

March 31, 2022



Natural Resource Fund
Quarterly Report
January 1 - March 31, 2022

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1.0 INTRODUCTION

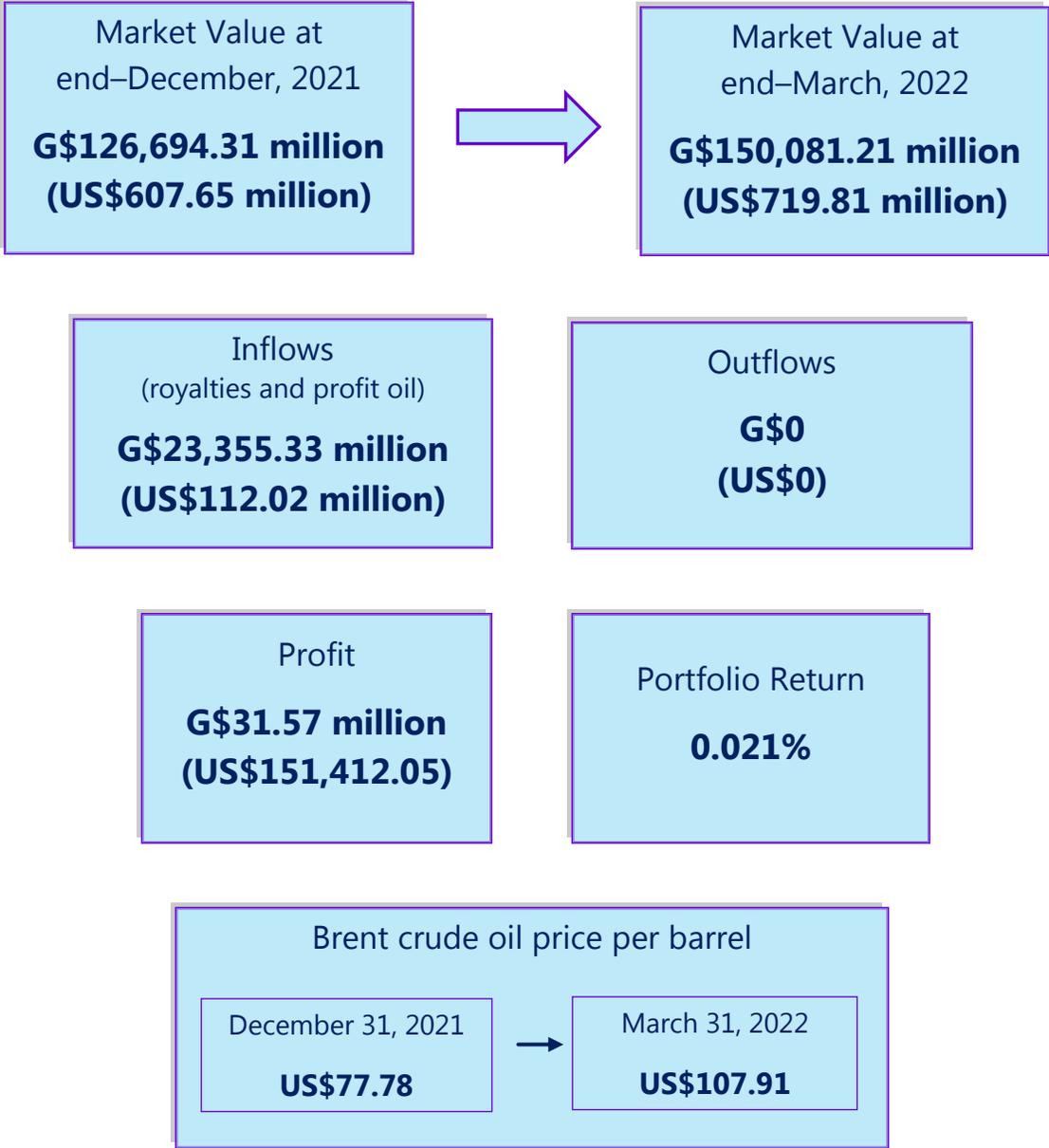
The Natural Resource Fund was formed by the enactment of the Natural Resource Fund Act 2019 which was passed in the National Assembly on January 3, 2019 and assented to by the President on January 23, 2019. This act was subsequently replaced with the Natural Resource Fund Act 2021 which was passed in 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 March 31, 2022 was GYD 208.50 = USD 1.

