

December 31, 2022



Natural Resource Fund
Quarterly Report
October 1 – December 31, 2022

TABLE OF CONTENTS

1.0	INTRODUCTION	1
2.0	EXECUTIVE SUMMARY	2
3.0	MARKET TRENDS DURING THE QUARTER.....	3
3.1	Global Market Conditions.....	3
3.2	Global Fixed Income Bonds	5
3.3	Global Equities	6
4.0	LOCAL UPDATES.....	6
5.0	INVESTMENT MANDATE	7
6.0	ACTIVITIES OF THE FUND	8
6.1	Receipts to the Fund	8
6.2	Transfers to the Consolidated Fund.....	10
7.0	PORTFOLIO PERFORMANCE	10
7.1	Market Value of the Fund	10
7.2	Performance.....	12
8.0	FINANCIAL SUMMARY.....	13
9.0	APPENDIX.....	15

1.0 INTRODUCTION

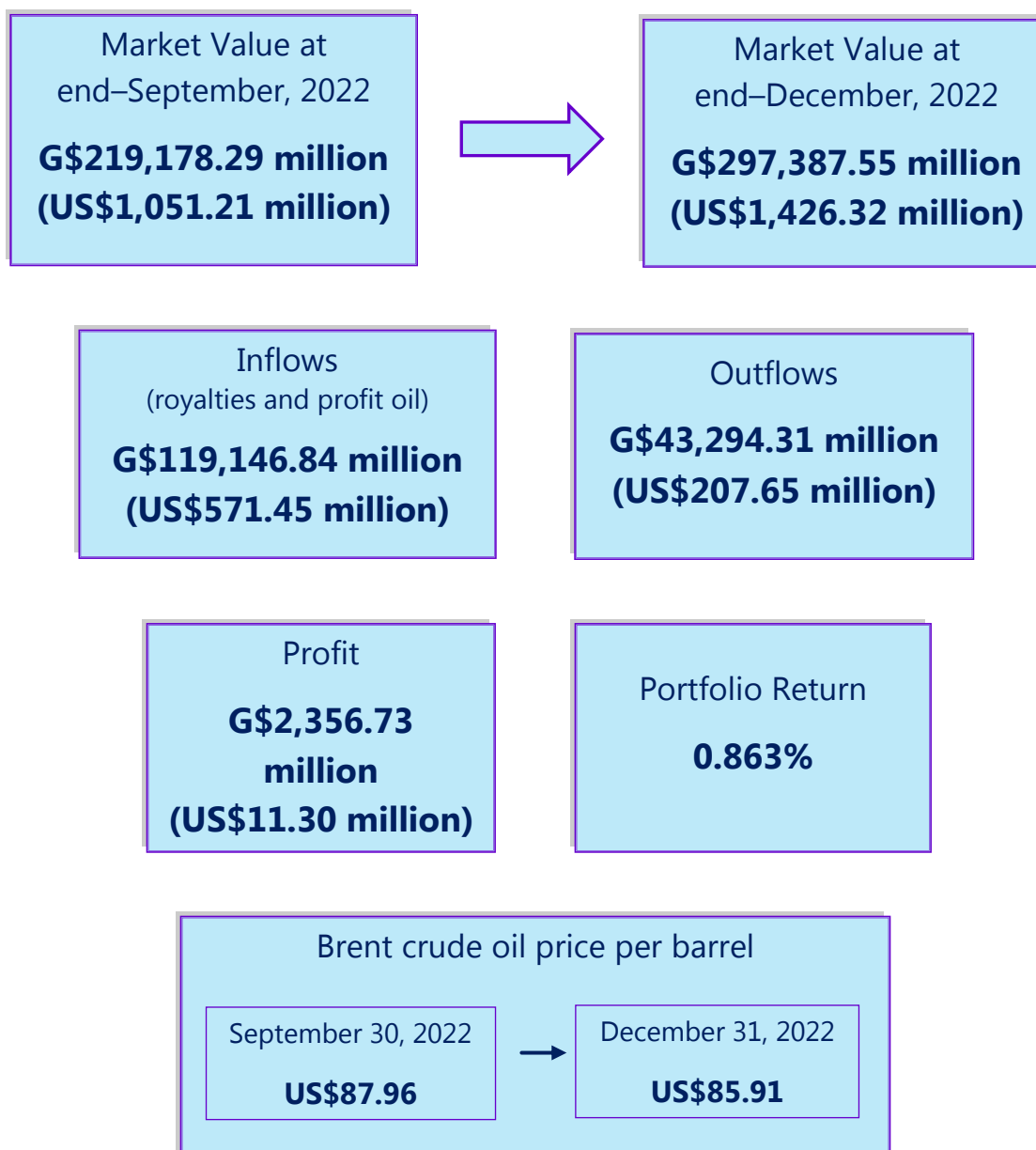
The Natural Resource Fund was formed by the enactment of the Natural Resource Fund Act 2019 which was passed in the National Assembly on January 3, 2019 and assented to by the President on January 23, 2019. This act was subsequently replaced with the Natural Resource Fund Act 2021 which was passed in 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 December 31, 2022 was GYD 208.50 = USD 1.

