

March 31, 2023



Natural Resource Fund  
Quarterly Report  
January 1 – March 31, 2023

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## **1.0 INTRODUCTION**

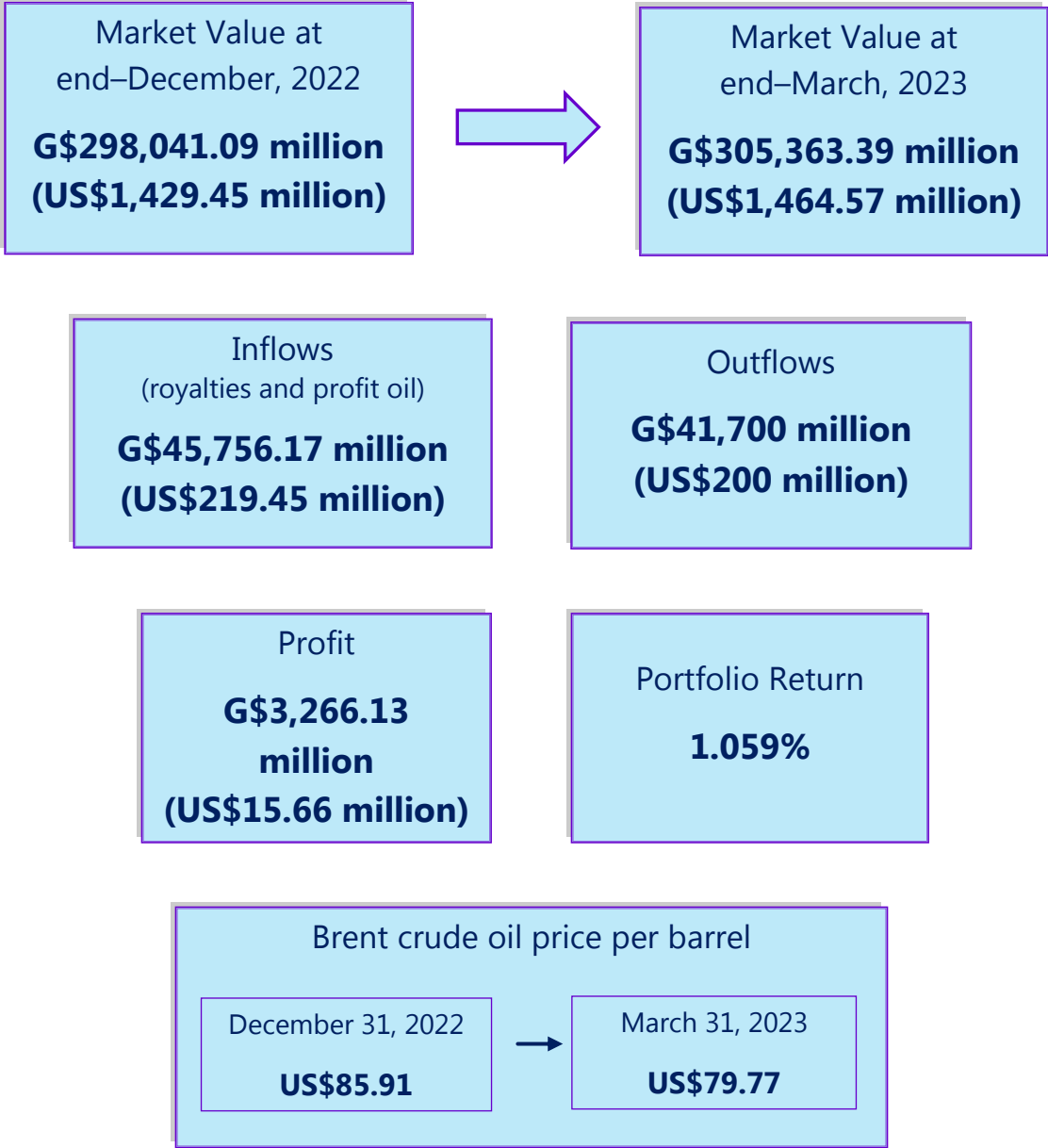
The Natural Resource Fund was formed by the enactment of the Natural Resource Fund Act 2019 which was passed in the National Assembly on January 3, 2019 and assented to by the President on January 23, 2019. This act was subsequently replaced with the Natural Resource Fund Act 2021 which was passed in 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 March 31, 2023 was GYD 208.50 = USD 1.

