September 30, 2021

Natural Resource Fund

Quarterly Report

July 1 - September 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 September 30, 2021 was GYD 208.50 = USD 1.

2.0 EXECUTIVE SUMMARY

This report covers the period July 1, 2021 – September 30, 2021

Market Value at end–June, 2021

G$71,757.70 million (US$344.16 million)

Market Value at end–September, 2021

G$90,933.70 million (US$436.13 million)

Inflows (royalties and profit oil)

G$19,165.12 million (US$91.92 million)

Outflows

G$0 (US$0)

Profit

G$10.88 million (US$52,197.16)

Portfolio Return

0.012%

Brent crude oil price per barrel

June 30, 2021 **US$75.13** → September 30, 2021 **US$78.52**

3.0 MARKET TRENDS DURING THE QUARTER

3.1 Global Market Conditions

The world economy is continuing on its path to recovery from COVID-19 supported by the distribution of vaccines, continuous policy support and the resumption of economic activities. According to the IMF's most recent World Economic Outlook, global growth is forecasted to be 6% in 2021 and 4.9% in 2022. However, there continues to be an ongoing gap between advanced and emerging market economies which is reflected in countries' access to vaccines with a much larger percentage of persons in advanced economies being fully vaccinated compared to those in emerging market and developing economies. Additionally, the recovery is being hindered by the spread of the Delta variant resulting in an increasing number of COVID-19 cases and mobility restrictions in many countries. Supply chain issues including delays and shortages (which lead to price increases) also pose a problem.

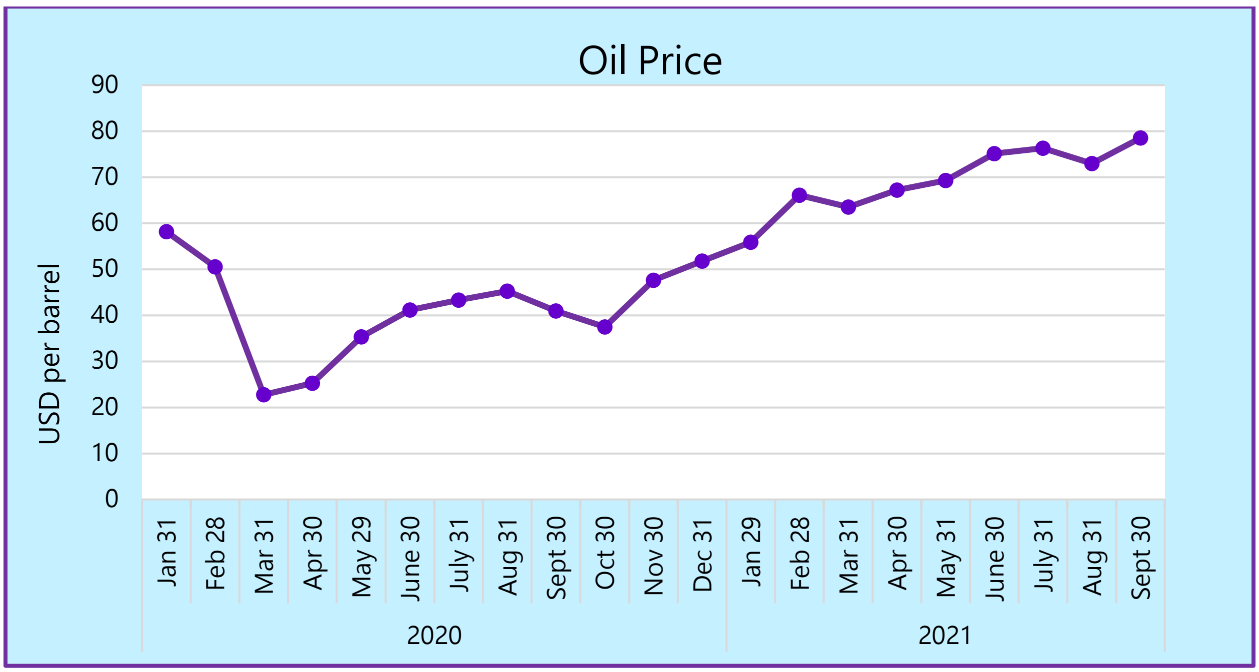
In August, the IMF approved its largest general allocation of Special Drawing Rights (SDRs) equivalent to US$650 billion in order to enhance global liquidity. The allocation will benefit all member countries with approximately US$275 billion going towards emerging market and developing countries. Meanwhile, countries continue to maintain accommodating fiscal and monetary policies. In the USA, the Federal Open Market Committee (FOMC) issued a statement in September 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%. The UK and the EU's central banks also maintained their rates of 0.1% and 0% respectively. 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. Tapering of these asset purchases is expected to begin soon.

