

June 30, 2022



Natural Resource Fund
Quarterly Report
April 1 - June 30, 2022

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1.0 INTRODUCTION

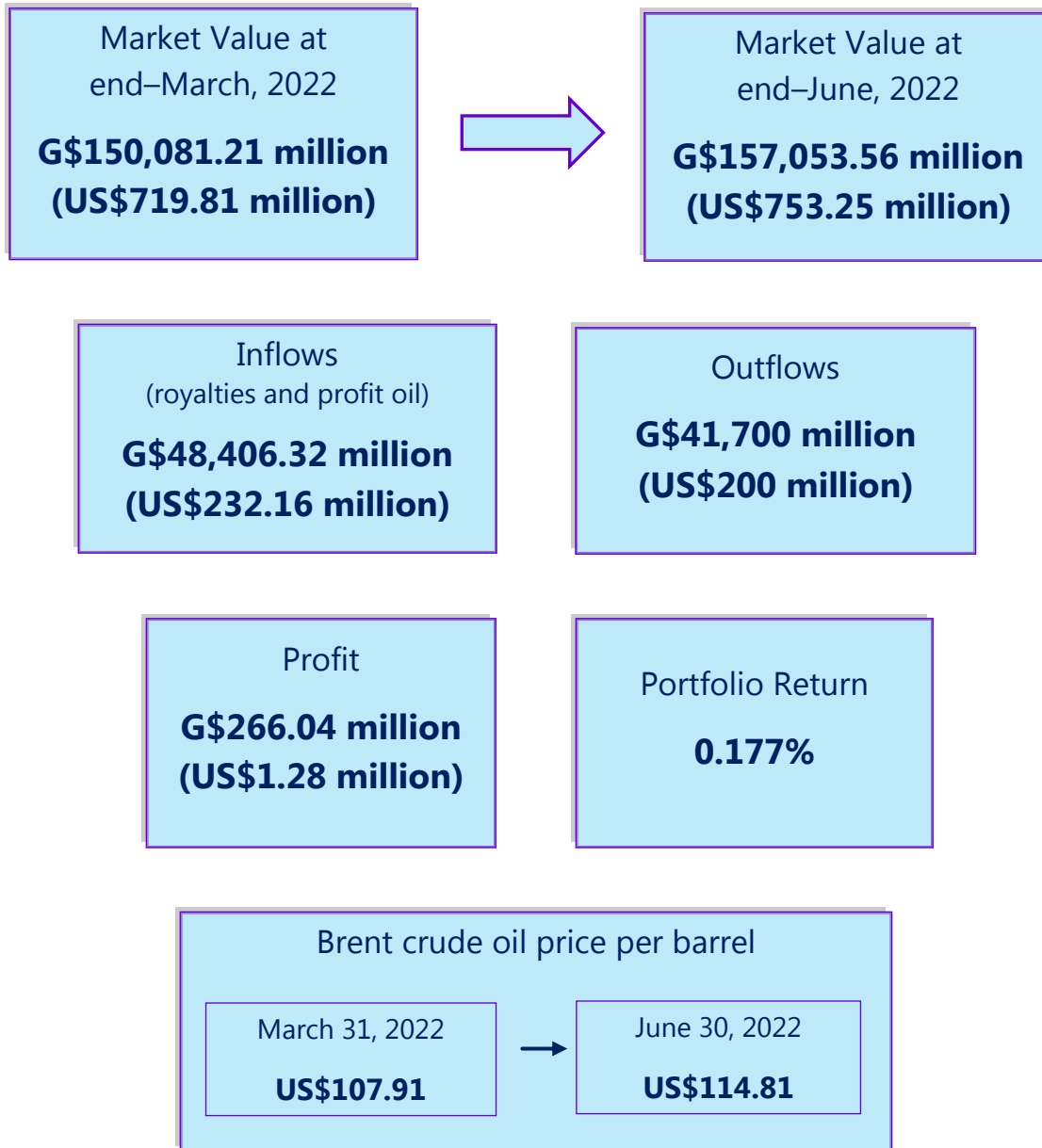
The Natural Resource Fund was formed by the enactment of the Natural Resource Fund Act 2019 which was passed in the National Assembly on January 3, 2019 and assented to by the President on January 23, 2019. This act was subsequently replaced with the Natural Resource Fund Act 2021 which was passed in 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 June 30, 2022 was GYD 208.50 = USD 1.