## 2.0 EXECUTIVE SUMMARY

This report covers the period January 1, 2023 – March 31, 2023



## **3.0 MARKET TRENDS DURING THE QUARTER**

### **3.1 Global Market Conditions**

The World Bank projects global growth for 2023 at 1.7%, while the IMF projects global growth for the year to slow to a revised 2.8%, both down from growth levels of 2.9% and 3.4% estimated respectively for 2022. Growth in advanced economies is expected to slow to 1.3% in 2023, whereas emerging market and developing economies are projected to experience a slightly lower growth of 3.9% compared to the 4% reported for 2022 - IMF's revised growth rates. Throughout the quarter, global growth continued to be hampered by supply shortages caused by the ongoing Russia-Ukraine war, the emergence of a potential banking crisis and elevated inflation levels paired with a potential continuous hawkish monetary policy stance from global central banks.

The IMF projects global inflation to fall from 8.8% in 2022 to 6.6% in 2023, still above pre-pandemic levels of about 3.5%. The Chinese economy, a potential growth driver for 2023, is projected to grow by 5.2% in 2023 compared to 3% for 2022, as the country eased its COVID-19 restrictions and re-opened its borders during December 2022. It has been more than a year since Russia invaded Ukraine and supply chain disruptions have continued to adversely affect global economies with high food and energy prices increasing the cost of living and poverty levels globally. The collective hawkish stance of global central banks towards interest rates to combat inflation coupled with the emergence of a potential banking crisis amidst recessionary concerns are all headwinds to the global economy.

During March 2023, three US banks – Silvergate Bank, Signature Bank, and Silicon Valley Bank, collapsed, while the European Bank - Credit Suisse faced financial difficulties. The collapse of Silicon Valley Bank is being regarded as the second largest banking failure in the United States since the 2008 financial crisis. Additionally, Switzerland's largest bank – UBS, has agreed to buy its smaller rival - Credit Suisse, in a deal brokered by the Swiss government, aimed at alleviating a broader financial crisis.

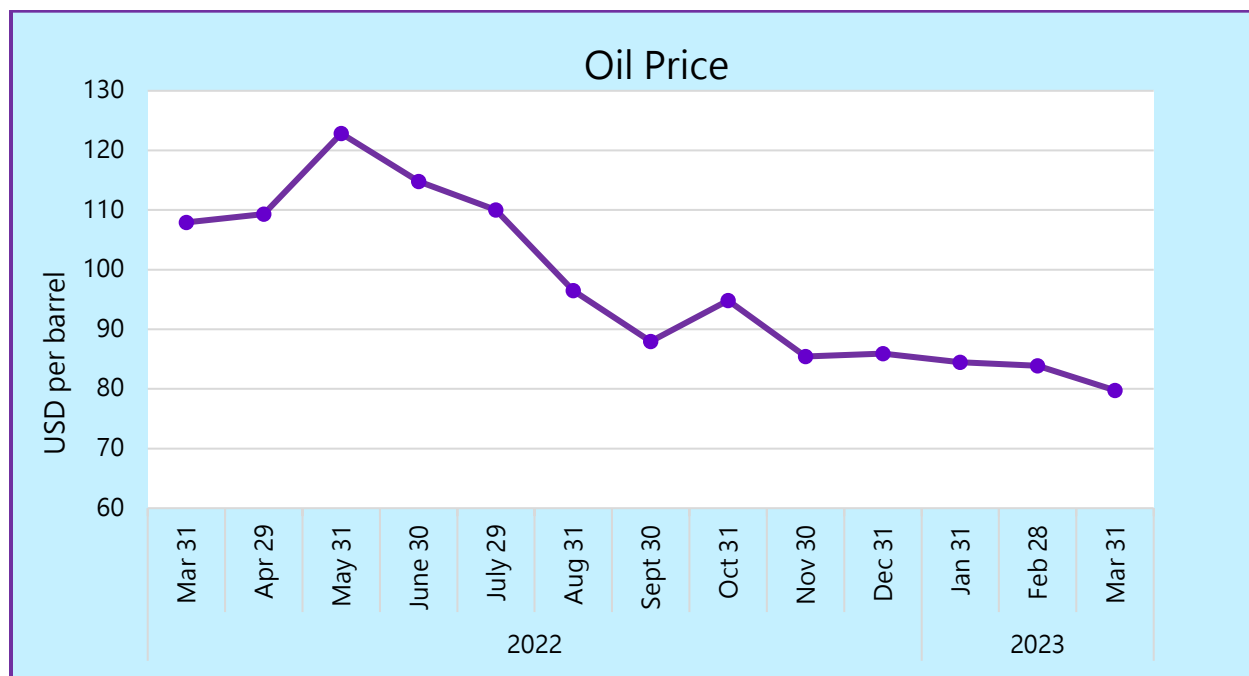
Amid the banking chaos, global central banks remain persistent regarding interest rate hikes. During the first quarter of the year, the US Federal Reserve increased its federal funds rate from a range of 4.25%-4.5% to 4.5%-4.75% and then to 4.75%-5%; an overall 50 bps increase. Europe's two largest Central Banks – the Bank of England and the European Central Bank also opted for two increases during the quarter taking their interest rates to 4.25% and 3.5% respectively. However, the Bank of Canada only implemented a 25 bps increase, moving its rate from 4.25% to 4.5% to close the quarter. The US labour market slowed during the quarter as the movement in non-farm job employment reduced from the revised 504,000 recorded in January to 236,000 in March. Market commentators are predicting that the US Federal Reserve would adopt a less hawkish stance going forward and expects a 0.25% rate increase at the upcoming FOMC meeting in May and thereafter a pause in rate hikes followed by potential rate cuts.

