Natural Resource Fund
Quarterly Report
March 31, 2020

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1. INTRODUCTION

This report is produced in accordance with section 38 (2) of the Natural Resource Fund Act 2019 which requires the Bank of Guyana to report on the performance and activities of the Natural Resource Fund (referred to hereinafter as the "Fund").

This is the inaugural report of the Fund and covers the first quarter of the year 2020. All monetary references in this report have been reported in Guyana dollars (G$) and are presented in thousands (G$'000). Foreign currency transactions have been translated to G$ at the rate of exchange prevailing at the dates of the transactions. Rate of exchange at March 31, 2020 was GYD 208.50 = USD 1.

2. EXECUTIVE SUMMARY

The 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.

The Fund received its first revenue from oil on March 11, 2020. Key statistics for the period under review include:

- The global economy contracted during the quarter thus affecting negatively commodity prices and interest rates.
- Brent crude oil price per barrel was US$66.25 at the beginning of the quarter falling to US$26.35 at the end.
- US interest rate was lowered from a range of 1.50% - 1.75% to a range of 0% - 0.25% over the course of the quarter.
- The capital of the Fund at end-March 2020 stood at $11,454.1 million.
- The gross cash inflow to the Fund from profit oil was $11,452.5 million.
- The profit earned for the quarter was $1.6 million, comprising of interest earned on deposits.

3. MARKET TRENDS DURING THE QUARTER

Global Market Conditions

The performance of the Global economy is very important to Guyana's new and emerging sector with respect to cash flows due to changes in prices and interest rates. The Global economy slowed in the first quarter of 2020 as many countries around the world faced economic decline as a result of the COVID-19 pandemic. In an effort to limit the spread of the coronavirus, nations went into lockdown and closed their borders, imposing travel restrictions and halting the operations of many businesses. Total net returns declined across major financial markets around the world.

During the quarter, oil prices were volatile and fell to extreme lows, moving from US$66.25 to US$26.35 and reaching its lowest points in March as worldwide demand faced negative shocks. Oil price forecasts remains low for the rest of the year and energy companies have cut their proposed capital expenditure for the rest of the year.

Globally, consumption and investments declined, exports and imports decreased, tourism declined, risk aversion increased in financial markets and global supply chains have been disrupted. According to an OECD report, "Restrictions on movement of people, goods and services, and containment measures such as factory closures have cut manufacturing and domestic demand sharply in China. The impact on the rest of the world through business travel and tourism, supply chains, commodities and lower confidence is growing."

In an effort to ensure economic stability during the coronavirus outbreak, the Federal Reserve lowered the US interest rate from a range of 1.50% - 1.75% to 1% - 1.25% and then again to 0% - 0.25%. This range is expected to be maintained until the economy is able to recover.

The global GDP growth forecast was projected to drop from an already low 2.9% in 2019 to 2.4% in 2020. As time went on and the coronavirus spread further, forecasts estimated a contraction in global activity of 3% in 2020 which surpasses that seen during the global financial crisis of 2008 when global GDP growth declined by 0.1%.

In particular, the US economy suffered its most severe contraction in more than a decade, after GDP shrank at an annualized rate of 4.8% in the first quarter of 2020. The number of unemployed persons increased by 1.35 million to 7.14 million and the unemployment rate reached 4.4% in March 2020, the highest since August 2017. According to numbers published by the US Department of Labor, seasonally adjusted claims for unemployment benefits under state programs jumped from 282,000 claims for the week ending March 14 to 3.28 million for the week ending March 21. However, the figures for this quarter just hint at the full crisis since many restrictions as part of the lockdowns were not in place until March. Forecasters expect growth to contract sharply in the three months to June.

In Europe, a sharp economic downturn is expected as the COVID-19 pandemic forced countries into lockdown. This is further backed by the low level of growth experienced by the eurozone economy at the end of 2019 – 0.1% in the fourth quarter. A first estimate of GDP for the first quarter of 2020 showed a contraction of 3.8%, worse than during the 2008 financial crisis.