High inflation continues to persist in many countries. This can be attributed to a release of pent up demand, supply chain issues, higher food and energy prices and currency depreciation in some emerging market economies.

Oil prices fluctuated over the quarter reaching a low of US$65.18/bbl. in late August before rising to a high of $79.53/bbl. in late September. Oil ended the quarter at US$78.52/bbl. Prices are expected to continue to rise as a result of supply constraints and increasing demand as economies reopen.

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

Graph 1



Gold prices also fluctuated throughout the quarter reaching a high of US$1,829.40 per ounce in mid-July. Prices remained relatively high in July before falling in early August. It then rose throughout the month before falling again during September reaching a low of US$1,726.37 per ounce at the end of the month and ending the quarter at US$1,756.95 per ounce. Prices over the quarter were mainly influenced by expectations regarding the timing of tapering of the Federal Reserve's economic support measures, the strength of the US dollar and the movement of US Treasury yields, which when high, makes holding gold an unattractive option.

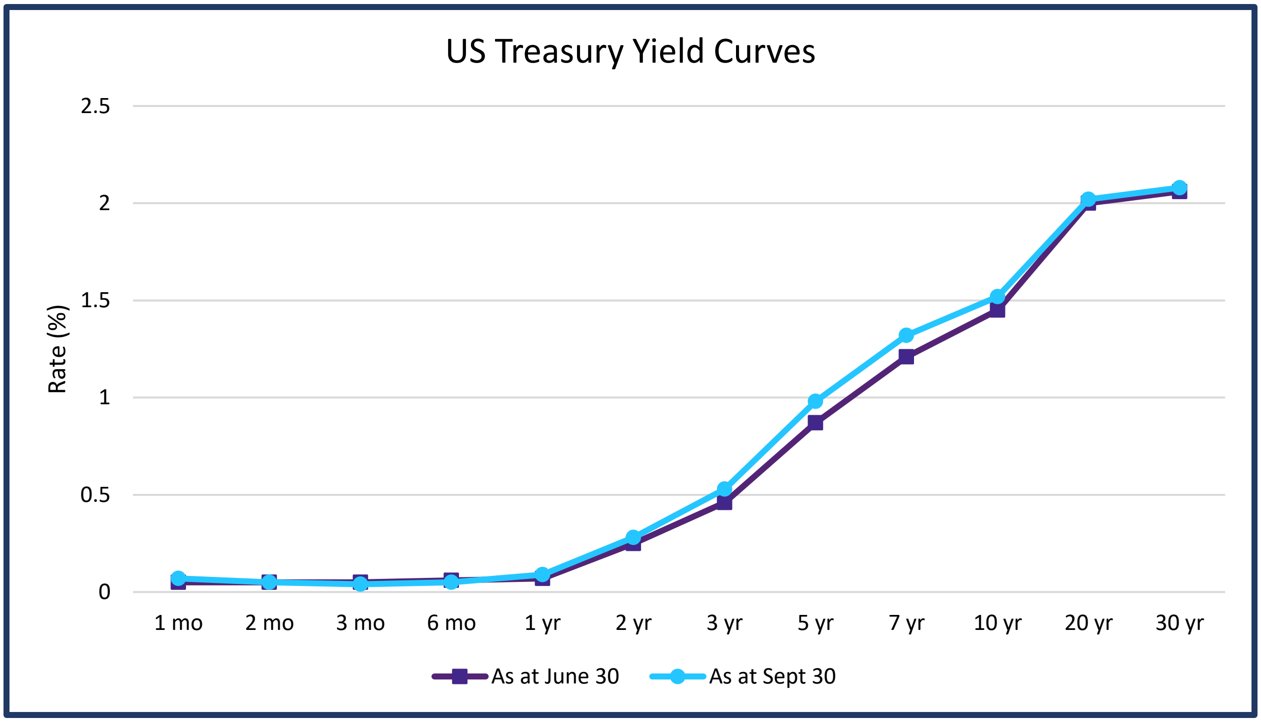
3.2 Global Fixed Income Bonds

There was high volatility in the fixed income market this quarter as government bond yields fluctuated greatly. During most of the quarter, bond yields in the US generally continued their downward trend but towards the end of September, the Federal Reserve Bank indicated their intentions of possible tapering in the near future which caused bond yields to rise as investors sold-off bonds in anticipation of potentially higher interest rates. Similar hawkish comments by other central banks have led to a global rise in bond yields. There has been a small net movement across the quarter but the recent spike in yields remains a point of concern to investors. The Fed also warned that the Treasury Department will run out of money by October 18th and are pleading with congress to raise the debt ceiling which, if not done, can result in defaults on government obligations adding further stress to the bond market and the US economy at large.