As the USA approaches its federal debt ceiling, arrangements have been put in place to avoid breaching this ceiling limit until an increase could be effected. Republicans who control the House of Representatives in the US Congress have threatened to oppose an increase in the debt ceiling unless the Democratic administration agrees to reduce spending. This development could have severe consequences on the global economy.

Oil prices opened the quarter at US\$85.91/bbl. and gradually trended downwards to close at US\$79.77/bbl. as at end-March 2023. Prices fluctuated throughout January and February but experienced a dip in March owing to financial instability and inflation concerns instead of a traditional supply and demand imbalance. Oil prices peaked in late January at US\$88.19/bbl., but fell to a low of US\$72.97/bbl. in March due to the emergence of US banking failures which could potentially influence a further decrease in oil prices. On the upside, China's reopening of its economy by moving away from strict lockdowns and reopening its borders boosts the outlook for future oil demand.

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

**Graph 1**



To start the quarter, gold was trading at US\$1824.02 per ounce and thereafter trended upwards due to better-than-expected inflation data suggesting an increased expectation that the Fed would pull back on its existing aggressive monetary policy stance. However, this expectation was short lived as data released in February indicated a still resilient labour market with increased non-farm jobs contributing to market expectations of a continued aggressive monetary policy stance from the Fed. This negatively weighed on the demand for the non-interest bearing asset pushing prices down to its lowest level of US\$1811.04 per ounce on February 24, 2023. This was regarded as gold's worst performance in 20 months as markets went from expecting a rate cut at the end of 2022 to a possibility that interest rates will be higher for a longer period. Notwithstanding, gold prices rebounded, moving upwards towards the end of the quarter as Silicon Valley Bank, one of the largest US banks, collapsed in mid-March followed by the collapse of two other US banks. This led to an increase in the safe haven appeal for gold and created a bullish momentum in the gold market as prices reached a

high of US\$1993.4 per ounce – gold’s highest level during the quarter. Gold closed the quarter at US\$1969.28 per ounce.

## **3.2 Global Fixed Income Bonds**

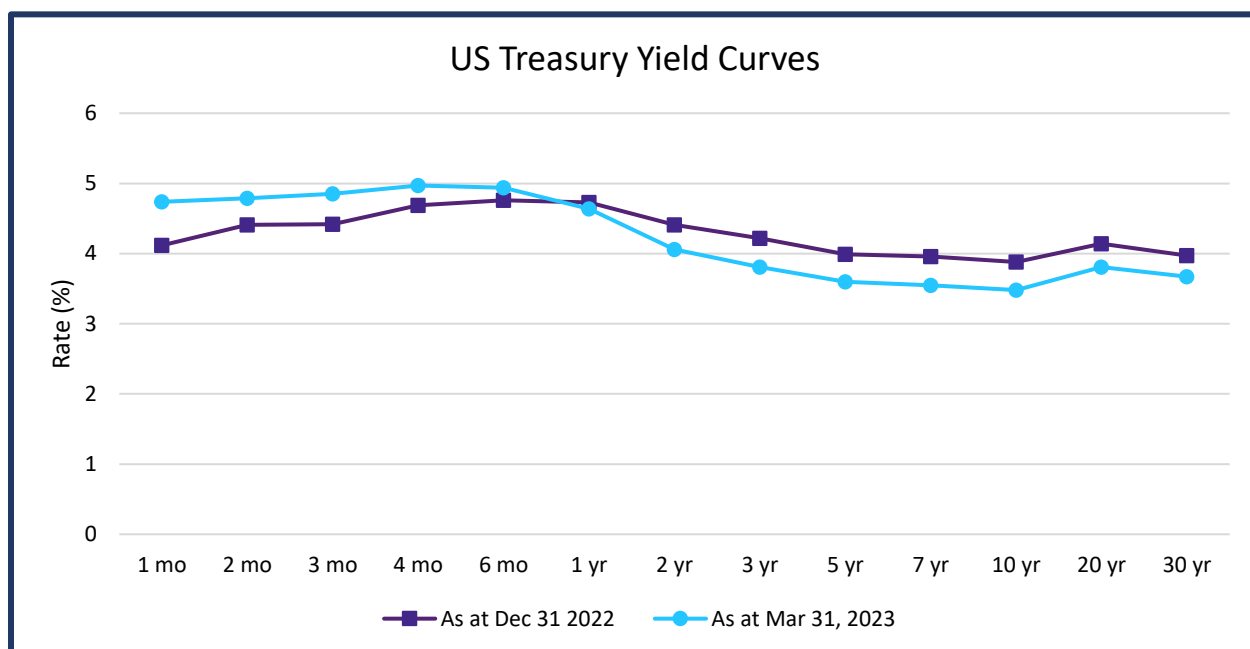
The fixed income market saw increased volatility during the first quarter of 2023 as inflation fears fluctuated and major banks failed. The quarter started off with rising prices due to an improved inflation outlook but reversed in February as inflation worsened and yields attained higher levels again. However, the market took a striking turn when the Silicon Valley Bank failed in March, and investors, fearing a banking crisis, expected future rate cuts. This resulted in increased demand for bonds leading to a rise in prices. Even though interest rates in major economies were raised in March, the fixed income market was able to finish the quarter with positive returns.