2.0 EXECUTIVE SUMMARY

This report covers the period October 1, 2022 – December 31, 2022



3.0 MARKET TRENDS DURING THE QUARTER

3.1 Global Market Conditions

The global economy slowed as it continues to face disruptions to economic activity exacerbated by geopolitical risks and inflationary pressures coupled with tightening monetary policies by global central banks. According to the World Bank, the global economy is experiencing its steepest slowdown following a post-recession recovery since 1970. The IMF in its October forecast pegged global growth for 2022 at 3.2%, a decline from the 6% in 2021. Further, the expected growth for 2023 was forecasted to be much lower at 2.7%, with 1.1% projected for advanced economies and 3.7% projected for emerging market and developing economies. The global economy will continue to face uncertainties and headwinds from the lingering effects of COVID-19, China's abrupt easing of its Zero-COVID Policy, geopolitical risks and inflation.

The Managing Director of the IMF recently indicated that the year ahead might be even tougher than 2022 as the main drivers of global growth - the United States, Europe and China are all experiencing weakening economic activity. Russia's attack on Ukraine continues to affect nations around the globe, with higher food and energy prices caused by food shortages and supply chain disruptions in the energy market. Inflation remains one of the greater challenges affecting global economic activity. The IMF projected global inflation for 2023 at 6.5%, a slightly reduced level than the 8.8% estimated for 2022. China's dismantling of its Zero-COVID Policy as it heads into 2023, may result in negative consequences for the global economy.

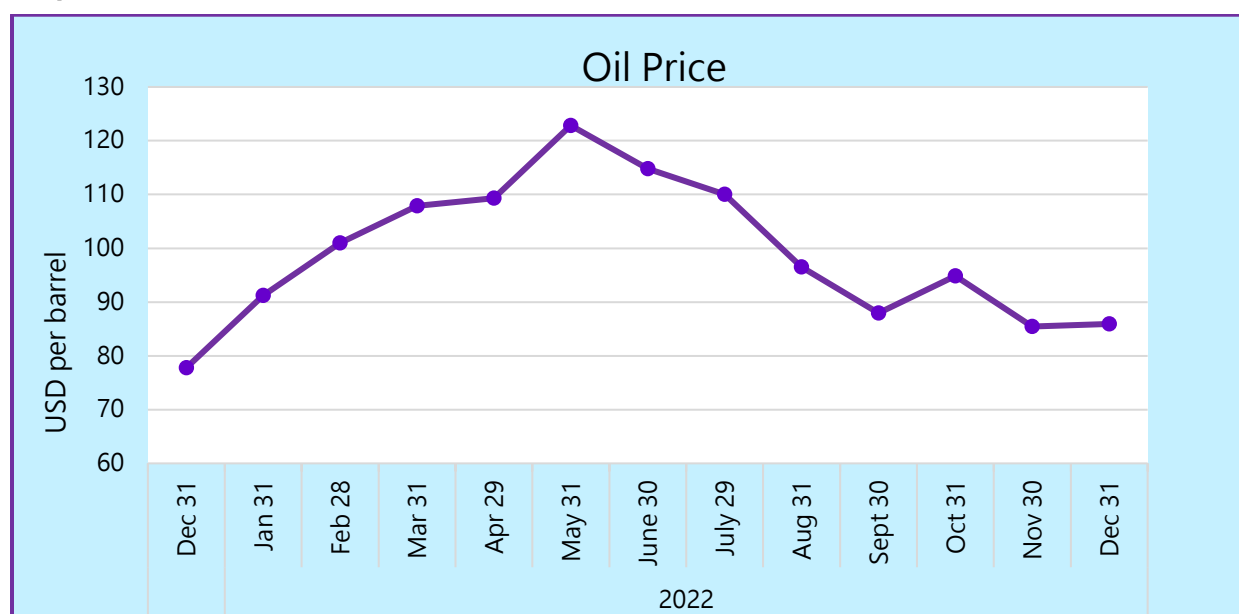
Central banks continue to exhibit a hawkish stance towards interest rates in an effort to tackle elevated inflation. The US Federal Reserve again increased the target range for the federal funds rate twice during this quarter as done in Q3 – first from 3.75% - 4% and then to 4.25% - 4.5%. Throughout 2022, the Fed had a record seven rate hikes, which led to an overall increase of 425 bps for the year. Other major central banks followed suit implementing tighter monetary policies. The Bank of England increased its rate twice in the quarter from 2.25% to 3% and finally to 3.5%, while the Canadian

