

December 31, 2020



Natural Resource Fund  
Quarterly Report  
October 1 - December 31, 2020

# TABLE OF CONTENTS

<b>1.0</b>	INTRODUCTION	1
<b>2.0</b>	EXECUTIVE SUMMARY	2
<b>3.0</b>	MARKET TRENDS DURING THE QUARTER	3
	<b>3.1</b> GLOBAL MARKET CONDITIONS	3
	<b>3.2</b> GLOBAL FIXED INCOME BONDS	5
	<b>3.3</b> GLOBAL EQUITIES	7
<b>4.0</b>	LOCAL UPDATES	7
<b>5.0</b>	INVESTMENT MANDATE	8
<b>6.0</b>	ACTIVITIES OF THE FUND	9
<b>7.0</b>	PORTFOLIO PERFORMANCE	10
	<b>7.1</b> MARKET VALUE OF THE FUND	10
	<b>7.2</b> PERFORMANCE	11
<b>8.0</b>	FINANCIAL SUMMARY	12

## 1.0 INTRODUCTION

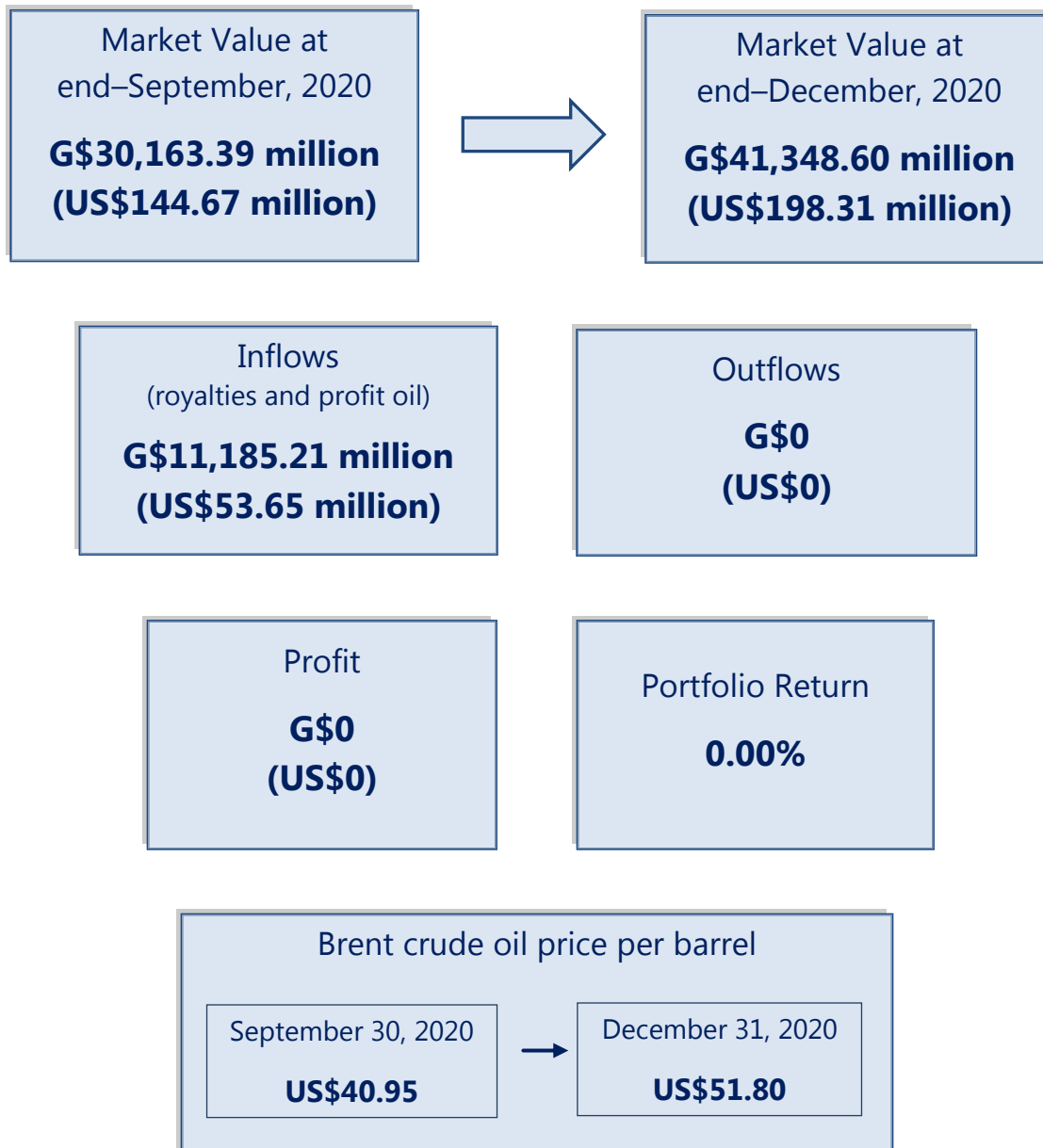
The Natural Resource Fund was formed by the enactment of the Natural Resource Fund Act 2019 which was passed in the National Assembly on January 3, 2019 and assented to by the President on January 23, 2019. The Act gives the Bank of Guyana the responsibility for the operational management of the Fund.