Production declines in China as a result of earlier effects of the coronavirus have impacted businesses around the world due to its key role in global supply chains as a producer of intermediate goods.

As COVID-19 spread beyond China, financial markets across the globe including those in the USA, eurozone, UK, Asia and emerging markets were affected. Equities experienced steep declines while the yields of government bonds - including the 10-year US Treasury fell, meaning prices rose, owing to investors preferring the safety (lower risks) associated with those assets given the increasing likelihood of a global recession.

In commodities markets, oil prices dropped to extreme lows as the demand for oil weakened as a result of the spread of the coronavirus coupled with the ongoing disagreement between the Organization of the Petroleum Exporting Countries (OPEC) and Russia to limit its oil supply.

As the COVID-19 crisis progressed, governments and central banks put measures in place to support businesses, households and the financial system in an effort to stabilise their economies.

In March, the Federal Reserve cut interest rates twice for the first time since the global financial crisis, reducing it to a target range of 0% - 0.25%. They also announced a quantitative easing program amounting to over US$700 billion. The US Senate passed a US$2 trillion stimulus package which includes US$250 billion worth of direct payments to households, US$500 billion for loans to distressed companies and US$350 billion for small business loans.

The Bank of England reduced its interest rate to 0.1% and planned to purchase £200 billion of UK government and corporate bonds under a quantitative easing program in an effort to keep the cost of borrowing low and inject cash into the economy.

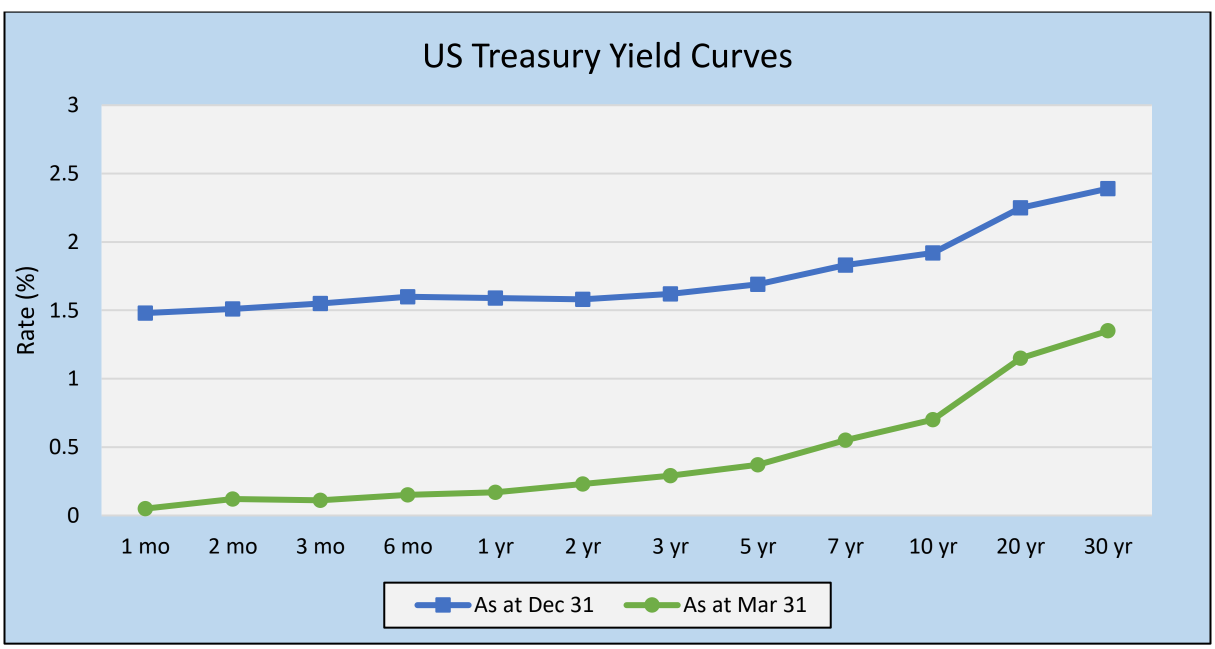
The European Central Bank announced the Pandemic Emergency Purchase Programme (PEPP) worth €750 billion. The PEPP will fund the purchase of government and corporate bonds until the end of the COVID-19 crisis. Governments across Europe also announced spending packages to help businesses and households cover their expenses and cope with the loss of income during this time.