The yields of 10–year government bonds decreased from last quarter despite most major central banks increasing rates twice over the quarter due to fears of a potential banking crisis. The US 10 – year bond yield fell from 3.88% to 3.49%, the UK’s from 3.70% to 3.49%, Spain’s from 3.65% to 3.31%, France’s from 3.10% to 2.78% and Germany’s from 2.57% to 2.30%.

The graph below shows the US Treasury yield curve at December 31, 2022 and March 31, 2023. For the first time in over a year, bond yields generally decreased but the yields for shorter dated bonds continued to rise further worsening the inversion of the yield curve.



**Graph 2**



Corporate bonds generally continued their rally and gained positive returns throughout the quarter. Credit spreads widened as investors became more risk averse amidst the troubles with the banking sector. According to the Bloomberg Barclays Global Aggregate Corporate Total Return Index, corporate bonds rose from 248.85 to 257.21, observing an increase of 3%.

### **3.3 Global Equities**

Equities gained this quarter in spite of the failure of major banks putting stress on the market. The Federal Reserve Bank announced measures to protect the banking system against any potential instability which reduced volatility and improved investor sentiments. Most sectors performed well with growth stocks outperforming value stocks. The S&P 500 index increased by 7% while the NASDAQ index rose 16%.

### **4.0 LOCAL UPDATES**

Since 2015, 39 discoveries have been made offshore Guyana. Thirty-five (35) 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, 1 new discovery was made during the quarter – 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 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 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%.

The Government of Guyana recently launched its first competitive bidding round for 14 of its existing offshore oil blocks; 11 being located in shallow water and 3 in ultra-deepwater. The first bidding round is expected to conclude in April, 2023 with new contracts to be awarded during the second quarter of the year.

During the quarter, Guyana lifted two 1-million-barrel (approximate) oil cargoes as its share of profit oil in comparison with six lifts for the previous quarter, while the country is expected to benefit from 17 lifts for 2023. To date, Guyana obtained twenty-four lifts of profit oil since the inception of the Fund.

## **5.0 INVESTMENT MANDATE**

During the quarter, a formal Investment Mandate was established for the Fund following discussions between the Board of Directors and the Bank of Guyana. 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. It was also agreed that the Bank of Guyana will continue to monitor overnight interest rates and inform the Chairman of any changes to consider adopting a ladder approach investment strategy.