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 December 31, 2020 was GYD 208.50 = USD 1.

## 2.0 EXECUTIVE SUMMARY

This report covers the period October 1, 2020 – December 31, 2020



## 3.0 MARKET TRENDS DURING THE QUARTER

### 3.1 Global Market Conditions

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

COVID-19 remains present in many countries and continues to impact economies worldwide as new strains of the virus spread. Rising new cases in many regions threaten to slow down recovery.

Updated figures show that the World Bank estimates that the global economy contracted by 4.3% in 2020, with global GDP expected to expand by 4% in 2021. According to a World Bank report, this growth in 2021 is "predicated on proper pandemic management and effective vaccination limiting the community spread of COVID-19 in many countries, as well as continued monetary policy accommodation accompanied by diminishing fiscal support." The IMF projects a slightly larger decline of 4.4% in 2020 with global growth of 5.2% in 2021. The 2020 growth estimates by both entities show an improvement compared to previous estimates, while the 2021 figures show a modest decline in expectations.

News of the development and distribution of vaccines offer hope for a recovery in economic activity and energy demand and the possibility that in late 2021, the negative impacts of the virus will subside. It is assumed that local transmission will be brought to low levels everywhere by the end of 2022. Several countries across the world, including the USA, Canada, UK and EU countries have authorised vaccines for use. It is anticipated that the full implementation of the vaccine will result in a decrease in household savings and an increase in spending on consumer-facing services.

In the US, the Federal Open Market Committee issued a statement 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%. This will be done until there is

maximum employment in the economy and inflation has increased to 2% and is sustained above 2% for some time in the future. 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.

In the US, in late December, an approximately US\$900 billion stimulus package was approved with the aim of providing relief to areas affected by COVID-19. It is expected that this will support the economy for a few months, but the likelihood exists that more will be needed unless the vaccine is widely distributed earlier than expected.