Central Bank and the European Central Bank hiked their rates from 3.25% to 4.25%, and 1.25% to 2.5% respectively. Despite slight moderations in inflation, rate hikes are likely to continue, albeit at a slower pace, as inflation levels remain far from the Federal Reserve's 2% target.

Oil prices fluctuated throughout most of the fourth quarter but experienced a general decline moving towards the end of the quarter opening at US\$87.96/bbl. and closing at US\$85.91/bbl. Prices reached a peak of US\$98.57/bbl. in November and a low of US\$76.10/bbl. in December. The general decrease in oil prices towards the end of the quarter were partly due to China's continued lower than expected demand for oil as a result of the nation's ongoing battle against the COVID-19 pandemic. Central Bank interest rate hikes and a stronger US dollar were also key headwinds against demand as oil became more expensive for other currency holders. China's announcement at the end of the quarter to loosen its Zero-COVID policy rules including opening of its borders could hint at a rebound in oil prices for 2023.

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

Graph 1



Gold prices increased throughout the final quarter of the year opening at US\$1660.61 per ounce and closing at US\$1824.02 per ounce. This increase was not consistent throughout the quarter as gold experienced a downward trend in October reaching a low of US\$1628.02 per ounce owing to continuous interest rate hikes and a strong US dollar. A rebound in the price of gold was imminent as the US dollar started to weaken amid US employment news hinting that the Federal Reserve Bank may adopt a less aggressive monetary stance. The safe haven asset soared towards the end of the quarter reaching a high of US\$1824.02 per ounce as investors expected the pace of rate hikes to slow coupled with the effect of China's shift to ease COVID-19 restrictions.