2.0 EXECUTIVE SUMMARY

This report covers the period January 1, 2022 – March 31, 2022



3.0 MARKET TRENDS DURING THE QUARTER

3.1 Global Market Conditions

According to the IMF's most recent World Economic Outlook published in January 2022, global growth is forecasted to be 4.4% in 2022 - down from 5.9% in 2021. During the quarter under review, global markets experienced unexpected shocks as a result of the Russia-Ukraine war, worsening pre-existing problems caused by the pandemic such as supply chain disruptions and high levels of inflation. Food and energy prices were particularly negatively hit, with food security being threatened in many parts of the world.

In relation to COVID-19, the pandemic continued to affect the global economy having been in existence for over 2 years. At the beginning of the quarter, the newer Omicron variant of COVID-19 spread rapidly within countries and around the world resulting in renewed mobility restrictions and labour shortages in some countries. However, this variant happened to be less severe and had a lower impact on economies than previous variants. Closer to the end of the quarter, countries in many parts of the world began to reopen and ease restrictions. On the other hand, the Asia-Pacific region experienced a surge in infections.

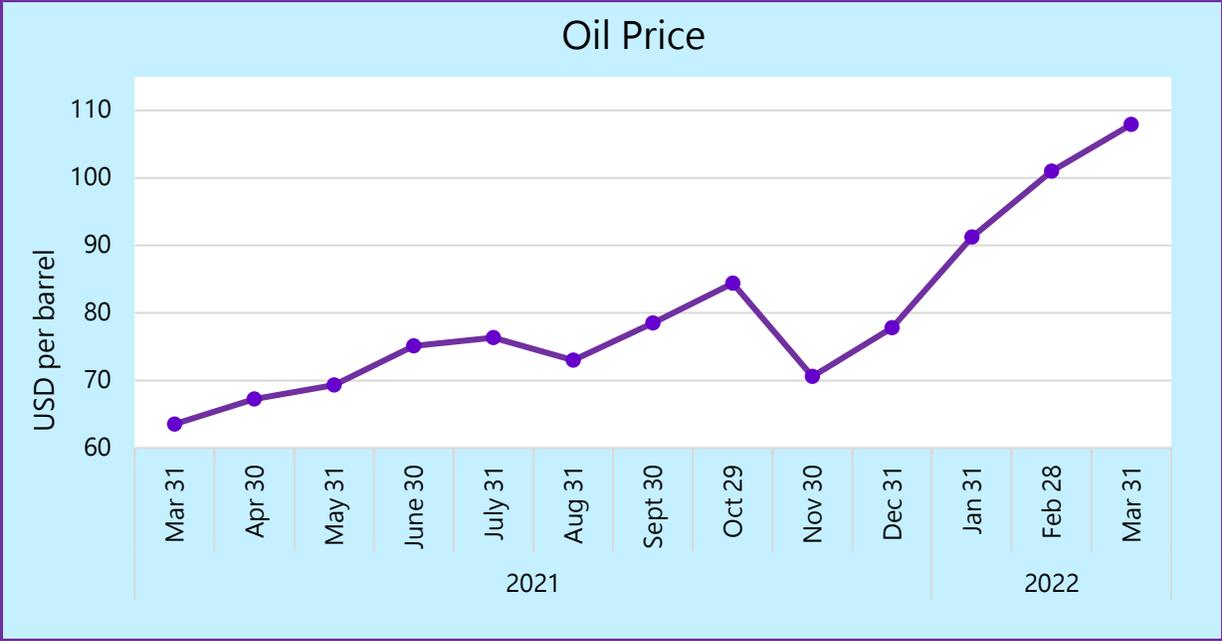
The US Federal Reserve increased the target range for the federal funds rate for the first time since 2018, from 0% - 0.25% to 0.25% - 0.50% with six more increases expected in 2022. During the quarter, the Bank of England raised its interest rate twice, taking it to 0.75%. These measures were taken predominantly to tackle high inflation. The European Central Bank maintained its rate of 0%. Additionally, the Federal Reserve ended its US\$6 trillion quantitative easing program which began in March 2020 and the ECB discontinued its pandemic emergency purchase programme (PEPP) as at the end of March 2022.