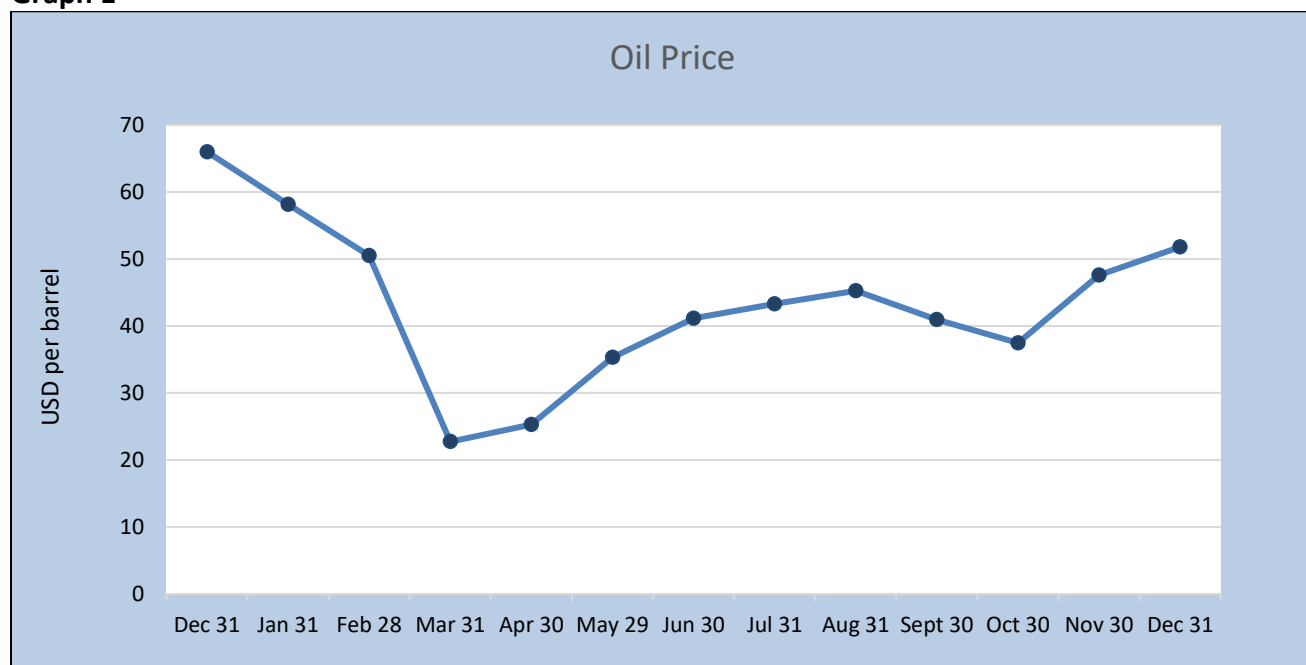
The leaders of the European Union have reached a deal on a €1.8 trillion package which includes their next long-term budget and a €750 billion coronavirus recovery fund.

On December 24, the EU and the UK agreed on a post-Brexit trade deal which comes into effect on 1st January, 2021.

Over the quarter, oil prices moved from US\$40.95 to US\$51.80 per barrel, reaching a low of US\$37.46 at the end of October followed by a relatively steady rise. Prices reached a high of US\$52.26 in mid-December. Although oil demand continues to be weak, the increase in prices reflects higher expectations for oil demand owing to positive news about COVID-19 vaccine developments. On the supply end, and contrast to expectations that production would remain at existing levels through March 2021, OPEC+ members agreed to increase production by 0.5 million bpd from January 2021.

The following graph shows the movement of oil prices for the past 12 months

**Graph 1**



Over the review period, gold prices moved from US\$1,895.50 to US\$1,898.36. Prices reached a high of US\$1,951.35 in early November and a low of US\$1,776.95 in late November.