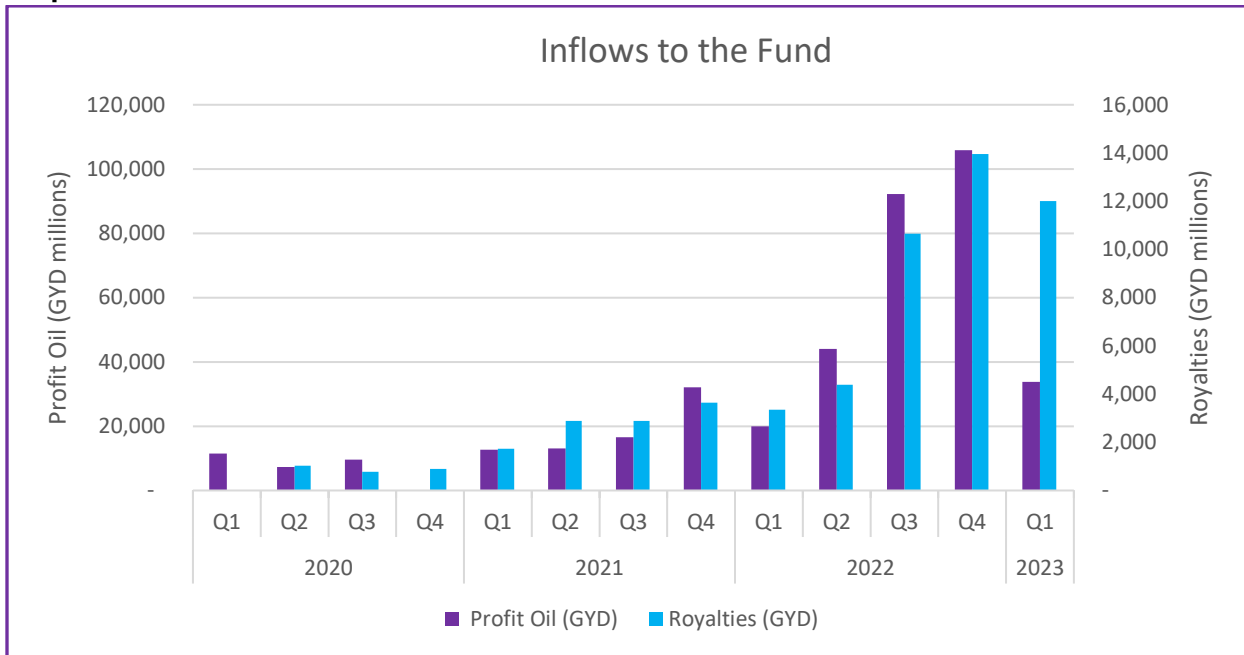
## **6.0 ACTIVITIES OF THE FUND**

### **6.1 Receipts to the Fund**

During the quarter, the Fund accounted for inflows amounting to G\$45,756.17 million (US\$219.45 million) comprising of profit oil - G\$33,748.34 million (US\$161.86 million) and royalties - G\$12,007.83 million (US\$57.59 million). Lower levels of profit oil and royalties were recorded for this quarter in comparison to G\$105,841.91 million (US\$507.64 million) and G\$13,958.47 million (US\$66.95 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.

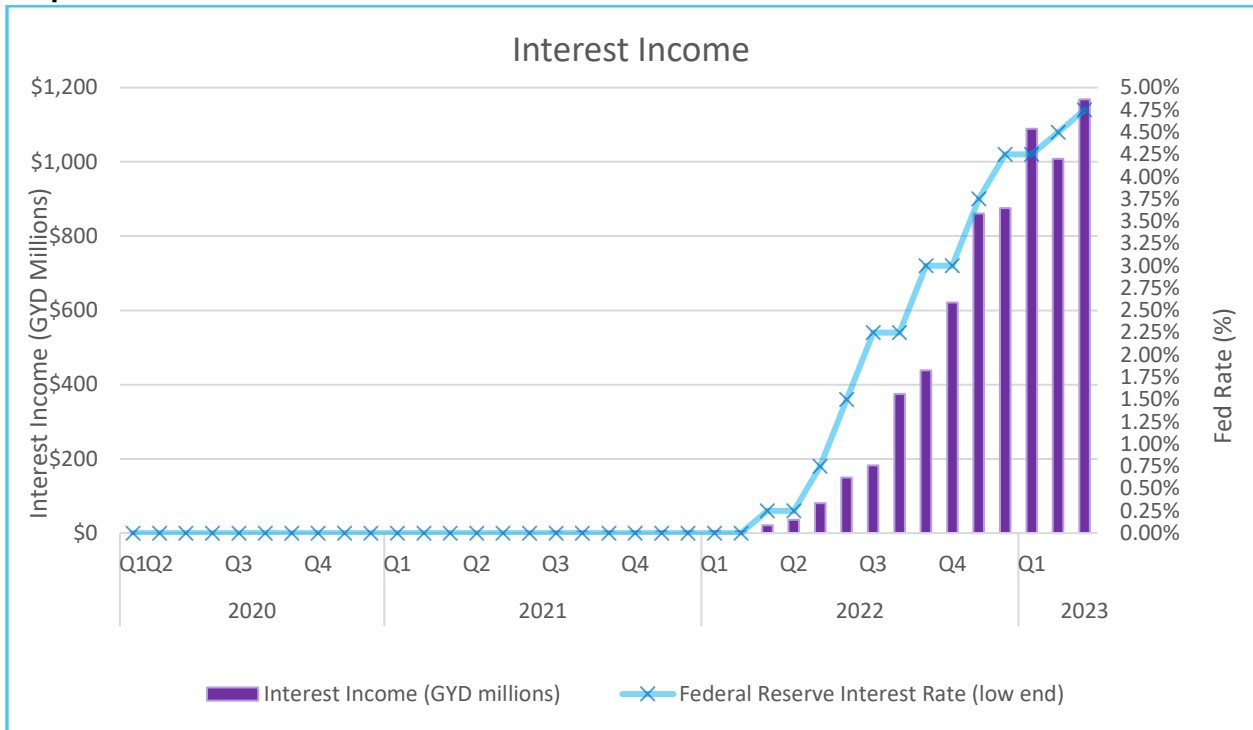
Since its inception, the Fund has accounted for G\$408,920.02 million (US\$1,961.25 million) from 24 lifts of profit oil and G\$57,892.99 million (US\$277.66 million) from royalties (see appendix).