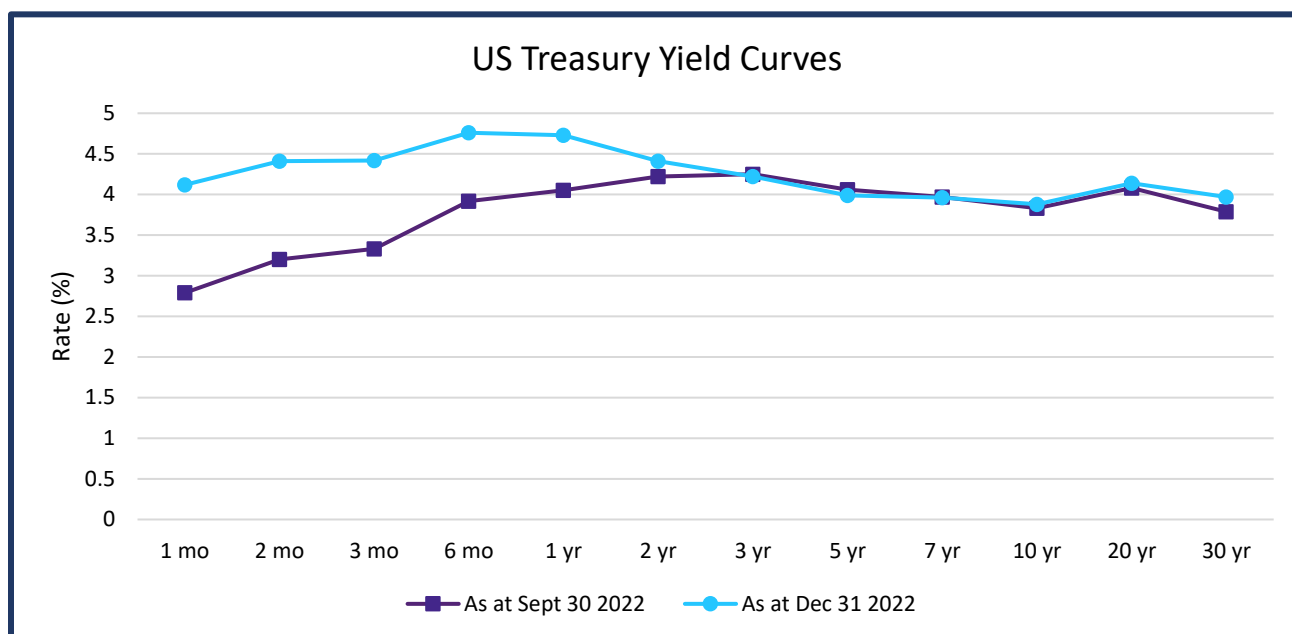
3.2 Global Fixed Income Bonds

The final quarter of the year saw a rather volatile fixed income market. As inflation seemed to be peaking, investor sentiment improved and prices rose during the middle of the quarter. However, as central banks retained hawkish stances with all but one of the G7 countries increasing rates, albeit at a slower pace, in December, the market reversed and prices fell. Despite the small rally, prices have generally decreased over the quarter and this has resulted in the worst year on record for the bond market. The inversion in the yield curve has also become more extreme leaving investors certain of a coming recession.

The yields of 10-year government bonds generally saw increases from the last quarter regardless of the declines in November. The US 10 – year bond yield rose from 3.83% to 3.88%, Spain's yield increased from 3.29% to 3.65%, France's went up from 2.73% to 3.10% and Germany's yield moved up from 2.11% to 2.57%. However, the UK's yield decreased from 4.13% to 3.70%.

The graph below shows the US Treasury yield curve at September 30, 2022 and December 31, 2022. Shorter dated bonds saw significant increases in yields in comparison with medium to long term bonds which were minimally affected over the period. This has led to an almost completely inverted yield curve as nearly all short term bonds have higher yields than medium and long term bonds.

Graph 2



Corporate bonds were able to rally over the quarter gaining moderate positive returns and outperforming government bonds after suffering losses for the previous three quarters. Credit spreads tightened due to improved risk sentiment as inflation seems to be peaking. According to the Bloomberg Barclays Global Aggregate Corporate Total Return Index, corporate bonds rose from 235.89 to 248.85, an increase of 5%.

3.3 Global Equities

The performance of the equity market was mixed amidst interest rates pushing higher despite the indication that inflation was cooling along with recession concerns. Most stocks were able to report gains over the quarter in spite of losses in the last month of the year. The S&P 500 index increased by 7% while the NASDAQ index lagged behind and declined slightly by 1%.

4.0 LOCAL UPDATES

Since 2015, 38 discoveries have been made offshore Guyana. Thirty-four (34) 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, 2 new discoveries were made during the quarter – both 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 by the end of the 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 2023. 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 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 11 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%.

During the quarter, Guyana has lifted six 1-million-barrel (approximate) oil cargoes as its share of profit oil, with the payment for two lifts to be received on January 3 & 23, 2023 respectively. In 2022, Guyana accounted for the scheduled thirteen lifts as expected for the year. To date, Guyana obtained twenty-two lifts of profit oil since the inception of the Fund.

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, which was appointed on April 20, 2022.

