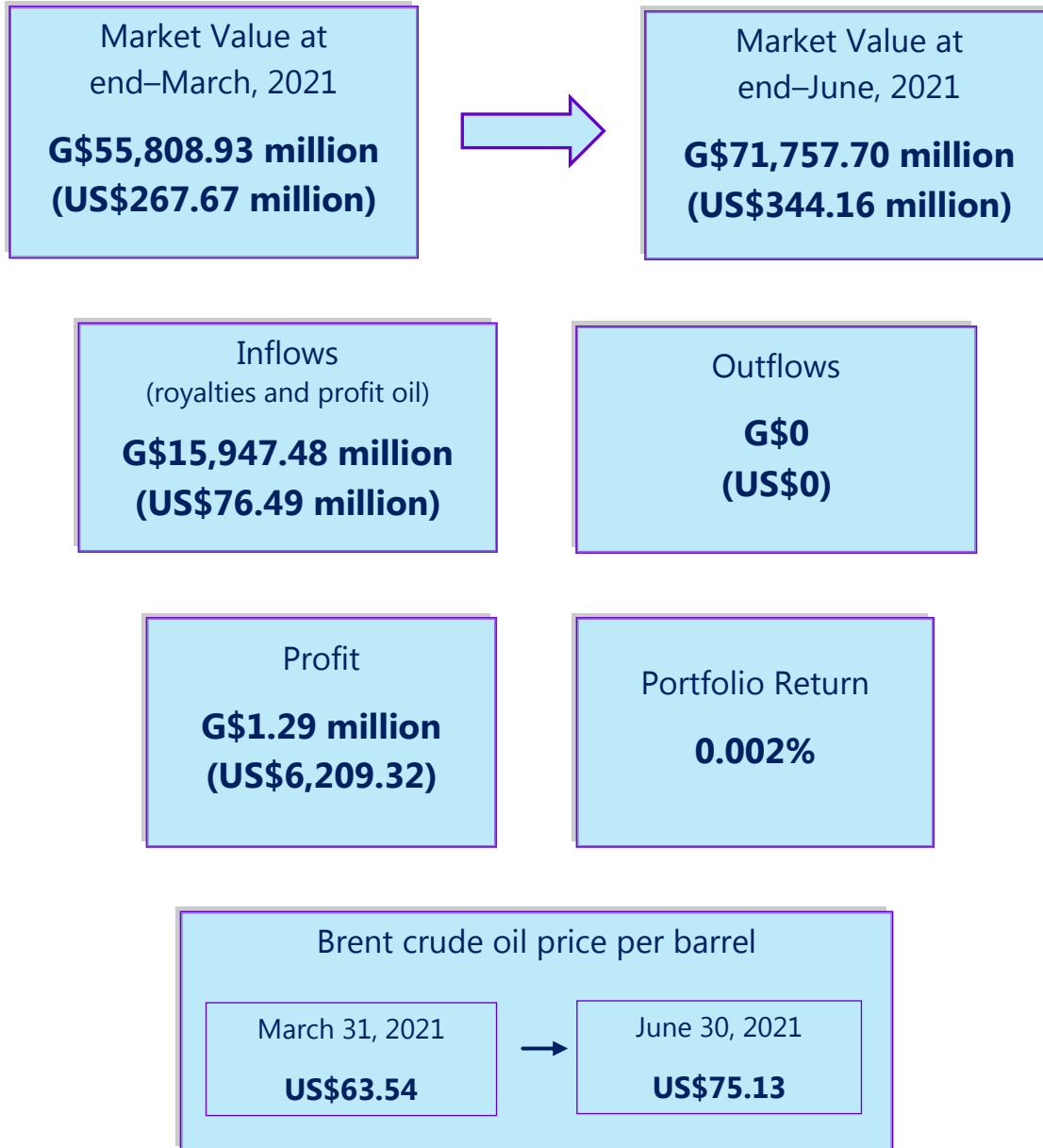
The Natural Resource Fund was formed by the enactment of the Natural Resource Fund Act 2019 which was passed in the National Assembly on January 3, 2019 and assented to by the President on January 23, 2019. The Act gives the Bank of Guyana the responsibility for the operational management of the Fund.