**Graph 3**



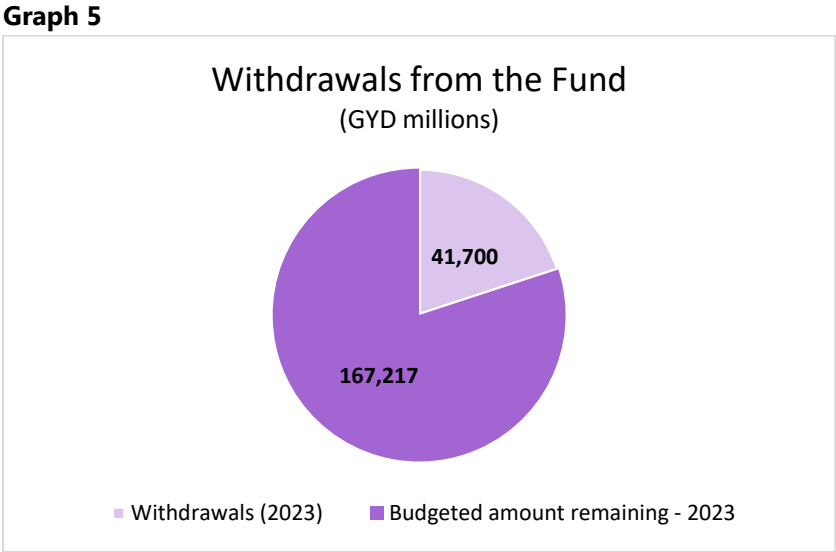
Over the quarter the Federal Reserve increased its interest rates target range twice moving it from 4.25% - 4.5% to 4.5% - 4.75% and then to 4.75% - 5%. As a result of these increases which caused interest rates on overnight deposits to rise, and a higher account balance, the Fund continued to earn a higher level of interest income on its overnight deposits than previous quarters. The Fund earned G\$3,266.13 million (US\$15.66 million) in interest income over the quarter compared to G\$2,356.73 million (US\$11.30 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 19.96% of the estimated amount budgeted to be withdrawn in 2023 - G\$208,917 million (US\$1,002 million).