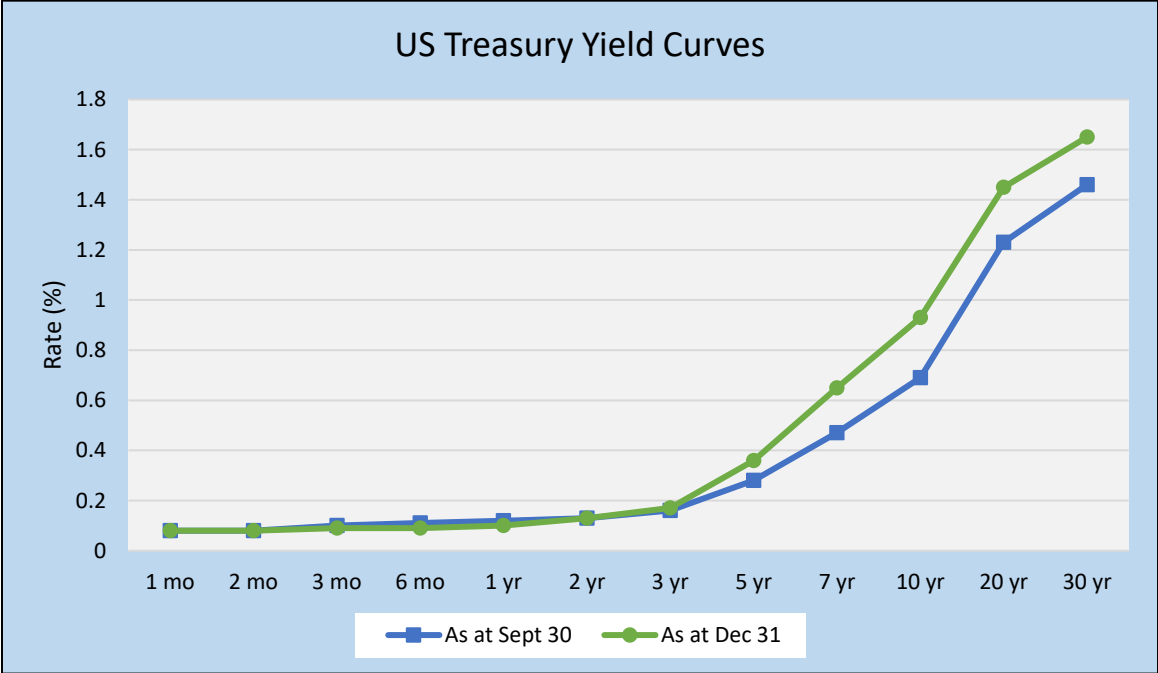
### **3.2 Global Fixed Income Bonds**

Optimism owing to news of a COVID-19 vaccine positively affected the market during the last quarter of 2020, encouraging yields to rise. However, there was also a resurgence of the pandemic, especially in the US and Europe, causing new lockdown measures to be put in place. This, along with the continued intervention from central banks, resulted in only a modest increase in yields with many government bonds reporting overall losses for the quarter. The market is also vulnerable to any new policy that may be implemented under the new US presidency.

Government bond yields diverged markedly as the US 10-year Treasury bond had its strongest quarter for the year and increased from 0.69% to 0.92% but other 10-year government bond yields reported losses. Germany’s yields mildly decreased from -0.53 to -0.57 and the UK’s slightly fell from 0.23% to 0.19%. France’s bond yields dropped from -0.24% to -0.34% while Spain’s drastically declined from 0.25% to 0.04%.

The graph below shows the movement of the US Treasury yield curve from September 30 to December 31, 2020. Yields for securities with maturities up to 3 years remained relatively unchanged when compared to the end of the previous quarter. Those with maturities longer than 3 years, showed an increase in yields.

**Graph 2**



Corporate bonds enjoyed another fruitful quarter, with both investment grade and high yield bonds outpacing government bonds, According to the Bloomberg Barclays Global Aggregate Corporate Total Return Index, returns moved from 294.82 to 307.40, an increase of 4.27%.



### 3.3 Global Equities

As announcements over successful vaccines fostered hope for the economy to return to normal, equities continued their rally for the third consecutive quarter, fuelled by optimism. In the US, the conclusion of the presidential election as well as the agreement of another stimulus package pushed equities higher. The S&P 500 index increased by 12% compared to the end of the last quarter while the NASDAQ index increased by 15%. Financials and energy stocks topped the returns charts. Exxon and BP both experienced gains over the quarter. IT and healthcare stocks also performed well.

For most of 2020, prices did not have the same influence as it did previously. Investors reduced emphasis on value stocks and instead focused on growth stocks. However, in November, with positive vaccine news and the US election being completed, value stocks began to regain their position in the market.

### 4.0 LOCAL UPDATES

Since 2015, 21 discoveries have been made offshore Guyana. Two of these discoveries were made at the Orinduik block and 1 at the Kanuku block. There have been 18 discoveries on the Stabroek block with estimated resources of over 8 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 and CNOOC Petroleum Guyana Limited holds 25% interest.

Output from the Liza Phase 1 Development at the Stabroek Block which began production in late 2019 reached its peak capacity of 120,000 barrels per day (bpd) in December 2020. 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. It is projected that 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%.

In 2020, Guyana was scheduled to lift five 1-million-barrel oil cargoes. As at December 31, 2020 Guyana had lifted four, with the payment for the fourth lift to be received on 8th January, 2021. The first lift for 2021 is scheduled to be made in February.

## **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.

During the Forecast on Latin America and the Caribbean Conference, hosted by the Association of American Chambers of Commerce and Latin America and the Caribbean (AACCLA), President Irfaan Ali disclosed his intentions to let the funds remain untouched in the Natural Resource Fund until a series of reforms are enacted to strengthen the Government's regulatory infrastructure for the oil and gas sector.