This report is produced in fulfilment of the requirements set out in section 38 (2) of the Natural Resource Fund Act 2019 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, 2021 was GYD 208.50 = USD 1.

2.0 EXECUTIVE SUMMARY

This report covers the period April 1, 2021 – June 30, 2021



3.0 MARKET TRENDS DURING THE QUARTER

3.1 Global Market Conditions

The global economy is on its way to recovery. The World Bank projects global growth of 5.6% in 2021 followed by 4.3% in 2022 – upwards revisions from its previous forecasts and the strongest post-recession pace in decades; while the IMF projects growth of 6% in 2021 and 4% in 2022. Even so, by 2022 global GDP is expected to remain about 2% below pre-pandemic forecasts and growth estimates continue to remain uncertain and subject to downside risks relating to the pandemic. The Caribbean region specifically is expected to grow by 4.7% in 2021 and 6.1% in 2022. However, this global recovery is an uneven one with emerging market and developing economies being left behind and facing challenges relating to COVID-19 including inadequate supplies of vaccines and new waves of infections. More equitable vaccine distribution along with proper debt management is needed in order for these countries to effectively deal with the pandemic and its effects. On the other hand, advanced economies are bouncing back from the pandemic owing to their success with vaccine rollouts and the United States' US\$1 trillion stimulus package which was approved by the US government in March.

Countries continue to maintain accommodating fiscal and monetary policies. In the USA, the Federal Open Market Committee (FOMC) issued a statement in June 2021 which reiterated their position to continue along the lines of accommodating monetary policy and to keep the target range for the federal funds rate at 0% - 0.25%. They indicated that it might be increased to 0.6% by the end of 2023. This is earlier than expected and is as a result of a faster recovery, progress with vaccinations and rising domestic inflation. The Federal Reserve will also continue to increase its holdings of securities in order to sustain the smooth functioning of the market and provide credit to businesses and households. The UK and the EU's central banks also maintained their rates of 0.1% and 0% respectively.

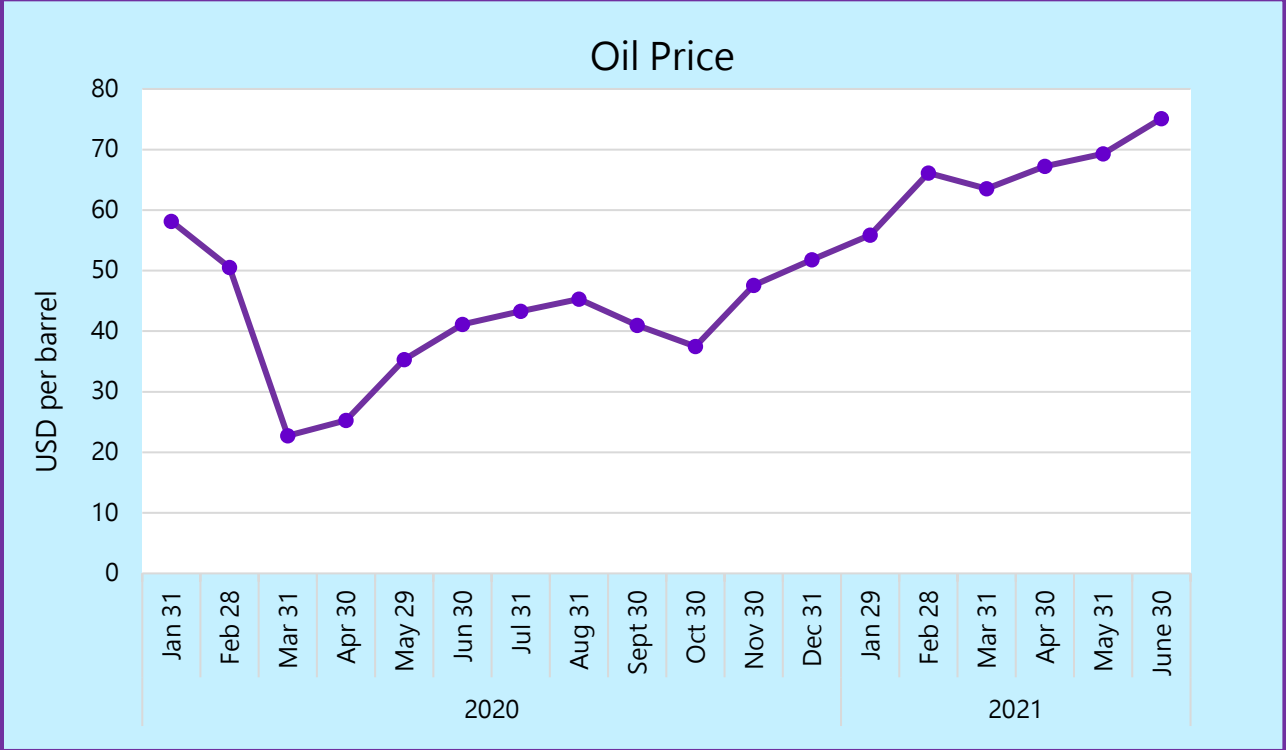
Inflation has risen in most countries due to a rise in oil and other commodity prices, along with supply shortages in some sectors. In some low income countries, rising food