Oil prices rose significantly during the quarter, increasing from its opening low of US\$77.78/bbl. to US\$107.91/bbl. as at March 31, 2022. At the beginning of the quarter,

prices rose as increased demand caused by the reopening of economies was met with limited supply. Then in late February, prices surged in response to Russia’s invasion of Ukraine - crossing the \$100 mark for the first time since 2014. It surged again in early March - reaching a high of US\$127.98/bbl. - as a reaction to supply disruptions and the placement of a ban on Russian oil and gas by the US. The UK indicated that it plans to phase out the import of Russian oil and oil products by the end of 2022. At the end of the quarter, the US announced plans to release 1 million barrels of oil per day from its reserves to help lower prices and combat inflation.

The following graph shows the movement of oil prices from March 2021 to March 2022:

Graph 1



Gold started the quarter at US\$1,828.60 per ounce. At the end of January, fluctuating prices declined, reaching a low of US\$1,785.92 per ounce. This occurred after the Federal Reserve confirmed its plans to end its bond purchases and to raise interest rates in March and as rate hike expectations appreciated the US dollar, making gold more expensive for overseas buyers. This price decline however, was short-lived as inflation concerns and geopolitical tensions increased demand for gold which is viewed as a safe haven asset. The Russia-Ukraine war resulted in increased prices for food, energy and

metals, feeding inflationary pressures and sustaining high gold prices. Even higher interest rates did not have a major impact in the face these pressures. Gold rose to its highest level since August 2020 reaching US\$2,050.76 per ounce in early March and remained elevated, ending the quarter at US\$1,953.04 per ounce.