6.0 ACTIVITIES OF THE FUND

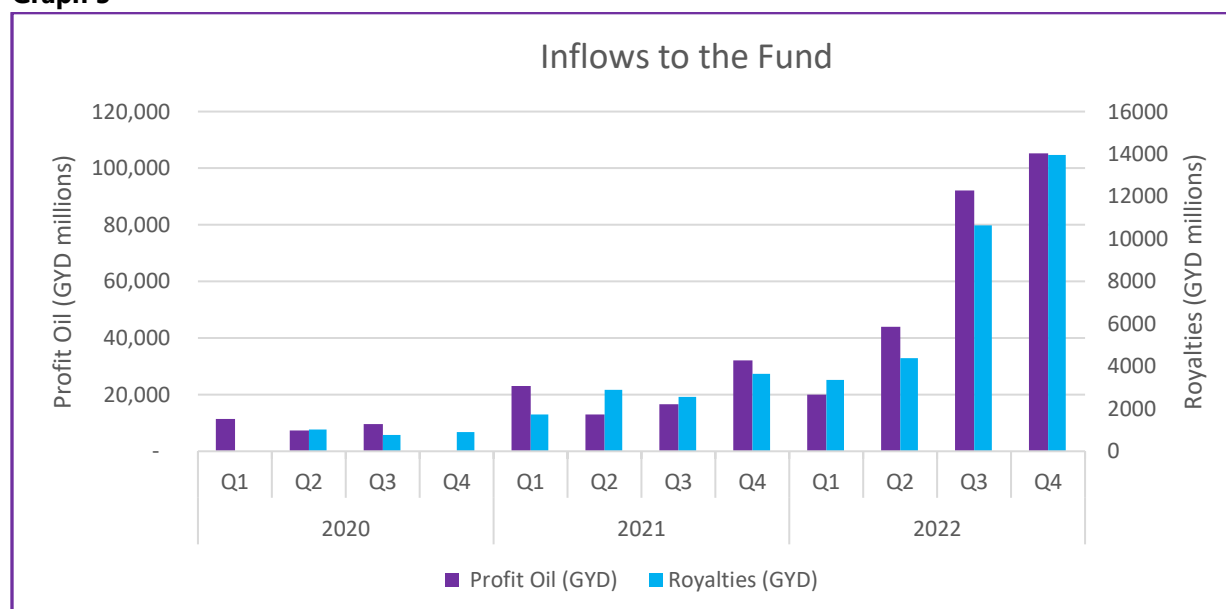
6.1 Receipts to the Fund

During the quarter, the Fund accounted for under the accrual basis inflows amounting to G\$119,146.84 million (US\$571.45 million) comprising of profit oil - G\$105,188.37 million (US\$504.50 million) and royalties - G\$13,958.47 million (US\$66.95 million). All of the Royalties were deposited into the Natural Resource Fund account held at the Federal Reserve Bank of New York, but profit oil payments for two lifts which occurred in November and December 2022 totalling G\$32,224.15 million (US\$154.55 million) are to be received in January 2023.

As a result of an additional FPSO being in operation, more lifts were made and hence, more profit oil received compared to previous quarters.

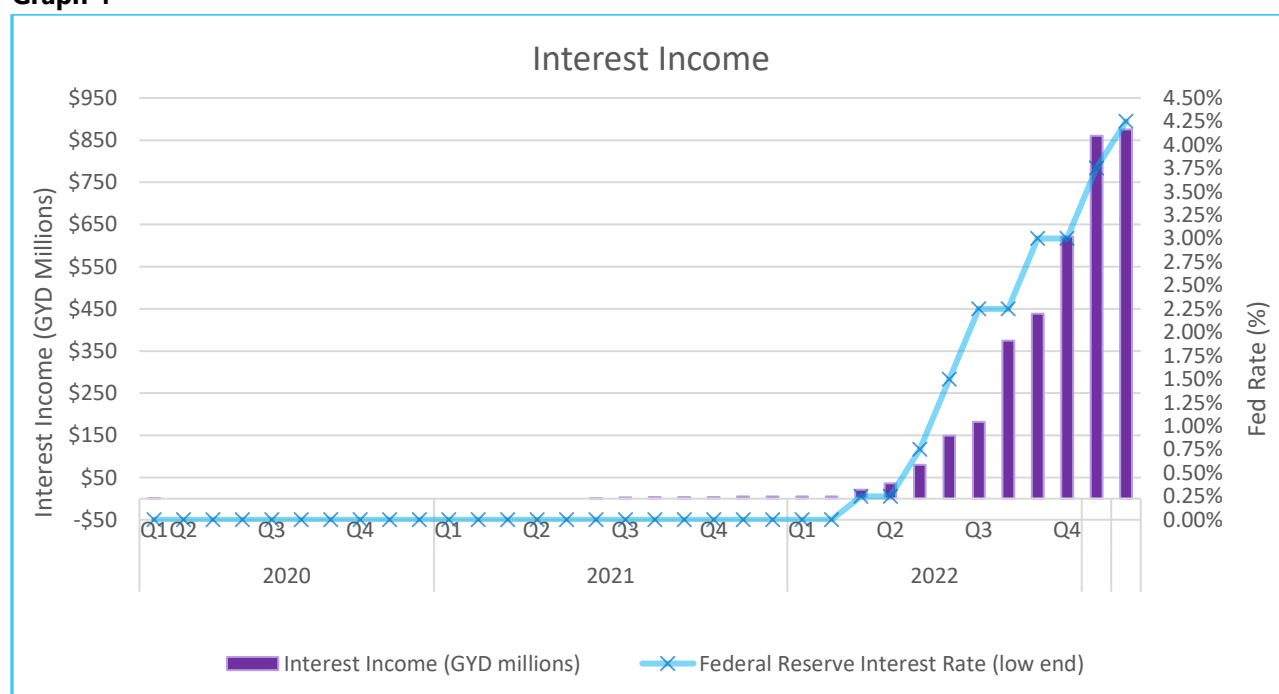
Since its inception, the Fund has accounted for G\$374,518.14 million (US\$1,796.25 million) from 22 lifts of profit oil and G\$45,885.16 million (US\$220.07 million) from royalties (see appendix).