2.0 EXECUTIVE SUMMARY

This report covers the period April 1, 2022 – June 30, 2022



3.0 MARKET TRENDS DURING THE QUARTER

3.1 Global Market Conditions

According to The World Bank's most recent estimate, global growth for 2022 is expected to be 2.9% - down from its previous forecast of 4.1%. Advanced economies are expected to grow by 2.6% and emerging market and developing economies by 3.4% - both also lower than the previously forecasted levels.

Over the quarter the world economy continued to face shocks, with the main one being Russia's invasion of Ukraine. Countries faced high inflation which is expected to remain elevated for some time, coupled with low growth. High energy prices benefited energy exporters but this was offset by high energy costs faced by commodity importers and by other negative spillover effects of the invasion. High food prices threatened food security and worsened poverty in many emerging economies. Supply disruptions continued as a result of the invasion along with COVID-19 associated lockdowns in some Asian countries. Furthermore, renewed COVID-19 outbreaks remain a potential risk globally with regions with lower vaccination rates being particularly vulnerable. Fiscal support measures implemented to combat the effects of the pandemic continued to be withdrawn.

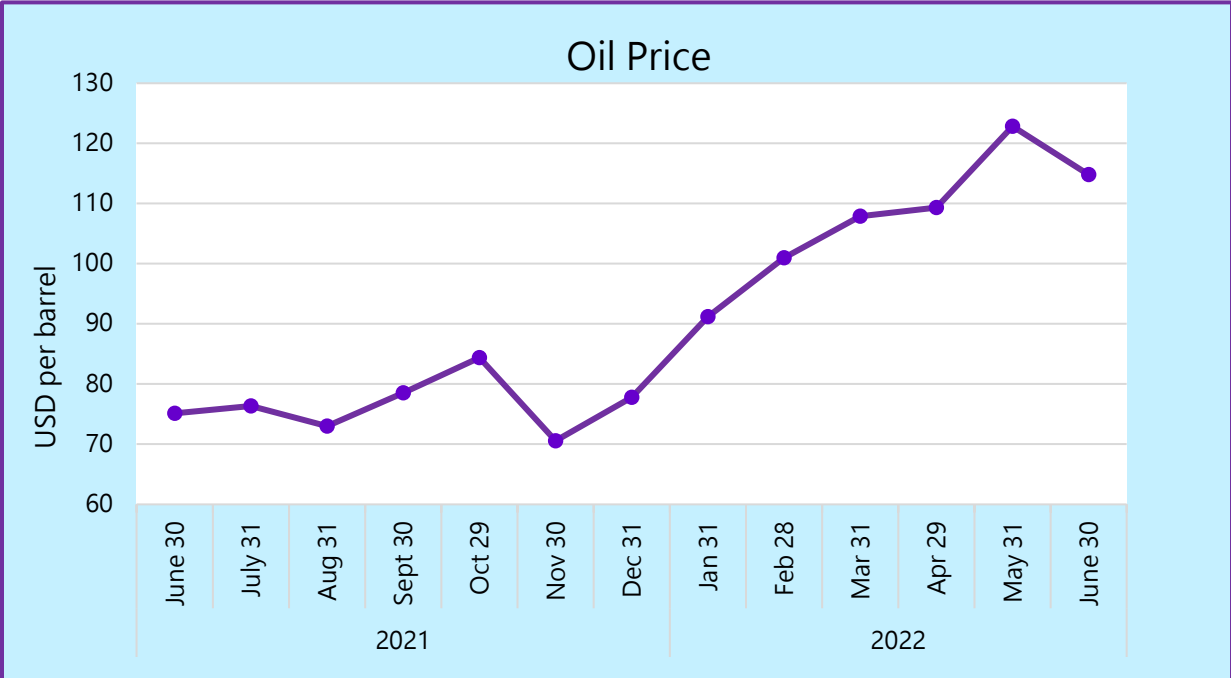
Countries have taken monetary policy action in an effort to tackle the high levels of inflation experienced. Specifically, the US Federal Reserve increased the target range for the federal funds rate twice during the quarter – first from 0.25% - 0.5% to 0.75% - 1% and then to 1.5% - 1.75%. The Bank of England also raised its interest rate twice during the quarter, moving from 0.75% to 1% and then to 1.25%. The European Central Bank maintained its rate of 0% but plans to raise rates and end its bond-buying program in July.