Despite the considerable decreases in yield earlier in the quarter, the 10–year government bonds slightly increased from the last quarter-end due to the sell-off in September. The US 10-year bond yield rose from 1.48% to 1.51%, the UK's significantly increased from 0.72% to 1.031%, Spain's moved from 0.42% to 0.46% and France's increased from 0.13% to 0.15%. Germany's yield increased by less than 1 basis point and stood at -0.21%

The graph below shows the US Treasury yield curve at June 30, 2021 and September 30, 2021. Yields remained relatively unchanged over the quarter. The yields of medium-term bonds rose due to negative market sentiment. The yield of the 1-month bond has also risen slightly above the yields of the 2-month, 3-month and 6-month yields due to fears of future defaults by the Federal Reserve.

Graph 2



Corporate bonds were also impacted by the sell-off in September. High yield bonds were able to generate positive returns over the quarter but investment grade reflected little change. According to the Bloomberg Barclays Global Aggregate Corporate Total Return Index, corporate bonds moved from 302.18 to 299.89, a mild decrease of -0.76%.

3.3 Global Equities

The equity market continued their rally at the start of the quarter but was severely impacted by the hawkish tone of central banks and the subsequent declining of bond prices in September. This caused stock prices to fall, erasing their prior gains as stocks became more expensive than the safer fixed income investments. Over the quarter, the S&P 500 index recorded a small positive return while NASDAQ had a small negative return. The sell-off in September negatively affected all sectors except energy which was fuelled by increasing oil prices.

4.0 LOCAL UPDATES

Since 2015, 26 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, 3 new discoveries have been made within the Stabroek block taking the total to 23, 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 September 30, 2021 Guyana has lifted seven 1-million-barrel oil cargoes. In 2021, it was anticipated that 6 lifts would be made but this was recently reduced to 5 owing to technical issues with 3 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$19,165.12 million (US$91.92 million) comprising of profit oil - G$16,600.26 million (US$79.62 million) and royalties - G$2,564.86 million (US$12.30 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$81,030.74 million (US$388.64 million) from seven lifts of profit oil and G$9,888.21 million (US$47.42 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$10.88 million (US$52,197.16) in interest income over the quarter.

