

September 30, 2020



Natural Resource Fund
Quarterly Report
July 1 - September 30, 2020

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1.0 INTRODUCTION

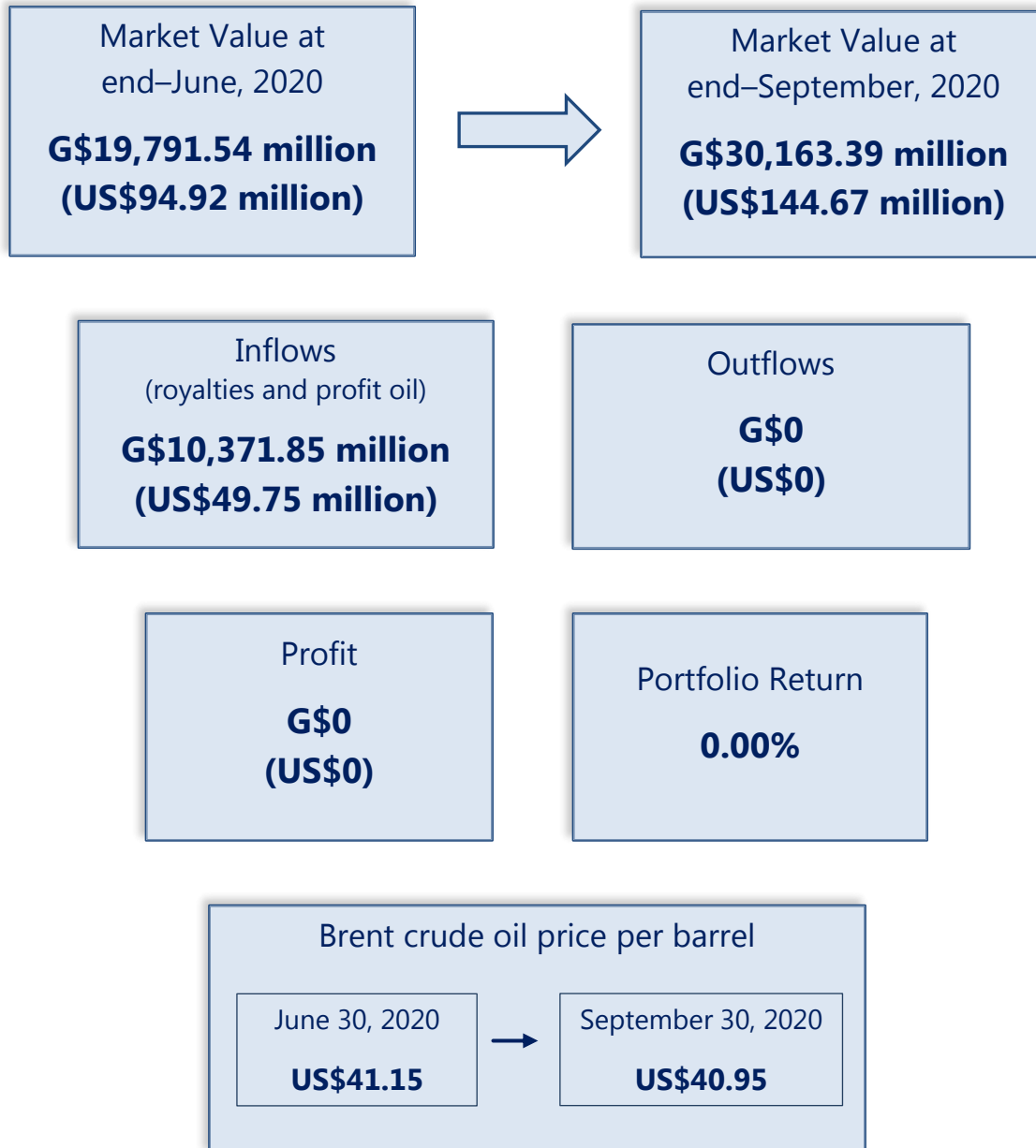
The Natural Resource Fund was formed by the enactment of the Natural Resource Fund Act 2019 which was passed in the National Assembly on January 3, 2019 and assented to by the President on January 23, 2019. The Act gives the Bank of Guyana the responsibility for the operational management of the Fund.

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, 2020 was GYD 208.50 = USD 1.

2.0 EXECUTIVE SUMMARY

This report covers the period July 1, 2020 – September 30, 2020



Note: The market value at end-June differs from the previous quarter's report due to rounding.