Oil prices opened the quarter at US\$107.91/bbl. and fluctuated slightly throughout. Prices were lowest in early April at US\$98.48/bbl. but remained above the US\$100 mark for the rest of the quarter. Oil prices rose in early June, reaching a high of

US\$123.58/bbl. Price rises were owing to low inventory levels faced by countries; Shanghai, China reopening after a two-month period of strict lockdowns; and rising demand due to countries recovering from the pandemic being met with a diminished global supply. After the Federal Reserve increased interest rates in mid-June, prices declined in anticipation of a possible recession in the United States, closing the quarter at US\$114.81/bbl.

The following graph shows the movement of oil prices over the period June 2021 to June 2022:

Graph 1



Gold prices opened the quarter at \$1,953.04 per ounce and rose to a high of US\$1,978.91 per ounce in mid-April as inflation pressures and concerns about the Russia-Ukraine conflict increased safe-haven demand for gold. Following this was a period of continuous decline as the US dollar strengthened and as US Treasury yields rose, making gold more expensive for investors of other currencies and affecting safe haven demand as the opportunity cost of holding the non-yielding asset increased respectively. The hawkish stance of central banks including the Federal Reserve Bank, with interest rate hikes being implemented in an effort to tackle inflation, also

contributed to this rising opportunity cost. Prices ended the quarter at a low of US\$1,807.27 per ounce.