## 6.0 ACTIVITIES OF THE FUND

During the quarter, the Fund accounted for revenue of G\$11,185.21 million (US\$53.65 million) comprising of profit oil - G\$10,287.77 million (US\$49.34 million) and royalties - G\$897.44 million (US\$4.30 million). All of the royalty payment was deposited into the Natural Resource Fund Account held at the Federal Reserve Bank of New York. The profit oil payment is to be received on January 8, 2021. The amount is currently reflected under "other receivables" in the financial accounts of the Fund as at December 31, 2020.

Cumulatively, the Fund received G\$38,651.80 million (US\$185.38 million) from four lifts of profit oil and G\$2,694.22 million (US\$12.92 million) from royalties during the period March - December, 2020.

During the first quarter of 2020, 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. Since then, the Fund earned no interest on overnight deposits.

## 7.0 PORTFOLIO PERFORMANCE

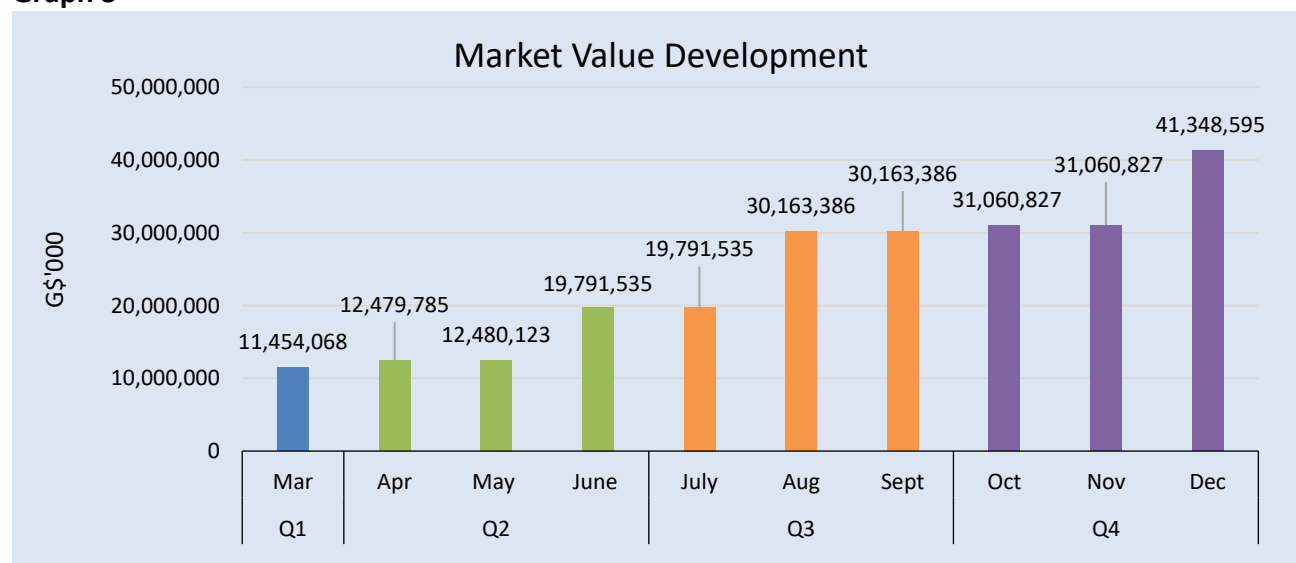
### 7.1 Market Value of the Fund

The market value of the Fund at December 31, 2020 stood at G\$41,348.60 million (US\$198.31 million), an increase of 37% (G\$11,185.21 million / US\$53.65 million) from the previous quarter.