3.0 MARKET TRENDS DURING THE QUARTER

3.1 Global Market Conditions

The performance of the Global economy remains very important to Guyana's new and emerging sector with respect to cash flows due to changes in oil prices and interest rates.

COVID-19 continues to impact economic activity, employment and the livelihood of citizens in all parts of the world. The World Bank projects a contraction of the global economy in 2020 by 5.2% with global growth of 4.2% in 2021 while the IMF projects a slightly smaller decline of 4.9% in 2020 with global growth of 5.4% in 2021.

In the US, economic activity has increased but remain below levels seen at the beginning of the year. Inflation remains low as a result of low oil prices and lower levels of demand.

The Federal Open Market Committee issued a statement which stated that they expect to continue along the lines of accommodating monetary policy and to keep the target range for the federal funds rate at 0% - 0.25%. This will be done until there is maximum employment in the economy and inflation has increased to 2% and is on a path to exceed 2% for some time in the future.

In the near future, the Federal Reserve intends to increase its holdings of securities in order to sustain the market and provide credit to businesses and households. The government has not yet agreed on a second fiscal stimulus package.

The value of the US dollar has fallen (mainly against the currencies of developed nations) since the start of the pandemic. This is due to a decline in the US interest rate, the expectation of higher future inflation, the expectation of weak economic growth (resulting in lower returns) and investor uncertainty about the future of US trading relations.

In the Eurozone, the virus is worsening especially in Spain and France. According to the European Central Bank, due to the lack of spending opportunities, there has been an

increase in consumer saving. This will facilitate increased spending in the future when the virus is less of a concern.

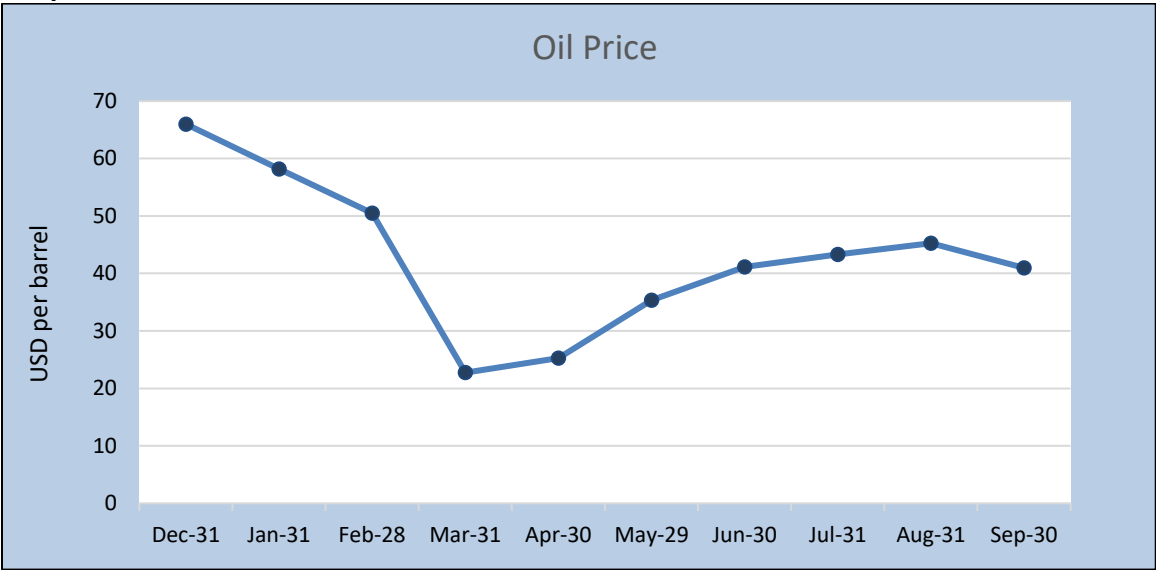
There has been no progress with Brexit and the economic impact of a no deal Brexit is estimated to be approximately 8% of the GDP of UK over a period of 15 to 20 years.

Going forward, the economic status of the UK and Eurozone is dependent on the situation surrounding COVID-19 and the fiscal policy responses of their governments. The British government is considering extending their stimulus while the German government has already done so.

Oil price is still down from pre-pandemic levels. Experts project that the price will remain around US\$40 a barrel until there is an effective COVID-19 vaccine. Over the quarter, oil prices moved from US\$41.15 to US\$40.95 per barrel reaching a low of US\$39.61 and a high of US\$45.86.