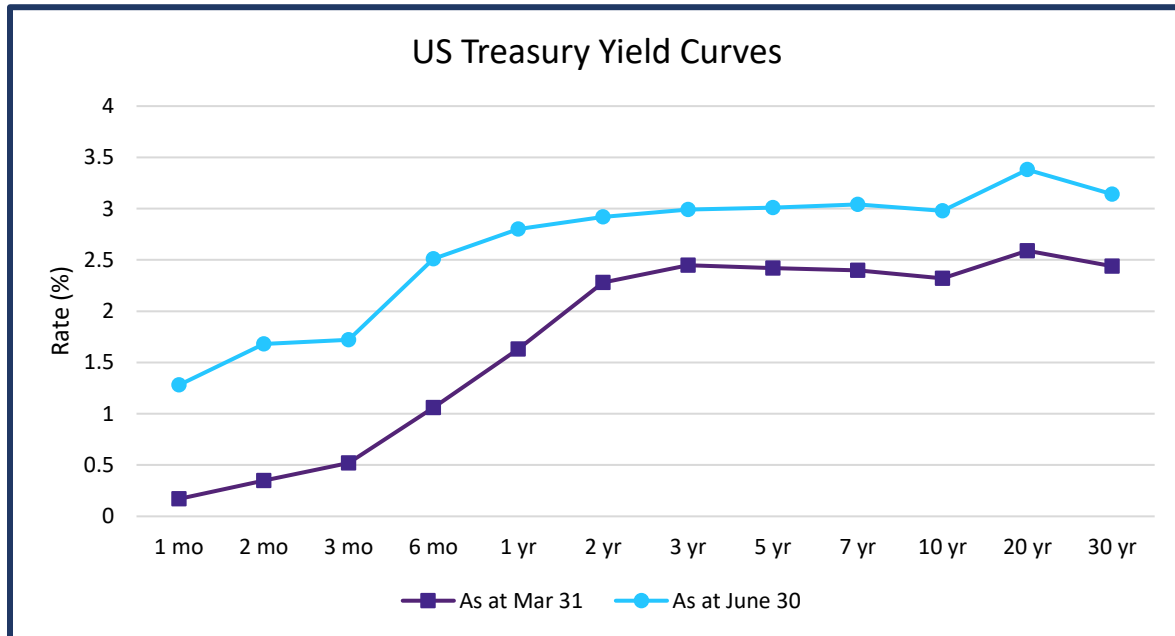
3.2 Global Fixed Income Bonds

Bond yields mostly soared over the quarter, continuing the poor performance of the previous quarter as inflation rates remained elevated and interest rates continued to rise. Central banks maintained very hawkish stances as evidenced by the Federal Reserve Bank and the Bank of England with accelerated rate hikes while the European Central Bank has indicated that it would be implementing similar measures early in the third quarter. The expected and actual rises in interest rates have caused bond prices to fall sharply, increasing concerns over growth prospects and fears of a coming recession resulting in prices rising again towards the end of the quarter.

The yields of 10-year government bonds rose significantly from the last quarter due to increased interest rates. Many developed economies saw over 60 basis points increase in yields, resulting in one of the worst performing quarters for bonds. The US 10-year bond yield rose from 2.32% to 2.97%, the UK's increased from 1.61% to 2.24%, Spain's yield moved from 1.45% to 2.28, France's went up from 0.98% to 1.95% and Germany's yield moved up from 0.55% to 1.34%.

The graph below shows the US Treasury yield curve at March 31, 2022 and June 30, 2022. Bond prices at all maturities were negatively affected by the rising interest rates and experienced drastic increases in yields. During the period, yields of shorter dated bonds increased faster than longer dated bonds resulting in the flattening of the yield curve and even an inversion in the longer-term end of the curve.

Graph 2



Corporate bonds were also greatly affected by the rising interest rates and the resulting sell-off. These bonds continued to have negative returns and underperformed government bonds for another quarter. According to the Bloomberg Barclays Global Aggregate Corporate Total Return Index, corporate bonds fell from 273.23 to 252.19, a decrease of 8%.

3.3 Global Equities

The equity market was hit hard by supply shocks, rising interest rates and worsening growth outlook during the quarter leading to increased volatility and harsh declines in stock prices. This marks the second time in over forty years that both bonds and stocks posted losses for two consecutive quarters, the last time being in 2008. The S&P 500 index dropped by 16% while the NASDAQ index declined by 22%. Only the energy sector was able to produce positive returns due to high oil prices.

4.0 LOCAL UPDATES

Since 2015, 34 discoveries have been made offshore Guyana. Thirty (30) 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, 3 new discoveries were made during the quarter – all 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 is expected to reach its capacity of 220,000 bpd later this year. 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 2024. 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 that 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 10 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%.

As at June 30, 2022 Guyana received revenue for twelve lifts of 1-million-barrel (approximate) oil cargoes as its share of profit oil with two being received this quarter. It is expected that revenue from an additional 10 oil cargoes will be received in 2022.

5.0 INVESTMENT MANDATE

To date, there has been no investment mandate for the Fund and all petroleum revenues are held as cash deposits in the Natural Resource Fund account. A revised Natural Resource Fund Act was passed in the National Assembly and assented to by the president on December 30, 2021. This revised Act assigns the responsibility for the preparation of the investment mandate to a Board of Directors.