Graph 3



Over the quarter the Federal Reserve increased its interest rates target range twice moving it from 3% - 3.25% to 3.75% - 4% and then to 4.25% - 4.5%. As a result of these increases which caused interest rates on overnight deposits to rise significantly, and a higher account balance, the Fund continued to earn a higher level of interest income on its overnight deposits than previous quarters. The Fund earned G\$2,356.73 million (US\$11.30 million) in interest income over the quarter compared to G\$995.75 million (US\$4.78 million) the previous quarter. In 2022, the Fund earned interest income of G\$3,650.08 million (US\$17.51 million) compared with G\$25.90 million (US\$0.12 million) for 2021.

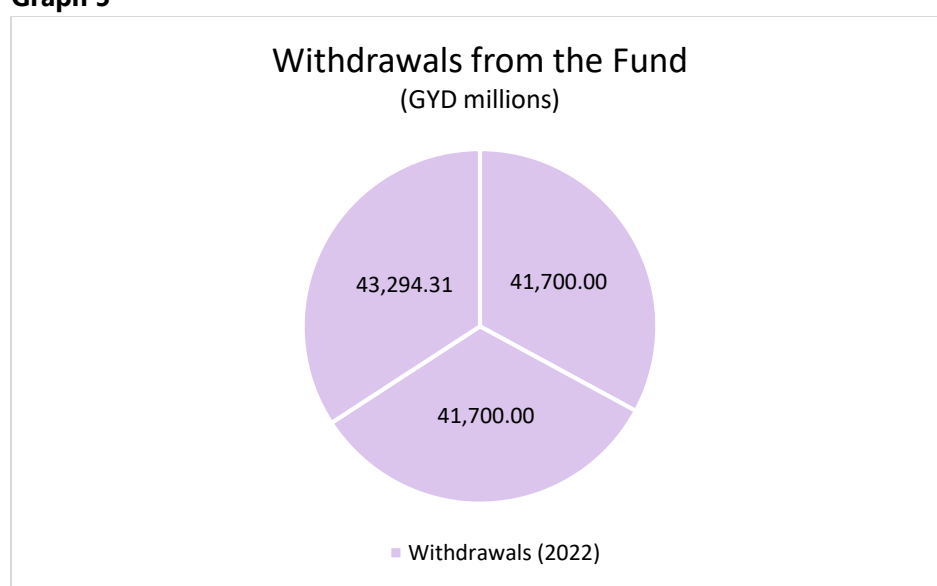
Graph 4



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\$43,294.31 million (US\$207.65 million). This amount represents the remaining 34.17% of the total amount budgeted to be withdrawn in 2022 bringing total withdrawals for the year to G\$126,694.31 million (US\$607.65 million).