The graph below shows the movement of oil prices for the past 9 months.

Graph 1



Neighbouring Venezuela, previously one of the world's largest oil producers has experienced a dramatic fall in output over the last few years and is currently producing just 100,000 to 200,000 barrels daily as compared to around 650,000 one year ago and in excess of 2,000,000 barrels a day in 2017 and years prior. It is predicted that production will continue to fall and could reach zero by 2021. This collapse is as a result of continuous economic decline, U.S. sanctions and weak oil prices. This decline, although significant, will have little to no impact on the global oil market as a result of the changes in world supply and demand brought about by the impact of COVID-19.

Gold continues to do well as there continues to be a high demand for this commodity. Gold prices increased over the review period, moving from US\$1,800.50 to US\$1,895.50. Prices reached a low of US\$1,779.90 in early July and a high of US\$2,069.40 in early August.

3.2 Global Fixed Income Bonds

During this period of COVID-19, the factors influencing the rates market have shifted. According to a publication by Crown Agents Investment Management, "Previously, key drivers included macroeconomic developments, performance of risk assets and geopolitical events. In recent months, the US treasury curve and credit spreads have been driven principally by monetary policy, fiscal policy and the developments of the coronavirus epidemic."

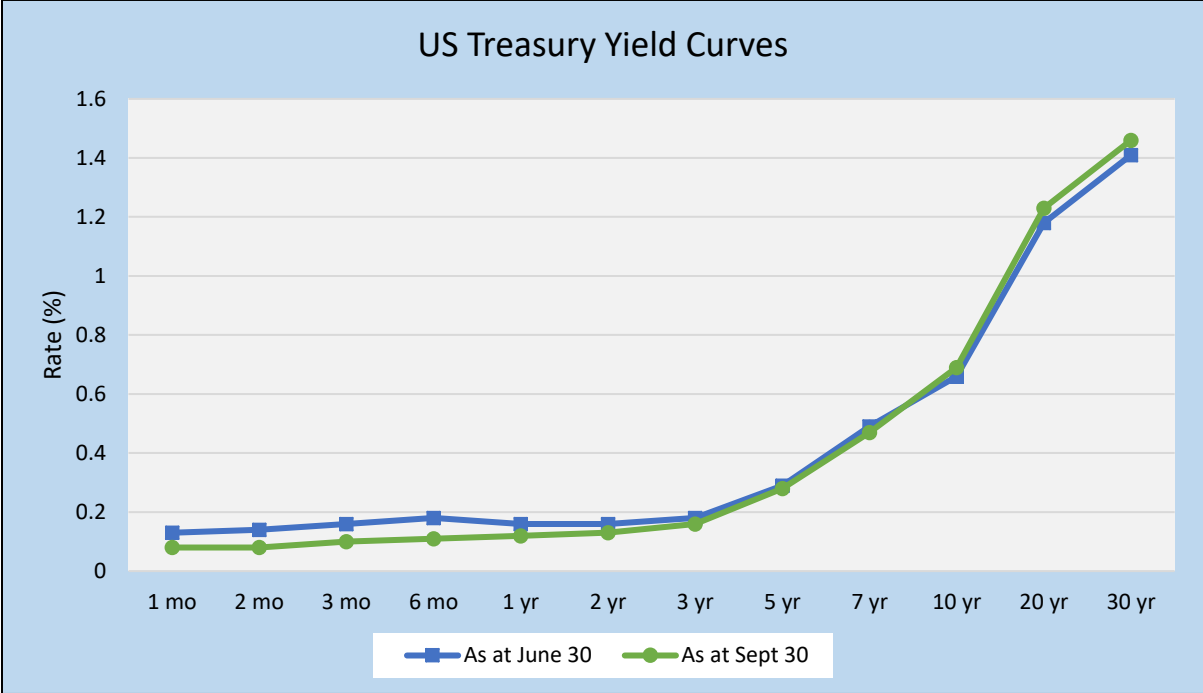
The US 10-year Treasury bond yields improved slightly ending the quarter at 0.69%, an increase of three basis points from the previous quarter. In the UK, yields also rose from 0.17% to 0.23%. However, many other 10-year government bonds suffered losses during the quarter. In Germany, yields fell from -0.45% to -0.525%, Spain's dropped from 0.47% to 0.25%, and France's decreased from -0.12% to -0.24%.