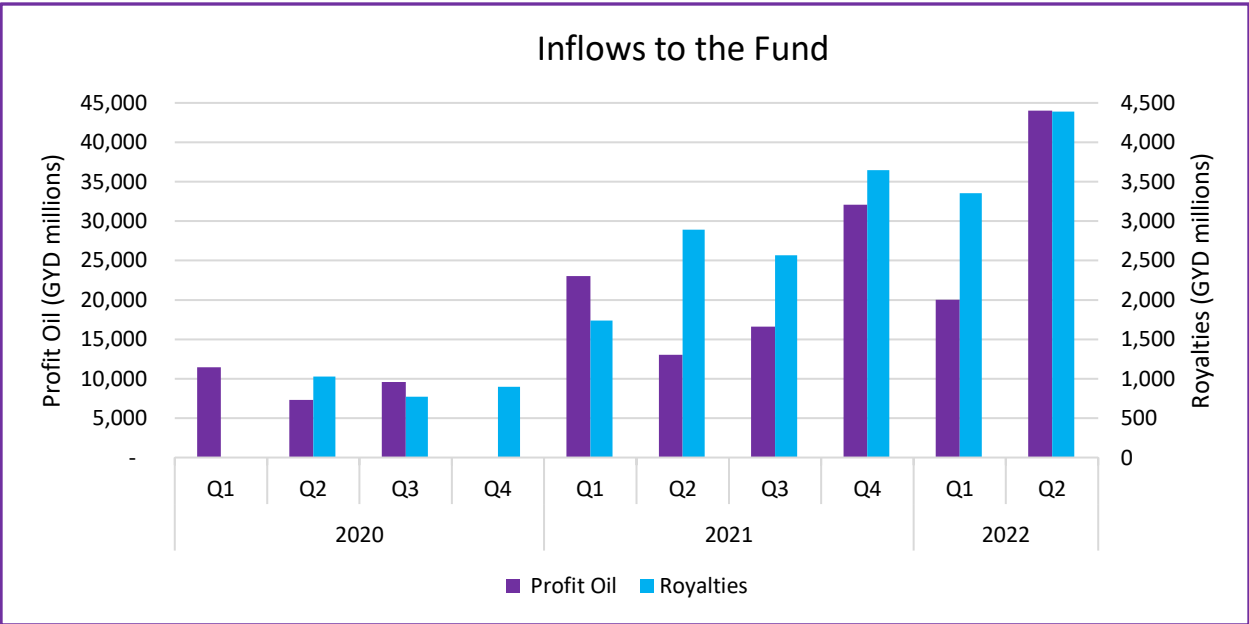
6.0 ACTIVITIES OF THE FUND

6.1 Receipts to the Fund

During the quarter, inflows to the Fund amounted to G\$48,406.32 million (US\$232.16 million) comprising of profit oil - G\$44,015.41 million (US\$211.11 million) and royalties - G\$4,390.90 million (US\$21.06 million). These funds were deposited into the Natural Resource Fund Account held at the Federal Reserve Bank of New York.

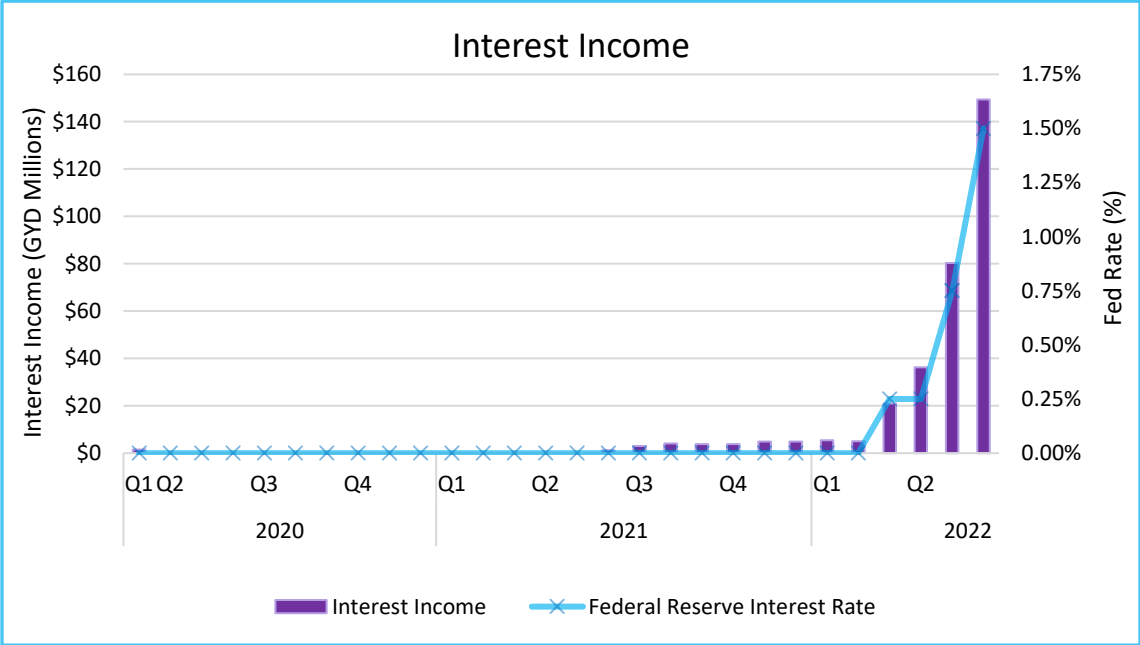
Since its inception, the Fund has received G\$177,147.95 million (US\$849.63 million) from twelve lifts of profit oil and G\$21,280.53 million (US\$102.06 million) from royalties (see appendix).