Graph 5



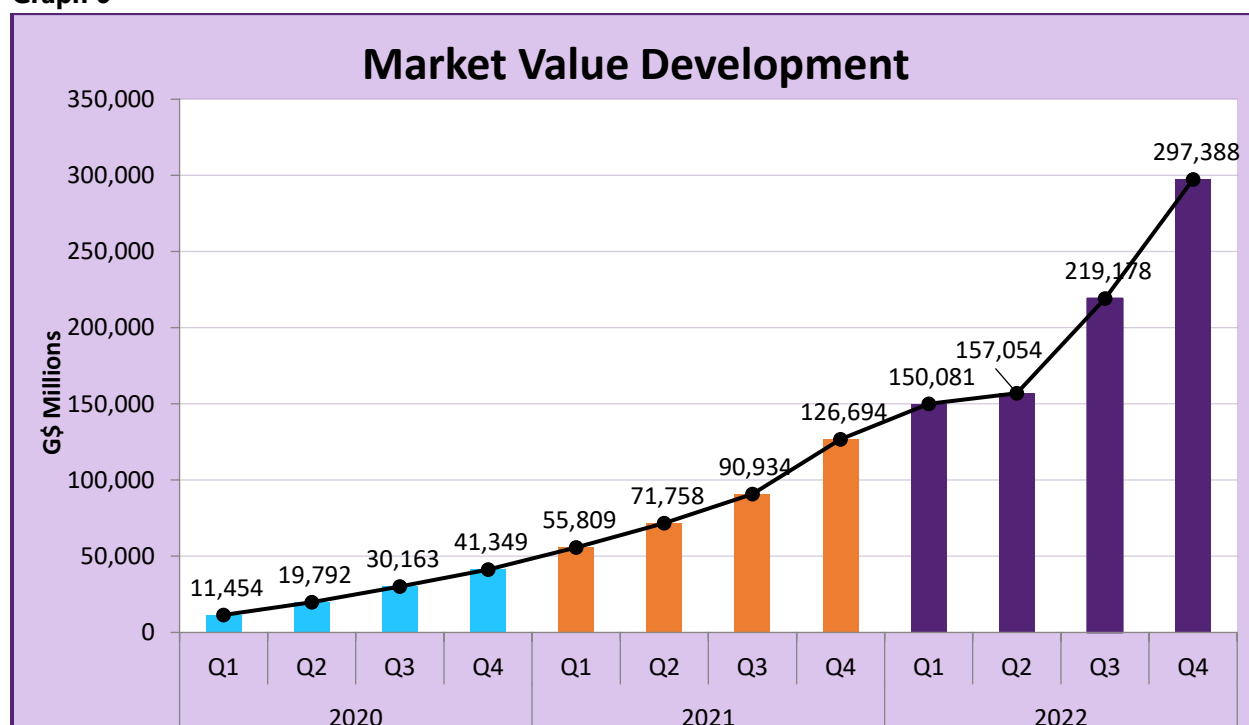
7.0 PORTFOLIO PERFORMANCE

7.1 Market Value of the Fund

The value of the fund (including cash deposits and revenue receivables) at December 31, 2022 totalled G\$297,387.55 million (US\$1,426.32 million), an increase of 35.68% (G\$78,209.26 million / US\$375.11 million) from the previous quarter. The Fund comprised – *cash deposits* of G\$265,163.4 million (US\$1,271.77 million) held at the Federal Reserve Bank and *revenue receivables* totalling G\$32,224.15 million (US\$154.55 million). The receivables represented funds for the two lifts of profit oil of US\$82.61 million and US\$71.94 million to be received in January 2023.

Table 1

Changes in Market Value						G\$'000
	2022					Since Inception
	Q1	Q2	Q3	Q4	YTD	
Starting Market Value	126,694,310	150,081,211	157,053,563	219,178,291	126,694,310	0
Inflows	23,355,332	48,406,317	102,828,982	119,146,836	293,737,467	420,403,301
Withdrawals	0	-41,700,000	-41,700,000	-43,294,310	-126,694,310	-126,694,310
Interest Income	31,569	266,035	995,746	2,356,735	3,650,085	3,677,568
Capital Gains (Losses)	0	0	0	0	0	993
Admin., management and other costs	0	0	0	0	0	0
Final Market Value	150,081,211	157,053,563	219,178,291	297,387,552	297,387,552	297,387,552