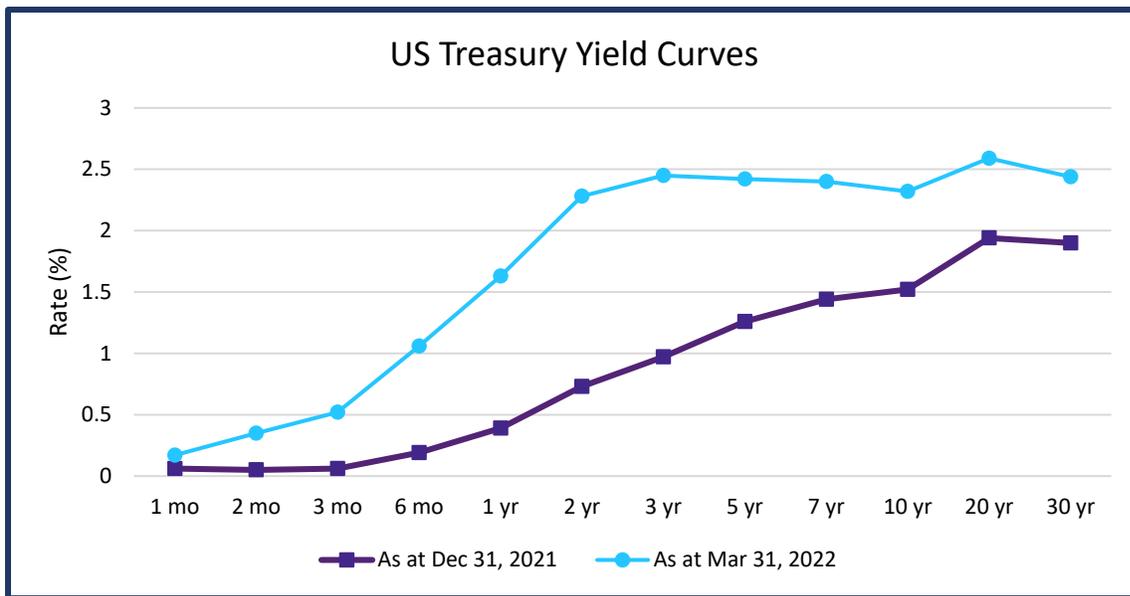
3.2 Global Fixed Income Bonds

The increasingly hawkish tone of various central banks around the world and the Russian invasion of Ukraine shocked the fixed income market during the first quarter of 2022. This led to one of the worst quarters for bonds as yields spiked and prices plummeted, especially in the short – medium terms. The ICE Bank of America US Treasury Index returned -5.6% for Q1 which is the biggest recorded quarterly decline. As the Federal Reserve implemented its first of multiple planned rate hikes in March, the yields of medium term bonds skyrocketed causing an inversion in the medium – long term portion of the yield curve. Market commentators' usually view this development as a signifier of a coming recession.

The yields of 10–year government bonds greatly increased from the last quarter as central banks started to increase interest rates. The US 10 – year bond yield rose from 1.51% to 2.32%, the UK's increased from 0.97% to 1.61%, Spain's yield moved from 0.57% to 1.45%, France's accelerated from 0.19% to 0.98% and Germany's yield moved up from -0.18% to 0.55%.

The graph below shows the US Treasury yield curve at December 31, 2021 and March 31, 2022. Bond yields at all maturities saw significant increases as central banks became even more hawkish and started to raise interest rates. The yields of medium–term bonds were especially sensitive to the increase in rates and rose above long–term bonds resulting in the longer-term end of the curve being inverted.

Graph 2



Investors seemed more risk averse amidst the rising interest rates and geopolitical tensions. Corporate bonds saw negative returns this quarter and underperformed government bonds. According to the Bloomberg Barclays Global Aggregate Corporate Total Return Index, corporate bonds fell from 298.51 to 273.23, a decrease of 8%.

3.3 Global Equities

Growing geopolitical tensions between Russia and Ukraine followed by the eventual invasion of the latter, also negatively affected the equities market causing stock prices to fall during the quarter. The slew of sanctions placed on Russia impacted the global market and led to increased volatility. The S&P 500 index decreased by 5% while the NASDAQ index decreased by 9%.

4.0 LOCAL UPDATES

Since 2015, 31 discoveries have been made offshore Guyana. Twenty-seven (27) 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 discoveries, 1 (its first) was made in the Corentyne block and 2 new discoveries were made within the Stabroek block during the quarter.

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 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 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%.

As at March 31, 2022 Guyana received revenue for ten lifts of 1-million-barrel (approximate) oil cargoes as its share of profit oil with one being received this quarter. It is expected that revenue from an additional 12 oil cargoes will be received in 2022.

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

During the quarter, inflows into the Fund amounted to G\$23,355.33 million (US\$112.02 million) comprising of profit oil - G\$20,000.99 million (US\$95.93 million) and royalties - G\$3,354.34 million (US\$16.09 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\$133,131.54 million (US\$638.52 million) from ten lifts of profit oil and G\$16,889.63 million (US\$81.01 million) from royalties (see appendix).

In March 2022, the Federal Reserve increased its target range for the federal funds rate from 0% - 0.25% to 0.25% -0.5%. As a result, the interest rate on overnight deposits was increased, and the Fund was able to earn a higher level of interest income on its overnight deposits. The Fund earned G\$31.57 million (US\$151,412.05) in interest income over the quarter compared to G\$13.72 million (US\$65,823.49) the previous quarter.