Graph 3



Over the quarter the Federal Reserve increased its target range for the federal funds rate twice moving it from 0.25% - 0.5% to 0.75% - 1% and then again to 1.5% - 1.75%. As a result of these increases which caused the interest rate on overnight deposits to rise significantly, and a higher account balance, the Fund was able to earn a higher level of interest income on its overnight deposits than previous quarters. The Fund earned G\$266.04 million (US\$1.28 million) in interest income over the quarter compared to G\$31.57 million (US\$151,412.05) the previous quarter.

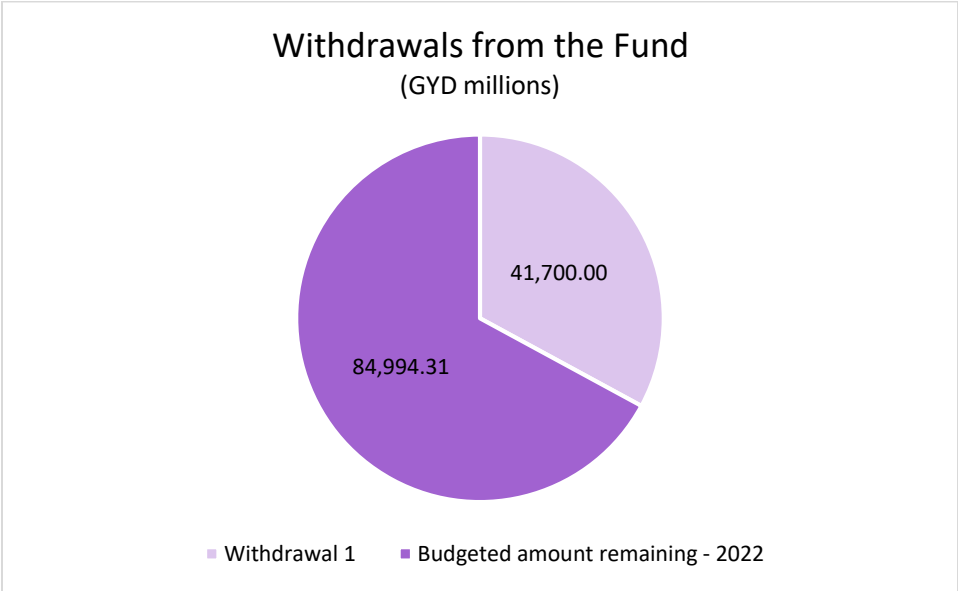
Graph 4



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 32.91% of the total amount budgeted to be withdrawn in 2022 – G\$126,694.31 million (US\$607.65 million).