## 7.0 PORTFOLIO PERFORMANCE

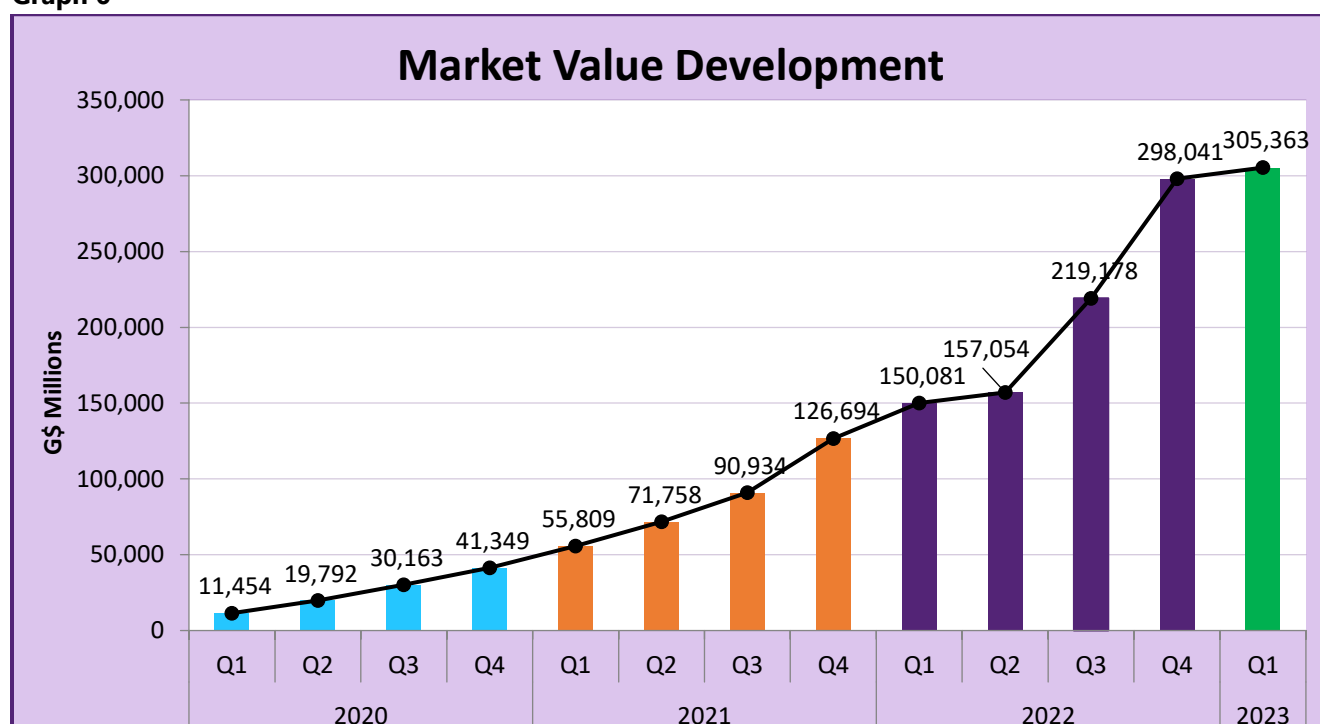
### 7.1 Market Value of the Fund

The value of the Fund amounted to G\$305,363.39 million (US\$1,464.57 million) at end-March 2023, and reflected an increase of 2.46% (G\$7,322.30 million / US\$35.12 million) from the previous quarter’s level of G\$298,041.09 million (US\$1,429.45 million).

**Table 1**

Changes in Market Value						G\$'000
	2022			2023		Since Inception
	Q2	Q3	Q4	Q1	YTD	
Starting Market Value	150,081,211	157,053,563	219,178,291	298,041,094	298,041,094	0
Inflows	48,406,317	102,828,982	119,800,378	45,756,167	45,756,167	466,813,011
Withdrawals	-41,700,000	-41,700,000	-43,294,310	-41,700,000	-41,700,000	-168,394,310
Interest Income	266,035	995,746	2,356,735	3,266,127	3,266,127	6,943,694
Capital Gains (Losses)	0	0	0	0	0	993
Admin., management and other costs	0	0	0	0	0	0
<b>Final Market Value</b>	<b>157,053,563</b>	<b>219,178,291</b>	<b>298,041,094</b>	<b>305,363,388</b>	<b>305,363,388</b>	<b>305,363,388</b>