prices are leading to food insecurity and worsening poverty levels. In the US, inflation is at 5% - the highest level since 2008.

Over the quarter, there was a general rise in oil prices, with the price per barrel passing the US\$70 mark in June – the first time since the first half of 2019 – reaching a high of US\$76.18/bbl. This price increase is due to the expectation of growing demand for crude oil and a slower increase of output by OPEC+ producers. However, there are concerns about this demand recovery owing to recent outbreaks of the Delta COVID-19 variant. The quarter opened with a price of US\$63.54/bbl and closed at US\$75.13/bbl.

The following graph shows the movement of oil prices from January 2020 to June 2021.

Graph 1



Over the review period gold prices experienced a steady rise as a result of a weaker dollar and inflationary pressures, reaching a high of US\$1,908.38 in early June. Later in the month, prices fell sharply as higher interest rates made holding gold less attractive. Prices closed the quarter at US\$1,770.11.

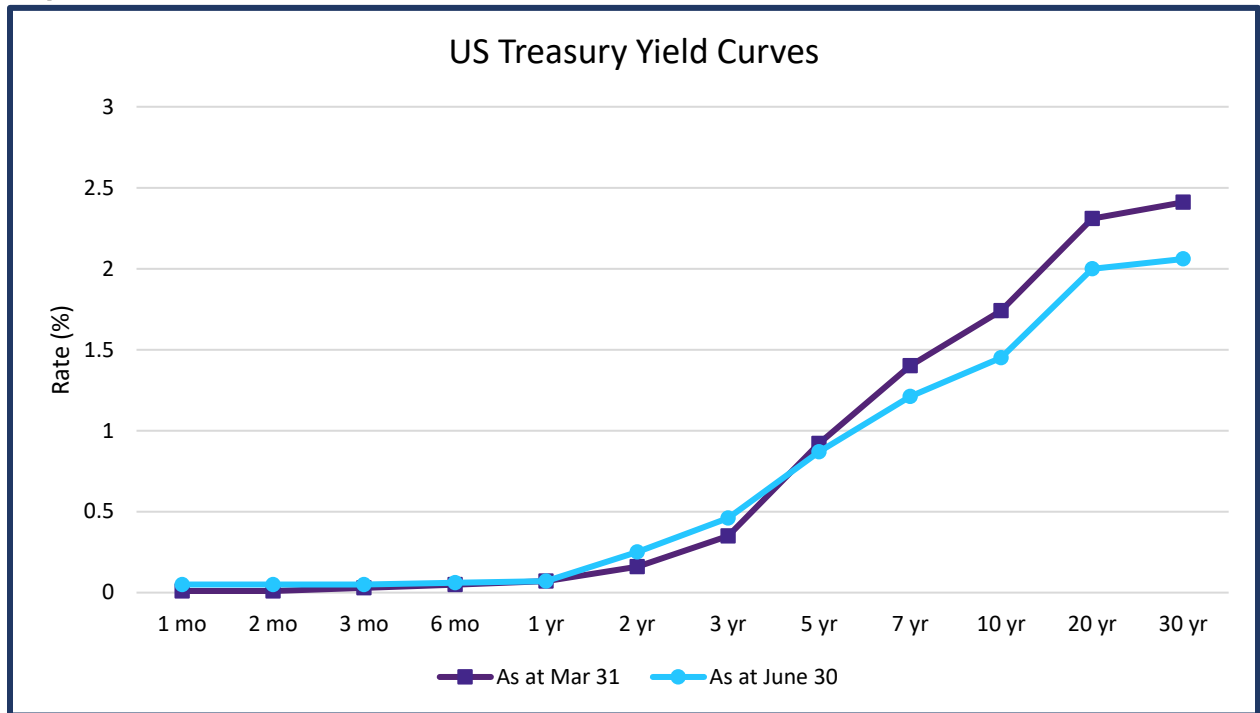
3.2 Global Fixed Income Bonds

The bond yield market was mixed during the quarter as various regions experienced differing economic and market factors. In the US, the bond sell-off halted early in the quarter as the Federal Reserve committed to continue quantitative easing despite economic recovery. This led to a stabilisation of inflation expectations causing a rise in bond prices and a decline in yields. In the Eurozone, the acceleration of the vaccine programme has led to improvements in the economy and rising inflation, resulting in higher bond yields. However, comments from the European Central Bank indicating that it will continue its emergency bond purchases have resulted in yields being on a downward trend towards the end of the quarter.

In the US and UK, 10-year government bond yields decreased this quarter after significantly increasing in the previous quarter due to high inflation expectations. The US 10-year yield fell from 1.74% to 1.48% while the UK's dropped from 0.86% to 0.72%. There was an opposite trend in the Eurozone territories as Germany's 10-year yields slightly increased from -0.29% to -0.21, France's rose from -0.04 to 0.13%, and Spain's moved from 0.33% to 0.42%.

The graph below shows the movement of the US Treasury yield curve from March 31, 2021 to June 30, 2021. Short-term yields mildly increased, while longer-term yields fell as dovish comments from the Federal Reserve put an end to the previous quarter's aggressive bond sell-off, leading to a flattening of the yield curve.