Global Bonds Including US Treasuries

Over the first quarter of 2020, the yields of government bonds experienced sharp declines triggered mainly by the Global COVID-19 pandemic as countries went into lockdown in order to contain its spread. Markets remained volatile owing to uncertainties of risks amid the ongoing impacts of the COVID-19 pandemic.

Over the course of the quarter, the 10-year yield of various government bonds declined. The US 10-year yield moved from 1.92% to 0.63%, UK's fell from 0.82% to 0.32%, while France's dropped from 0.12% to 0% and Germany's declined from -0.19% to -0.49%. In some countries however, increases were recorded – Spain's 10-year yield increased from 0.47% to 0.71% and Italy's moved from 1.41% to 1.57%.

The graph below shows the movement of the US Treasury yield curve over the quarter. Yields for both short and long term securities experienced sharp declines over the review period. The degree of these declines were relatively similar across most maturity periods, however, it appeared to be more tempered for the longer-term securities compared to the short and medium-term securities – the yield of 3 month US Treasury bills declined by 1.44% while that of 10-year Treasury notes by 1.22%.



Global Equities

Equities declined sharply in both developed and emerging markets in the first quarter of 2020 as the coronavirus outbreak spread. Markets suffered in the US, UK, Eurozone and Asia. In emerging markets, currency weaknesses worsened already negative returns. March saw the most dramatic decreases as the virus continued to spread, despite policy measures implemented by governments and central banks.

As the number of coronavirus cases increased, investors were more inclined to sell rather than buy equities. Investors rushed to sell stocks due to fears about the stability of the financial system. This panic selling was widespread and resulted in declines in all sectors of the market.

In the US, the S&P 500 declined by 19.6% for the quarter, MSCI World by 21.1% while the NASDAQ index decreased by 14.18%.

4. MANAGEMENT DURING THE QUARTER

Receipts to the Fund

The Fund received its first revenue of $11,452.5 million (US$54.93 million) for one million barrels of on March 11, 2020. These funds were deposited into the Natural Resource Fund Account held at the Federal Reserve Bank of New York.

5. PORTFOLIO PERFORMANCE

The Natural Resource Fund balance amounted to $11,454.1 million as at end-March 2020. The profit of the fund for the review period was $1.6 million, comprising of interest earned on deposits held with the Federal Reserve Bank of New York. This represented a return of 0.014% during the quarter reflecting the decline in interest rates.

The following financial information is presented for the purpose of providing a detailed overview of the performance of the Fund.

Capital Account		**G$'000**
Opening balance at beginning of the period		0
Inflows to Fund for the quarter:	Royalties	0
	Receipts	11,452,487
Outflows from Fund to Consolidated Fund a/c for the quarter		0
Net Result for the quarter		1,581
Closing balance at end of quarter		**11,454,068**

Assets	**G$'000**
Cash and Cash Equivalents	11,454,068
Other Receivables	0
Financial Assets held at fair value through profit and loss	0
Less:	
Payables	(0)
Total Net Assets	**11,454,068**

Income	**G$'000**
Interest income	1,581
Other investment income	0
Net gains/(losses) on market revaluation of financial assets	0
Net gains/(losses) on foreign exchange	0
Total investment income	**1,581**
Expenses	
Management fees	0
Transaction costs	0
Other expenses	0
Total expenses	**0**
Net result for the month	**1,581**