7.0 PORTFOLIO PERFORMANCE

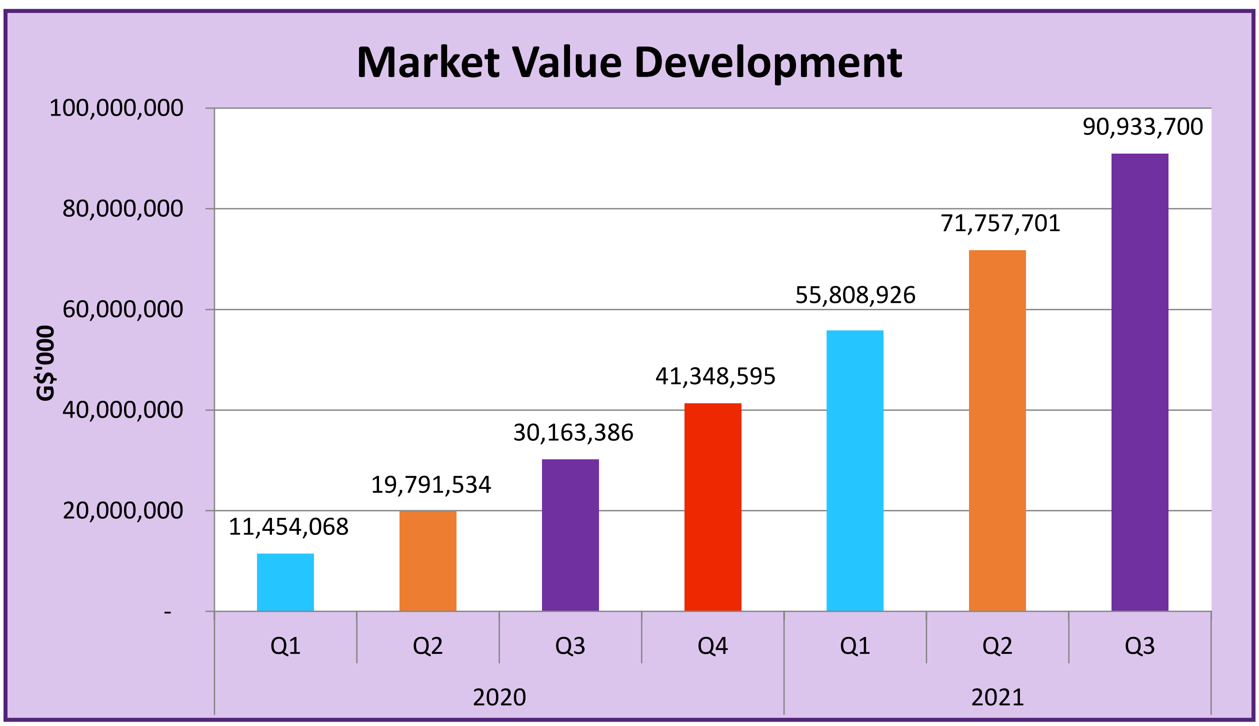
7.1 Market Value of the Fund

The market value of the Fund at September 30, 2021 stood at G$90,933.70 million (US$436.13 million), an increase of 26.72% (G$19,176 million / US$91.97 million) from the previous quarter.

Table 1

Changes in Market Value						G$'000
	2020	2021				Since Inception
	Q4	Q1	Q2	Q3	YTD	
Starting Market Value	30,163,386	41,348,595	55,808,926	71,757,701	41,348,595	0
Inflows	11,185,209	14,460,331	15,947,480	19,165,116	49,572,927	90,918,948
Withdrawals	0	0	0	0	0	0
Interest Income	0	0	1,295	10,883	12,178	13,759
Capital Gains (Losses)	0	0	0	0	0	993
Admin., management and other costs	0	0	0	0	0	0
Final Market Value	**41,348,595**	**55,808,926**	**71,757,701**	**90,933,700**	**90,933,700**	**90,933,700**