Graph 2



Corporate bonds showed a strong positive return this quarter and continued to outperform government bonds. According to the Bloomberg Barclays Global Aggregate Corporate Total Return Index, corporate bonds rose from 296.68 to 302.18, an increase of 1.85%.

3.3 Global Equities

The continued market recovery and sustained fiscal stimulus kept investors' sentiments high and pushed the equities market to record highs as their rally continued for the fifth consecutive quarter. The S&P 500 index increased by 8% with almost all sectors gaining while the NASDAQ index increased by 9%.

4.0 LOCAL UPDATES

Since 2015, 23 discoveries have been made offshore Guyana. Two of those discoveries were made at the Orinduik block and 1 at the Kanuku block. Two new discoveries have been made this year on the Stabroek block taking the total to 20, with estimated resources of approximately 9 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 barrels per day in 2025, taking Guyana to a production level of over 800,000 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 June 30, 2021 Guyana has lifted six 1-million-barrel oil cargoes. In 2021, it is intended that 5 to 6 lifts will be made with 2 completed so far.

5.0 INVESTMENT MANDATE

To date, there has been no investment mandate for the Fund. A letter from the then 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 Natural Resource Fund account.

The government has publicly disclosed their intentions to let funds remain untouched in the Natural Resource Fund Account until a series of reforms are enacted to strengthen the regulatory infrastructure of the oil and gas sector.

6.0 ACTIVITIES OF THE FUND

During the quarter, inflows into the Fund amounted to G\$15,947.48 million (US\$76.49 million) comprising of profit oil - G\$13,055.77 million (US\$62.62 million) and royalties - G\$2,891.71 million (US\$13.87 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\$64,430.48 million (US\$309.02 million) from six lifts of profit oil and G\$7,323.35 million (US\$35.12 million) from royalties.

In March 2020, the target range for the federal funds rate was lowered to 0% - 0.25%. Following a June 2021 meeting of the FOMC, it was announced that while this interest rate range will remain unchanged, rates on overnight deposits will be increased to 0.05% effective June 17, 2021. As a result, the Fund earned G\$1,294,643 (US\$6,209.32) in interest income during the month of June.