7.0 PORTFOLIO PERFORMANCE

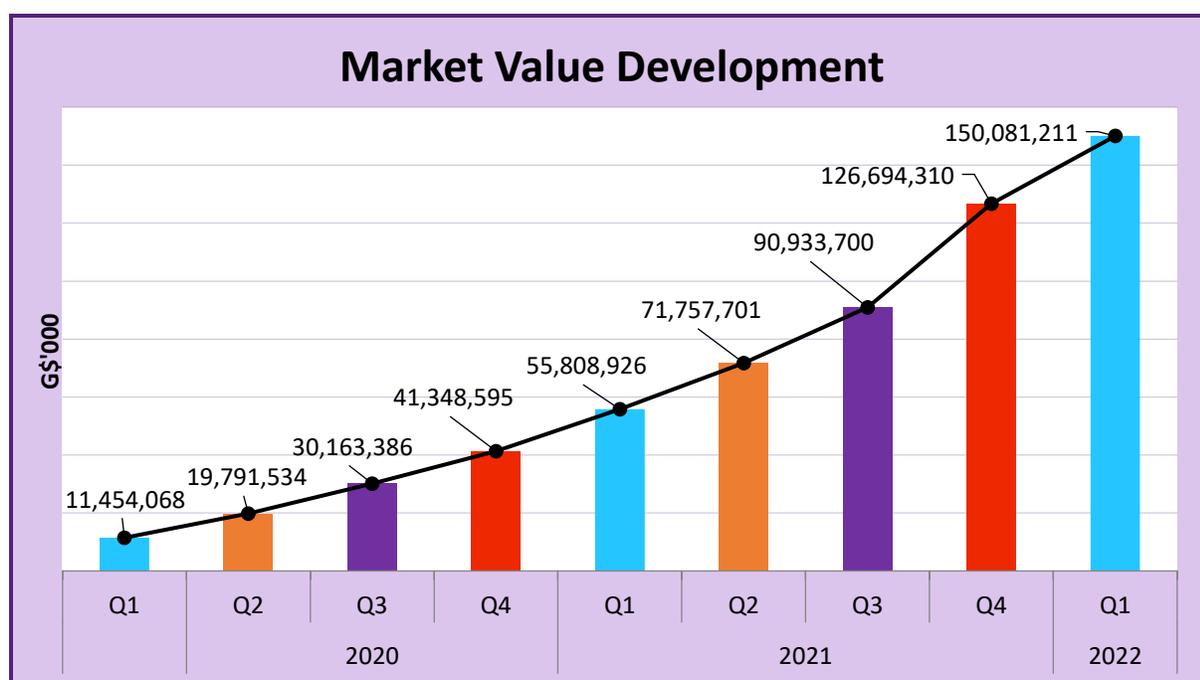
7.1 Market Value of the Fund

The market value of the Fund at March 31, 2022 stood at G\$150,081.21 million (US\$719.81 million), an increase of 18.46% (G\$23,386.90 million / US\$112.17 million) from the previous quarter.

Table 1

Changes in Market Value						G\$'000
	2021			2022		Since Inception
	Q2	Q3	Q4	Q1	YTD	
Starting Market Value	55,808,926	71,757,701	90,933,700	126,694,310	126,694,310	0
Inflows	15,947,480	19,165,116	35,746,886	23,355,332	23,355,332	150,021,166
Withdrawals	0	0	0	0	0	0
Interest Income	1,295	10,883	13,724	31,569	31,569	59,052
Capital Gains (Losses)	0	0	0	0	0	993
Admin., management and other costs	0	0	0	0	0	0
Final Market Value	71,757,701	90,933,700	126,694,310	150,081,211	150,081,211	150,081,211