Graph 5



7.0 PORTFOLIO PERFORMANCE

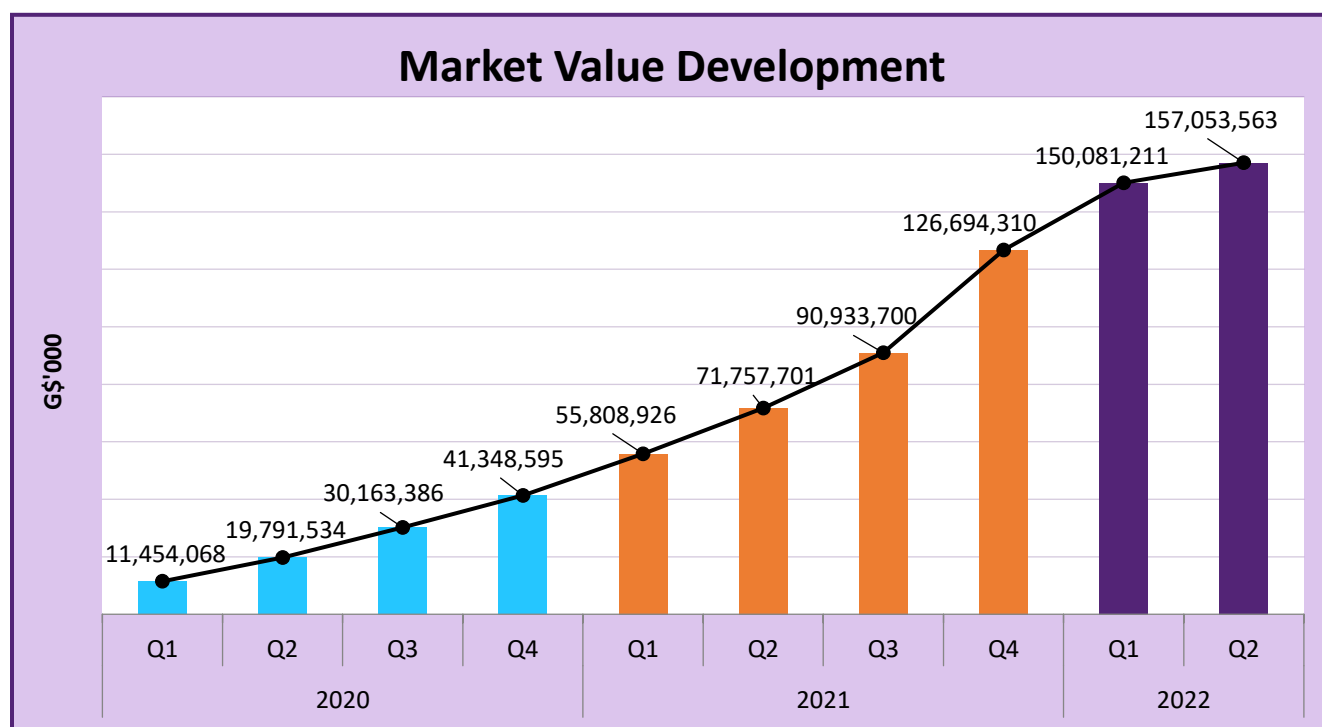
7.1 Market Value of the Fund

The market value of the Fund at June 30, 2022 stood at G\$157,053.56 million (US\$753.25 million), an increase of 4.65% (G\$6,972.35 million / US\$33.44 million) from the previous quarter.

Table 1

Changes in Market Value						G\$'000
	2021		2022			Since Inception
	Q3	Q4	Q1	Q2	YTD	
Starting Market Value	71,757,701	90,933,700	126,694,310	150,081,211	126,694,310	0
Inflows	19,165,116	35,746,886	23,355,332	48,406,317	71,761,648	198,427,482
Withdrawals	0	0	0	-41,700,000	-41,700,000	-41,700,000
Interest Income	10,883	13,724	31,569	266,035	297,605	325,088
Capital Gains (Losses)	0	0	0	0	0	993
Admin., management and other costs	0	0	0	0	0	0
Final Market Value	90,933,700	126,694,310	150,081,211	157,053,563	157,053,563	157,053,563