Graph 3



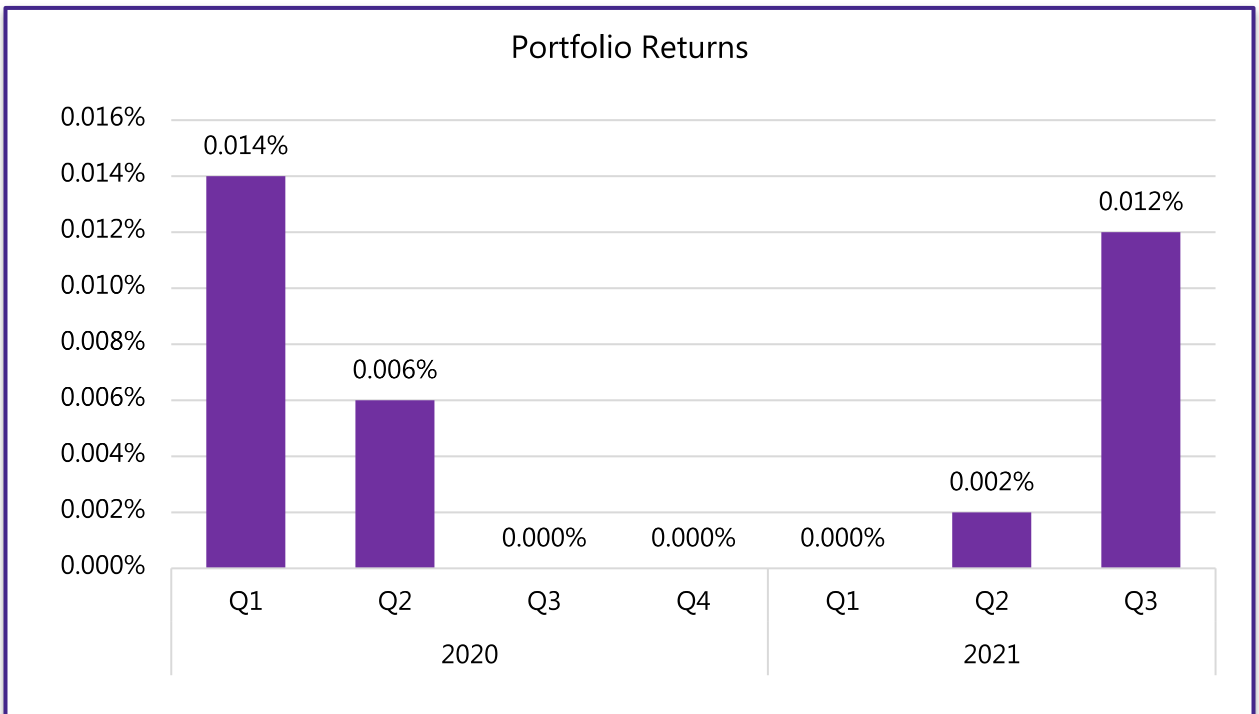
7.2 Performance

The Fund recorded a profit of G$10.88 million (US$52,197.16) 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 return[1] of 0.012% for the quarter compared with 0.002% for the previous quarter.

Table 2

FUND PORTFOLIO	2020				2021				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	YTD	Since Inception
Return	0.014%	0.006%	0.000%	0.000%	0.000%	0.002%	0.012%	0.014%	0.034%
Benchmark	-	-	-	-	-	-	-	-	-
Excess	-	-	-	-	-	-	-	-	-

Graph 4



[1] The Fund is not currently tracking an index as funds were not invested in securities as at September 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		**Q2**	**Q3**
Opening Balance at beginning of the period		55,808,926	71,757,701
Inflows to Fund for the quarter:	Royalties	2,891,707	2,564,855
	Profit Oil	13,055,773	16,600,261
Outflows from Fund to Consolidated Fund a/c for the quarter		(0)	(0)
Net Result for the quarter		1,295	10,883
Closing Balance at the end of the quarter		**71,757,701**	**90,933,700**

Table 4

Assets		**G$'000**
Period	**Q2**	**Q3**
Cash and Cash Equivalents	71,757,701	90,933,700
Other receivables	0	0
Financial Assets held at fair value through profit and loss	0	0
Less:		
Payables	(0)	(0)
Total Net Assets	**71,757,701**	**90,933,700**

Table 5

Income		G$'000
Period	**Q2**	**Q3**
Interest Income	1,295	10,883
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	**1,295**	**10,883**
Expenses		
Management fees	(0)	(0)
Transaction costs	(0)	(0)
Other expenses	(0)	(0)
Total Expenses	**(0)**	**(0)**
Net Result for the Quarter	**1,295**	**10,883**

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