**Graph 6**



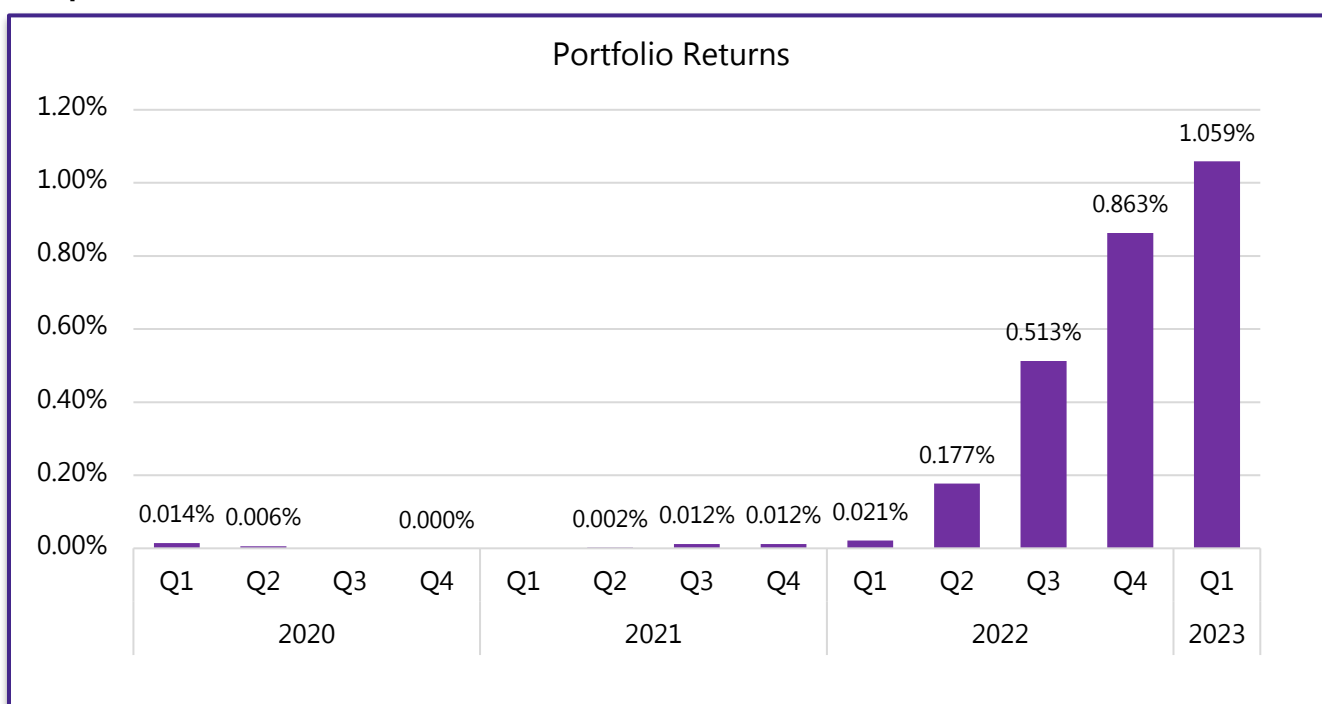
## 7.2 Performance

The Fund recorded a profit of G\$3,266.13 million (US\$15.66 million) this quarter in comparison with \$2,356.73 million (US\$11.30 million) for the preceding quarter solely due to interest earned on deposits. This resulted in a return<sup>1</sup> of 1.059% for the quarter compared with 0.863% in the previous quarter. The Fund earned an annualized return of 0.824% since its inception.

**Table 2**

FUND PORTFOLIO	2022			2023		Since Inception (Annualized)
	Q2	Q3	Q4	Q1	YTD	
Return	0.177%	0.513%	0.863%	1.059%	1.059%	0.824%
Benchmark	-	-	-	-	-	-
Excess	-	-	-	-	-	-

**Graph 7**



<sup>1</sup> The Fund is not currently tracking an index as funds were not invested in securities as at December 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**

<b>Capital Account</b>		<b>G\$'000</b>	
<b>Period</b>		<b>Q4 - 2022</b>	<b>Q1 - 2023</b>
Opening Balance at beginning of the period		219,178,291	298,041,094
Inflows to Fund for the quarter:			
	Royalties	13,958,467	12,007,828
	Profit Oil	105,841,911	33,748,339
Outflows from Fund to Consolidated Fund a/c for the quarter		-43,294,310	-41,700,000
Net Result for the quarter		2,356,735	3,266,127
<b>Closing Balance at the end of the quarter</b>		<b>298,041,094</b>	<b>305,363,388</b>

**Table 4**

<b>Assets</b>		<b>G\$'000</b>	
<b>Period</b>		<b>Q4 - 2022</b>	<b>Q1 - 2023</b>
Cash and Cash Equivalentents		265,163,399	305,363,388
Other receivables		32,877,695	0
Financial Assets held at fair value through profit and loss		0	0
<b>Less:</b>			
Payables		(0)	(0)
<b>Total Net Assets</b>		<b>298,041,094</b>	<b>305,363,388</b>

**Table 5**

<b>Income</b>		<b>G\$'000</b>	
<b>Period</b>	<b>Q4 - 2022</b>	<b>Q1 - 2023</b>	
Interest Income	2,356,735	3,266,127	
Other Investment Income	0	0	
Net gains/(losses) on market revaluation of financial assets	0	0	
Net gains/(losses) on foreign exchange	0	0	
<b>Total Investment Income</b>	<b>2,356,735</b>	<b>3,266,127</b>	
<b>Expenses</b>			
Management fees	(0)	(0)	
Transaction costs	(0)	(0)	
Other expenses	(0)	(0)	
<b>Total Expenses</b>	<b>(0)</b>	<b>(0)</b>	
<b>Net Result for the Quarter</b>	<b>2,356,735</b>	<b>3,266,127</b>	

## 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			57,591,508.37	2,077,048,790.30
16-Feb-2023	82,248,712.42			2,159,297,502.72
20-Mar-2023		79,613,822.68		2,238,911,325.40
<b>Total</b>	<b>1,217,694,252.37</b>	<b>743,552,864.56</b>	<b>277,664,208.47</b>	<b>2,238,911,325.40</b>

Dated: 14<sup>th</sup> April, 2023

.....  
Chief Accountant  
Bank of Guyana

.....  
Deputy Governor  
Bank of Guyana