Graph 6



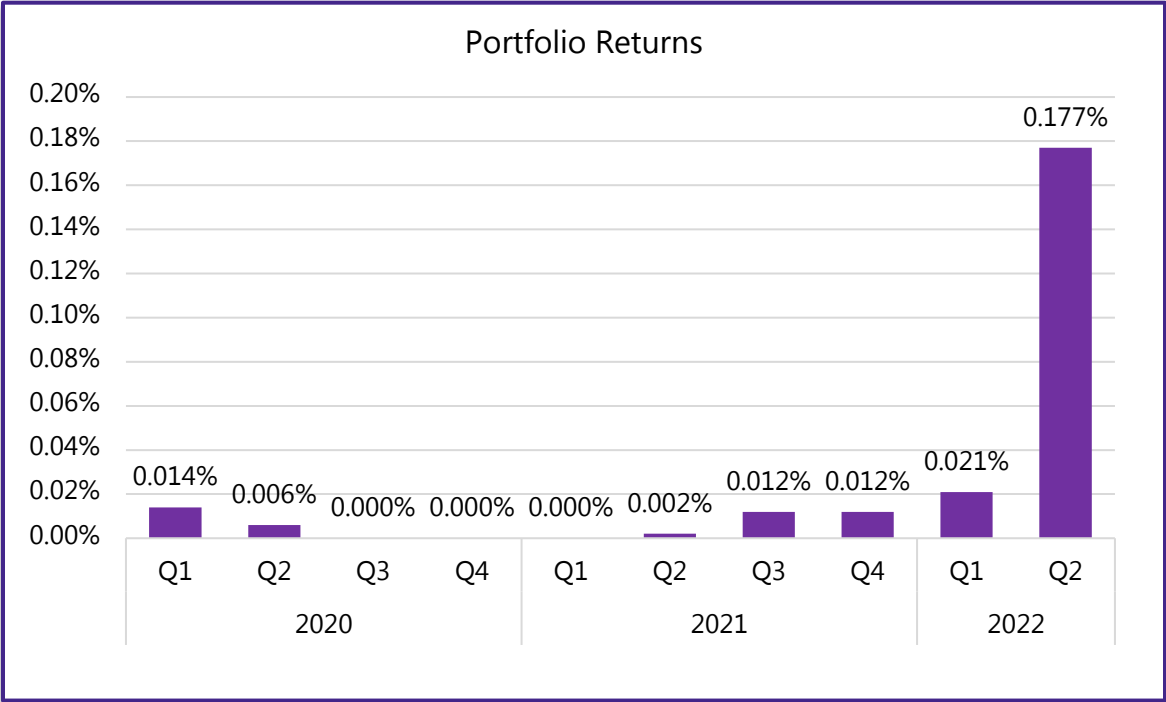
7.2 Performance

The Fund recorded a profit of G\$266.04 million (US\$1.28 million) this quarter solely due to interest earned on deposits. This resulted in a return¹ of 0.177% for the quarter compared with 0.021% in the previous quarter. The fund earned an annualized return of 0.098% since its inception.

Table 2

FUND PORTFOLIO	2021		2022			Since Inception (Annualized)
	Q3	Q4	Q1	Q2	YTD	
Return	0.012%	0.012%	0.021%	0.177%	0.198%	0.098%
Benchmark	-	-	-	-	-	-
Excess	-	-	-	-	-	-

Graph 7



¹ The Fund is not currently tracking an index as funds were not invested in securities as at June 30, 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

Capital Account		G\$'000	
Period		Q1 - 2022	Q2 - 2022
Opening Balance at beginning of the period		126,694,310	150,081,211
Inflows to Fund for the quarter:			
	Royalties	3,354,340	4,390,904
	Profit Oil	20,000,992	44,015,413
Outflows from Fund to Consolidated Fund a/c for the quarter		(0)	-41,700,000
Net Result for the quarter		31,569	266,035
Closing Balance at the end of the quarter		150,081,211	157,053,563

Table 4

Assets		G\$'000	
Period		Q1 - 2022	Q2 - 2022
Cash and Cash Equivalents		150,081,211	157,053,563
Other receivables		0	0
Financial Assets held at fair value through profit and loss		0	0
Less:			
Payables		(0)	(0)
Total Net Assets		150,081,211	157,053,563

Table 5

Income	G\$'000	
Period	Q1 - 2022	Q2 - 2022
Interest Income	31,569	266,035
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	31,569	266,035
Expenses		
Management fees	(0)	(0)
Transaction costs	(0)	(0)
Other expenses	(0)	(0)
Total Expenses	(0)	(0)
Net Result for the Quarter	31,569	266,035

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
Total	747,077,432.99	102,548,225.10	102,064,905.37	