Graph 6

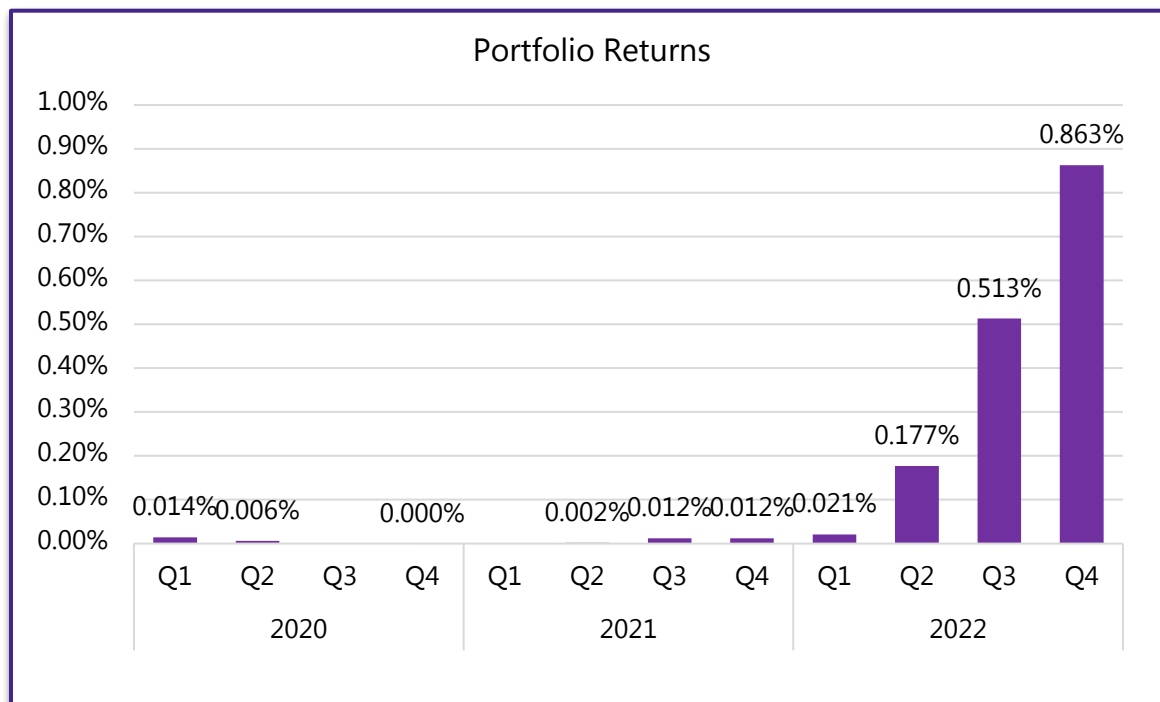
7.2 Performance

The Fund recorded a profit of G\$2,356.73 million (US\$11.30 million) this quarter solely due to interest earned on deposits. This resulted in a return¹ of 0.863% for the quarter compared with 0.513% in the previous quarter. The Fund earned an annualized return of 0.540% since its inception.

Table 2

FUND PORTFOLIO	2022					Since Inception (Annualized)
	Q1	Q2	Q3	Q4	YTD	
Return	0.021%	0.177%	0.513%	0.863%	1.581%	0.540%
Benchmark	-	-	-	-	-	-
Excess	-	-	-	-	-	-

Graph 7



¹ The Fund is not currently tracking an index as funds were not invested in securities as at December 31, 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	Q3 - 2022	Q4 - 2022
Opening Balance at beginning of the period	157,053,563	219,178,291
Inflows to Fund for the quarter:		
Royalties	10,646,158	13,958,467
Profit Oil	92,182,824	105,188,369
Outflows from Fund to Consolidated Fund a/c for the quarter	-41,700,000	-43,294,310
Net Result for the quarter	995,746	2,356,735
Closing Balance at the end of the quarter	219,178,291	297,387,552

Table 4

Assets	G\$'000	
Period	Q3 - 2022	Q4 - 2022
Cash and Cash Equivalents	219,178,291	265,163,399
Other receivables	0	32,224,153
Financial Assets held at fair value through profit and loss	0	0
Less:		
Payables	(0)	(0)
Total Net Assets	219,178,291	297,387,552

Table 5

Income		G\$'000
Period	Q3 - 2022	Q4 - 2022
Interest Income	995,746	2,356,735
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	995,746	2,356,735
Expenses		
Management fees	(0)	(0)
Transaction costs	(0)	(0)
Other expenses	(0)	(0)
Total Expenses	(0)	(0)
Net Result for the Quarter	995,746	2,356,735

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
20-Jul-2022		122,973,502.40		1,074,664,065.86
27-Jul-2022	117,445,452.90		51,060,711.00	1,243,170,229.76
29-Aug-2022		102,543,769.89		1,345,713,999.65
13-Sep-2022	99,161,132.32			1,444,875,131.97
7-Oct-2022		88,996,551.12		1,533,871,683.09
25-Oct-2022			66,947,083.73	1,600,818,766.82
7-Nov-2022	89,149,227.73			1,689,967,994.55
14-Nov-2022		87,993,773.93		1,777,961,768.48
30-Dec-2022		83,808,725.98		1,861,770,494.46
Total	1,052,833,245.94	588,864,548.42	220,072,700.10	1,861,770,494.46

Note: Profit oil payments for two lifts which occurred in November and December 2022 of US\$82,612,294.01 & US\$71,940,000 are to be received on January 3 & 23, 2023 respectively.

Dated: 10th January, 2023

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Chief Accountant
Bank of Guyana

.....
Deputy Governor
Bank of Guyana