7.0 PORTFOLIO PERFORMANCE

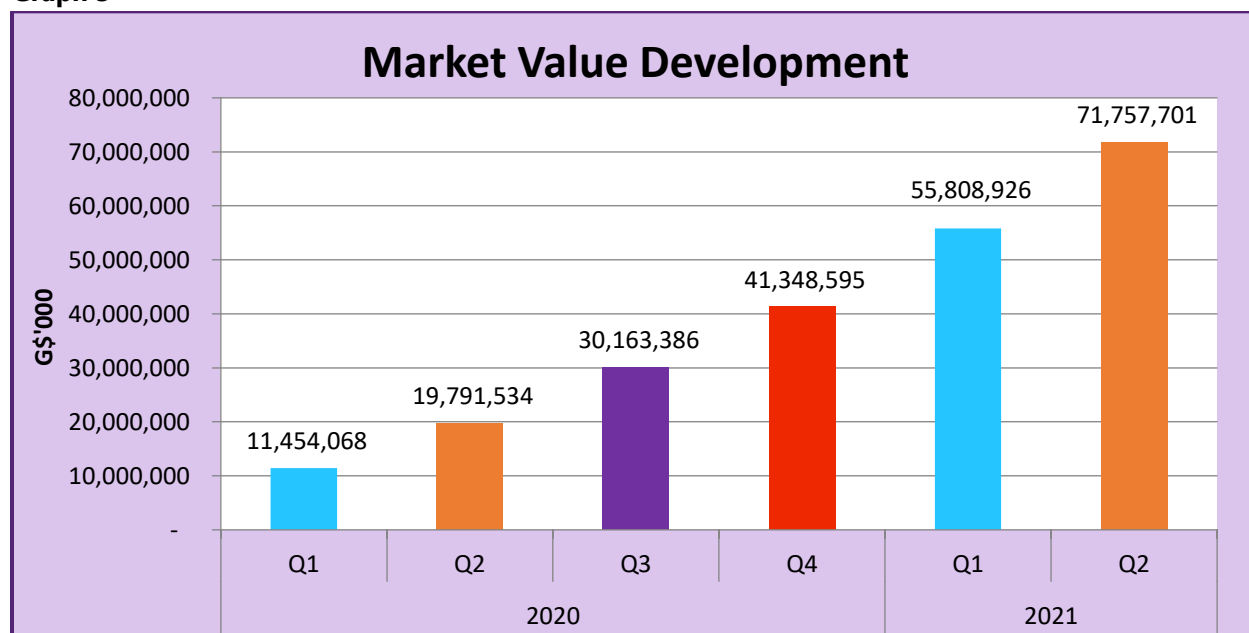
7.1 Market Value of the Fund

The market value of the Fund at June 30, 2021 stood at G\$71,757.70 million (US\$344.16 million), an increase of 28.58% (G\$15,948.77 million / US\$76.49 million) from the previous quarter.

Table 1

Changes in Market Value						G\$'000
	2020		2021			Since Inception
	Q3	Q4	Q1	Q2	YTD	
Starting Market Value	19,791,535	30,163,386	41,348,595	55,808,926	41,348,595	0
Inflows	10,371,851	11,185,209	14,460,331	15,947,480	30,407,811	71,753,832
Withdrawals	0	0	0	0	0	0
Interest Income	0	0	0	1,295	1,295	2,876
Capital Gains (Losses)	0	0	0	0	0	993
Admin., management and other costs	0	0	0	0	0	0
Final Market Value	30,163,386	41,348,595	55,808,926	71,757,701	71,757,701	71,757,701