Corporate Bonds continued to outperform government bonds and gained a positive return for the quarter. According to the Bloomberg Barclays Global Aggregate Corporate

Total Return Index, returns moved from 285.97 to 294.82, corresponding to a 3.09% increase.

The graph below shows the movement of the US Treasury yield curve from June 30 to September 30, 2020. Overall, yields remained relatively unchanged when compared to the end of the previous quarter.

Graph 2



3.3 Global Equities

In the US, equities generally sustained their rally in July and August, with prices peaking at the start of September. However, many tech stocks started to slide as the month progressed, placing a strain on the stock market. Despite this, thanks to the quick stabilisation of prices and the strength of the preceding growth, most stocks were able to finish the quarter with net positive returns. Oil stocks fell during the quarter as oil prices remained low. Exxon and BP both had losses of approximately 23%.

4.0 LOCAL UPDATES

In Guyana, output from ExxonMobil's Liza Phase 1 Development at the Stabroek Block which began production in late 2019 is expected to reach 120,000 barrels per day (bpd) in the near future. 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 is expected to begin in 2024.

There have been 18 discoveries on the Stabroek block as at 30th September, 2020 with estimated resources of over 8 billion oil-equivalent barrels. It is projected that Guyana's oil production will increase to more than 1 million bpd by the end of the decade.

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.

6.0 ACTIVITIES OF THE FUND

The Fund received revenue of G\$10,371.85 million (US\$49.75 million) from profit oil (G\$9,600.79 million/US\$46.05 million) and royalties (G\$771.06 million / US\$3.70 million) during the quarter. These funds were deposited into the Natural Resource Fund Account held at the Federal Reserve Bank of New York.

During the first quarter, overnight deposits were available with interest rates within a range of 1.50% - 1.75%. This was lowered to 1% - 1.25% on March 3, 2020 and then again to 0% - 0.25% on March 15, 2020. As a result, the Fund earned no interest on the overnight deposits for the third quarter.

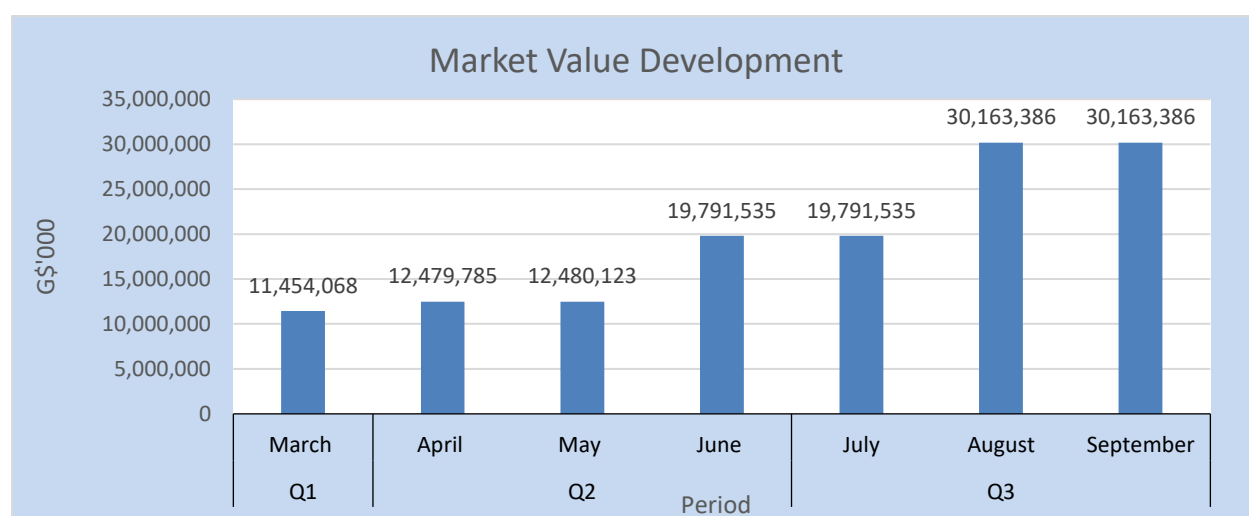
7.0 PORTFOLIO PERFORMANCE

7.1 Market Value of the Fund

The market value of the Fund at September 30, 2020 stood at G\$30,163.39 million (US\$144.67 million), an increase of 52% (G\$10,371.85 million / US\$49.75 million) from the previous quarter.