**Table 1**

Changes in Market Value	G\$'000				
	2020				Since Inception
	Q1	Q2	Q3	Q4	
Starting Market Value	0	11,454,068	19,791,535	30,163,386	0
Inflows	11,452,487	8,336,474	10,371,851	11,185,209	41,346,021
Withdrawals	0	0	0	0	0
Interest Income	1,581	0	0	0	1,581
Capital Gains (Losses)	0	993	0	0	993
Admin., management and other costs	0	0	0	0	0
<b>Final Market Value</b>	<b>11,454,068</b>	<b>19,791,535</b>	<b>30,163,386</b>	<b>41,348,595</b>	<b>41,348,595</b>

**Graph 3**



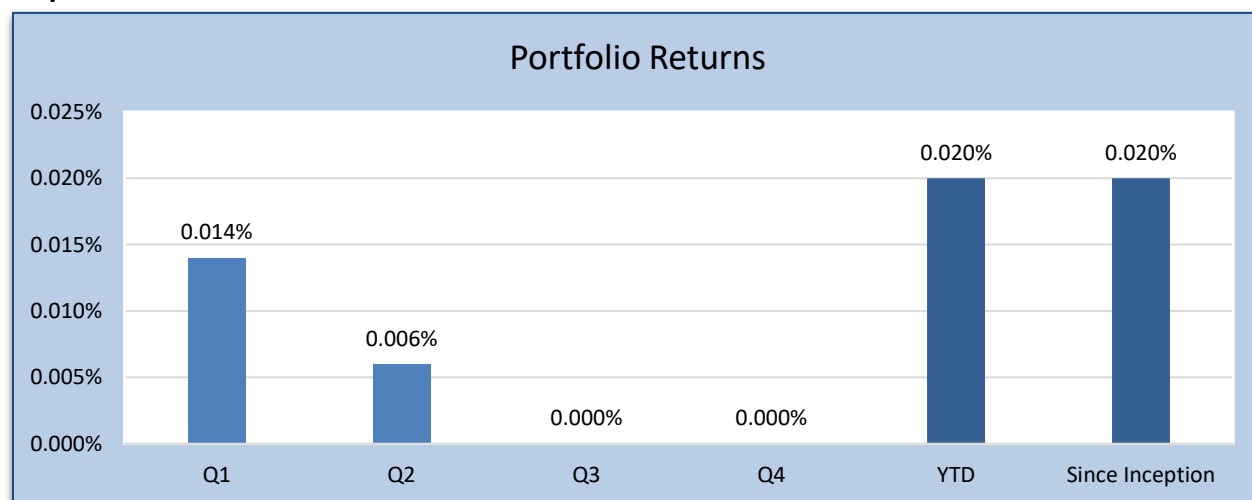
## 7.2 Performance

The Fund did not record a profit during this quarter as overnight deposits continued to earn 0% interest. This resulted in a return<sup>1</sup> of 0.000% during the quarter – the same as the previous quarter.

**Table 2**

FUND PORTFOLIO	2020				YTD	Since Inception
	Q1	Q2	Q3	Q4		
Return	0.014%	0.006%	0.000%	0.000%	0.020%	0.020%
Benchmark	-	-	-	-	-	-
Excess	-	-	-	-	-	-

**Graph 4**



<sup>1</sup> The Fund is not currently tracking an index as funds were not invested in securities as at December 31, 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**

<b>Capital Account</b>		<b>G\$'000</b>	
<b>Period</b>		<b>Q3</b>	<b>Q4</b>
Opening Balance at beginning of the period		19,791,535	30,163,386
Inflows to Fund for the quarter:	Royalties	771,065	897,441
	Receipts	9,600,786	10,287,768
Outflows from Fund to Consolidated Fund a/c for the quarter		(0)	(0)
Net Result for the quarter		0	0
<b>Closing Balance at the end of the quarter</b>		<b>30,163,386</b>	<b>41,348,595</b>

**Table 4**

<b>Assets</b>		<b>G\$'000</b>	
<b>Period</b>		<b>Q3</b>	<b>Q4</b>
Cash and Cash Equivalents		30,163,386	31,060,827
Other receivables		0	10,287,768
Financial Assets held at fair value through profit and loss		0	0
<b>Less:</b>			
Payables		(0)	(0)
<b>Total Net Assets</b>		<b>30,163,386</b>	<b>41,348,595</b>

**Table 5**

<b>Income</b>	<b>G\$'000</b>	
<b>Period</b>	<b>Q3</b>	<b>Q4</b>
Interest Income	0	0
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>0</b>	<b>0</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>0</b>	<b>0</b>