Graph 3



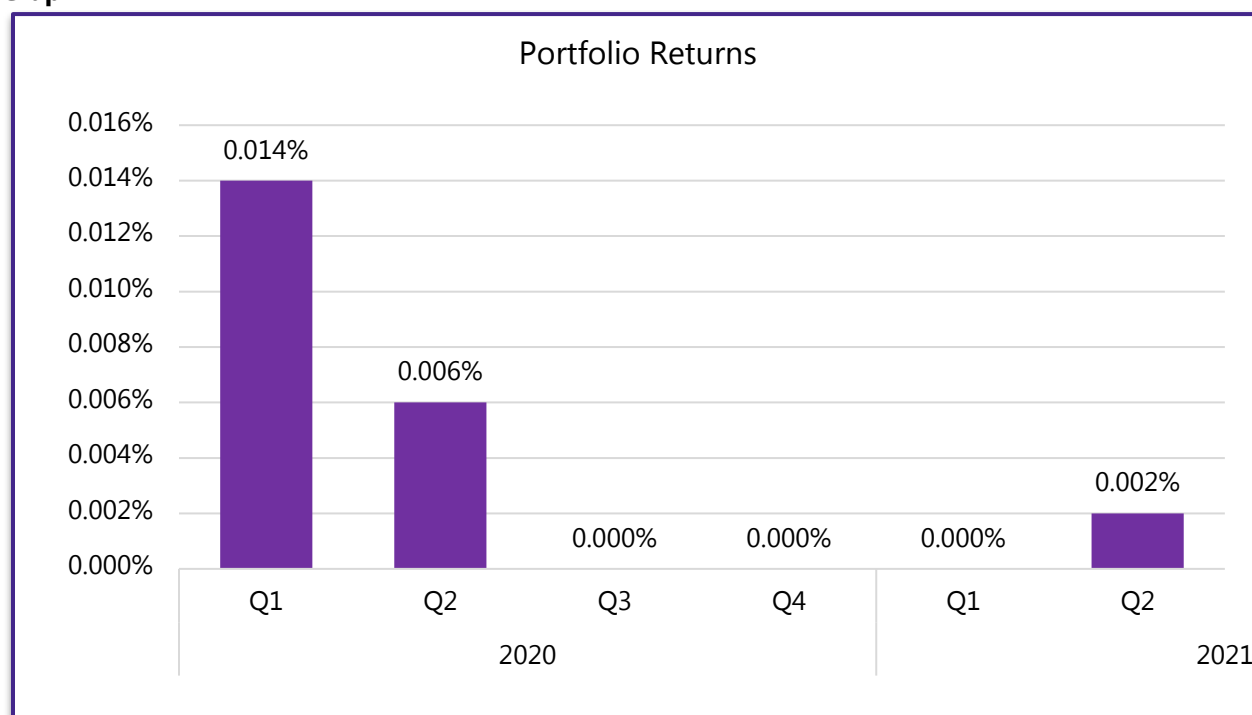
7.2 Performance

The Fund recorded a profit of G\$1.29 million (US\$6,209.32) this quarter solely due to interest earned on deposits as the overnight deposit rate increased by 5bps to 0.05% in the latter half of June 2021. This resulted in a return¹ of 0.002% for the quarter.

Table 2

FUND PORTFOLIO	2020				2021			Since Inception
	Q1	Q2	Q3	Q4	Q1	Q2	YTD	
Return	0.014%	0.006%	0.000%	0.000%	0.000%	0.002%	0.002%	0.022%
Benchmark	-	-	-	-	-	-	-	-
Excess	-	-	-	-	-	-	-	-

Graph 4



¹ The Fund is not currently tracking an index as funds were not invested in securities as at June 30, 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		Q1	Q2
Opening Balance at beginning of the period		41,348,595	55,808,926
Inflows to Fund for the quarter:			
	Royalties	1,737,422	2,891,707
	Profit Oil	12,722,909	13,055,773
Outflows from Fund to Consolidated Fund a/c for the quarter		(0)	(0)
Net Result for the quarter		0	1,295
Closing Balance at the end of the quarter		55,808,926	71,757,701

Table 4

Assets		G\$'000	
Period		Q1	Q2
Cash and Cash Equivalents		55,808,926	71,757,701
Other receivables		0	0
Financial Assets held at fair value through profit and loss		0	0
Less:			
Payables		(0)	(0)
Total Net Assets		55,808,926	71,757,701

Table 5

Income		G\$'000	
Period	Q1	Q2	
Interest Income	0	1,295	
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	0	1,295	
Expenses			
Management fees	(0)	(0)	
Transaction costs	(0)	(0)	
Other expenses	(0)	(0)	
Total Expenses	(0)	(0)	
Net Result for the Quarter	0	1,295	

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