Table 1

Changes in Market Value	G\$'000			
	2020			Since Inception
	Q1	Q2	Q3	
Starting Market Value	0	11,454,068	19,791,535	0
Inflows	11,452,487	8,336,474	10,371,851	30,160,812
Withdrawals	0	0	0	0
Interest Income	1,581	0	0	1,581
Capital Gains (Losses)	0	993	0	993
Admin., management and other costs	0	0	0	0
Final Market Value	11,454,068	19,791,535	30,163,386	30,163,386

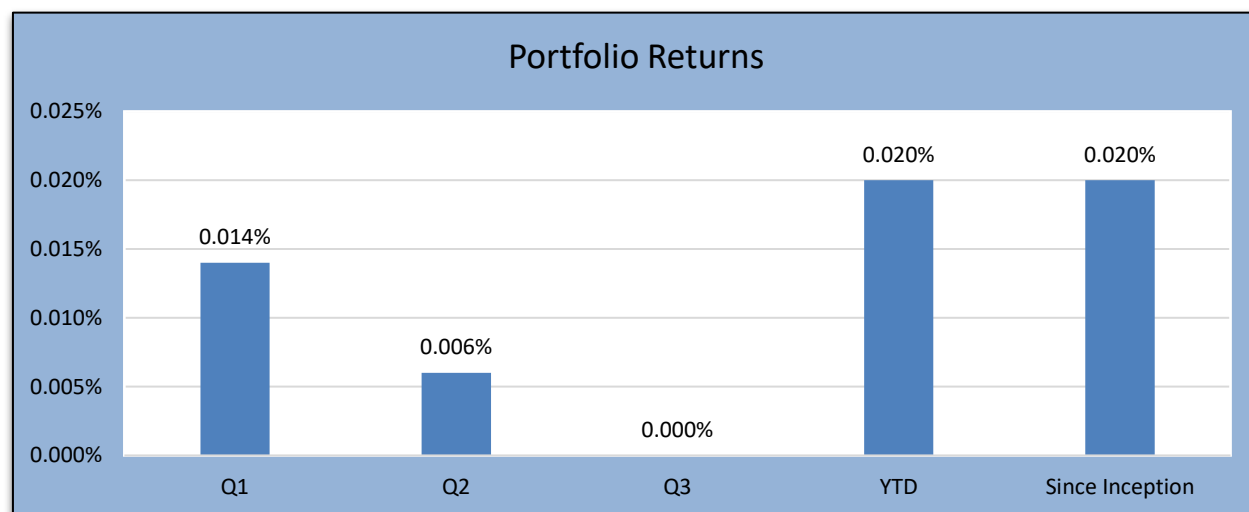


7.2 Performance

The Fund did not record a profit during this quarter as overnight deposits continued to earn 0% interest. This resulted in a return² of 0.000% during the quarter in comparison with 0.006% for the previous quarter.

Table 2

FUND PORTFOLIO	2020			YTD	Since Inception
	Q1	Q2	Q3		
Return	0.014%	0.006%	0.000%	0.020%	0.020%
Benchmark	-	-	-	-	-
Excess	-	-	-	-	-



² The Fund is not currently tracking an index as funds were not invested in securities as at September 30, 2020

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 Bank of Guyana auditors.

Table 3

Capital Account		G\$'000	
Period		Q2	Q3
Opening Balance at beginning of the period		11,454,068	19,791,535
Inflows to Fund for the quarter:	Royalties	1,025,717	771,065
	Receipts	7,310,757	9,600,786
Outflows from Fund to Consolidated Fund a/c for the quarter		(0)	(0)
Net Result for the quarter		993	0
Closing Balance at the end of the quarter		19,791,535	30,163,386

Table 4

Assets		G\$'000	
Period		Q2	Q3
Cash and Cash Equivalents		19,791,535	30,163,386
Other receivables		0	0
Financial Assets held at fair value through profit and loss		0	0
Less:			
Payables		(0)	(0)
Total Net Assets		19,791,535	30,163,386

Table 5

Income	G\$'000	
Period	Q2	Q3
Interest Income	0	0
Other Investment Income	993	0
Net gains/(losses) on market revaluation of financial assets	0	0
Net gains/(losses) on foreign exchange	0	0
Total Investment Income	993	0
Expenses		
Management fees	(0)	(0)
Transaction costs	(0)	(0)
Other expenses	(0)	(0)
Total Expenses	(0)	(0)
Net Result for the Quarter	993	0