Graph 3



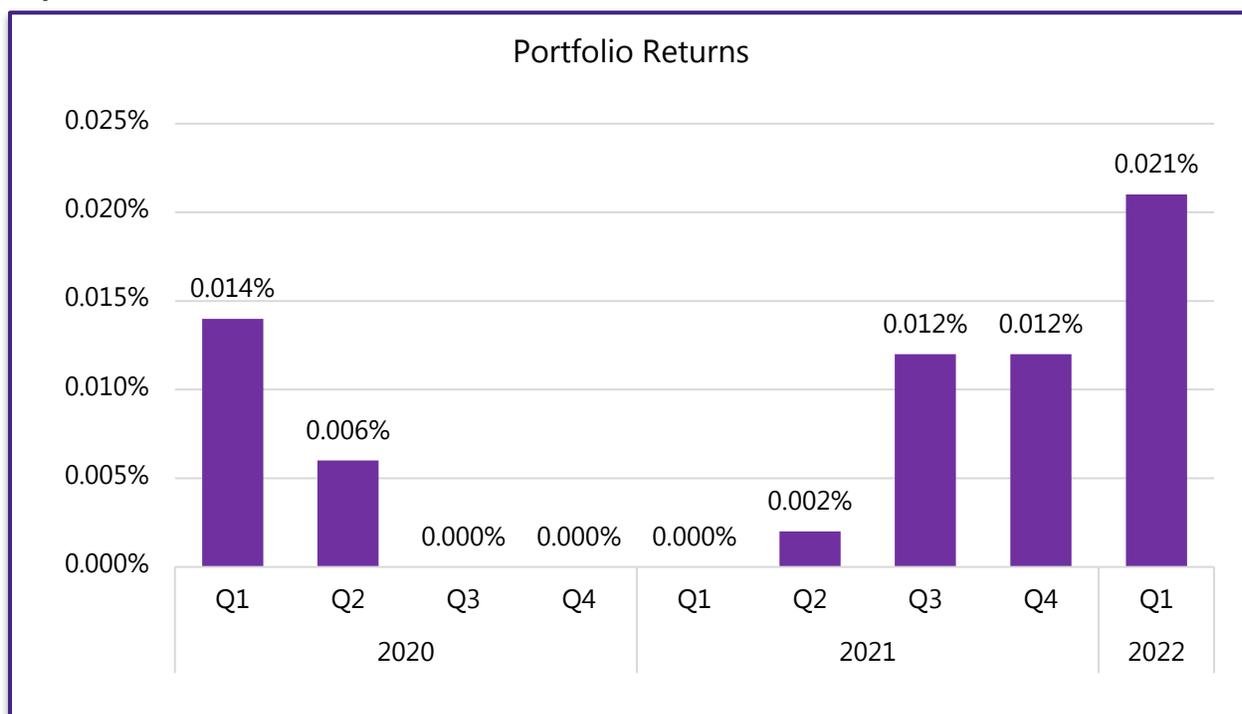
7.2 Performance

The Fund recorded a profit of G\$31.57 million (US\$151,412.05) this quarter solely due to interest earned on deposits. This resulted in a return¹ of 0.021% for the quarter compared with 0.012% in the previous quarter. The fund earned an annualized return of 0.030% since its inception.

Table 2

FUND PORTFOLIO	2021			2022		Since Inception (Annualized)
	Q2	Q3	Q4	Q1	YTD	
Return	0.002%	0.012%	0.012%	0.021%	0.021%	0.030%
Benchmark	-	-	-		-	-
Excess	-	-	-		-	-

Graph 4



¹ The Fund is not currently tracking an index as funds were not invested in securities as at March 31, 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		Q4 - 2021	Q1 - 2022
Opening Balance at beginning of the period		90,933,700	126,694,310
Inflows to Fund for the quarter:			
	Royalties	3,647,083	3,354,340
	Profit Oil	32,099,803	20,000,992
Outflows from Fund to Consolidated Fund a/c for the quarter		(0)	(0)
Net Result for the quarter		13,724	31,569
Closing Balance at the end of the quarter		126,694,310	150,081,211

Table 4

Assets		G\$'000	
Period		Q4 - 2021	Q1 - 2022
Cash and Cash Equivalents		126,694,310	150,081,211
Other receivables		0	0
Financial Assets held at fair value through profit and loss		0	0
Less:			
Payables		(0)	(0)
Total Net Assets		126,694,310	150,081,211

Table 5

Income		G\$'000	
Period	Q4- 2021	Q1 - 2022	
Interest Income	13,724	31,569	
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	13,724	31,569	
Expenses			
Management fees	(0)	(0)	
Transaction costs	(0)	(0)	
Other expenses	(0)	(0)	
Total Expenses	(0)	(0)	
Net Result for the Quarter	13,724	31,569	

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
27-Jan-2022		16,087,959.27	623,597,954.59
28-Feb-2022	95,928,020.91		719,525,975.50