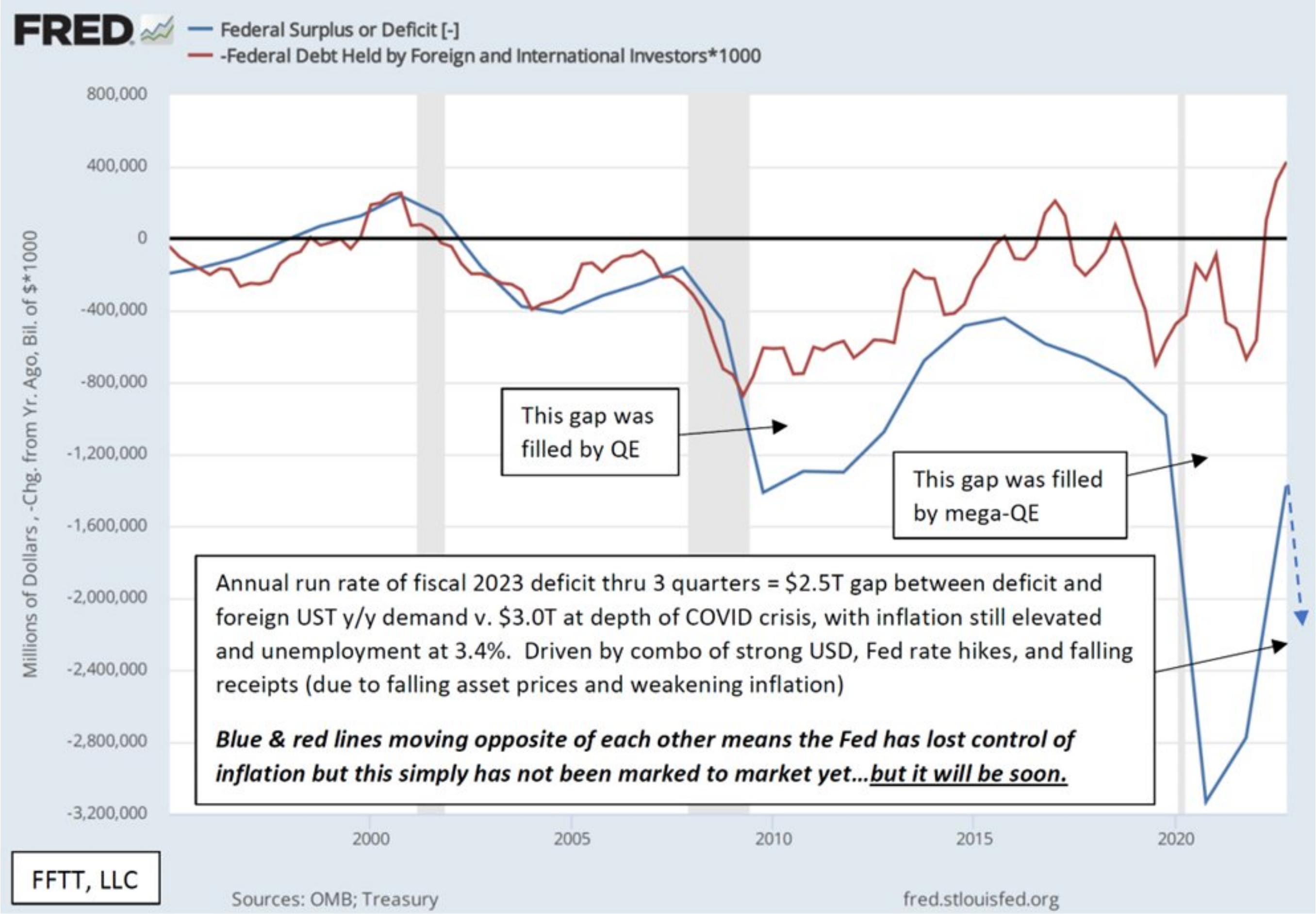
SEABRIDGE GOLD

A REALLY BIG FUNDING PROBLEM

- What central banks and commercial banks have in common
- Why inflation is no longer enemy #1

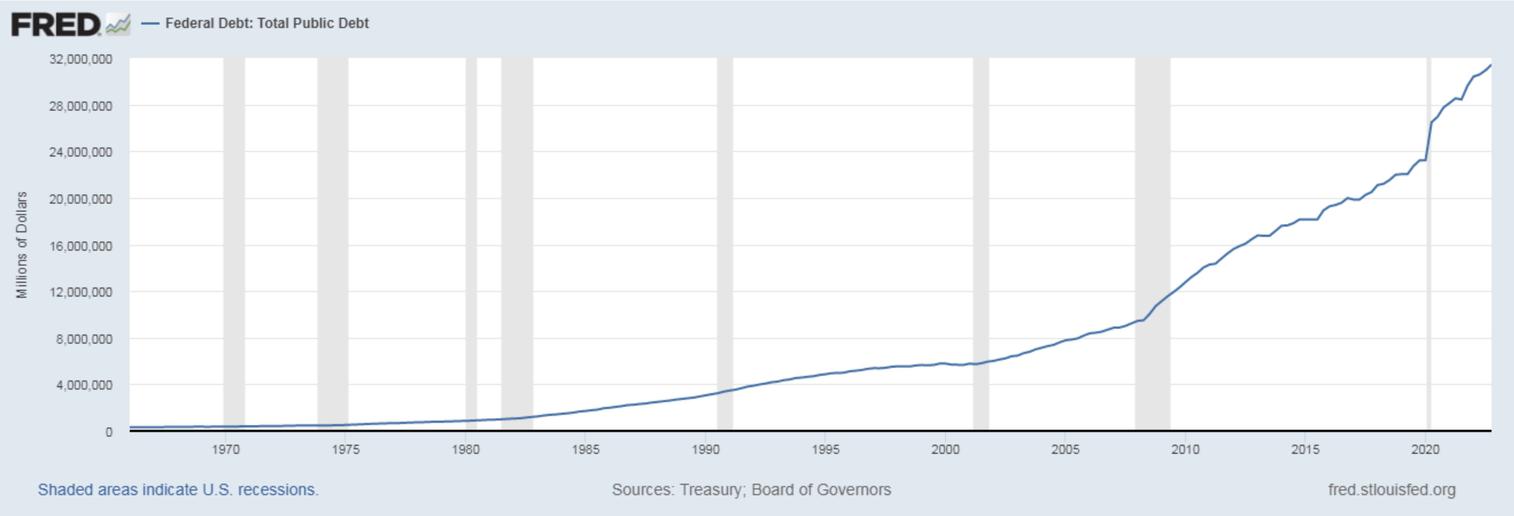
ONCE UPON A TIME…IN A GALAXY FAR, FAR AWAY

- The U.S. deficit was largely funded by foreign central banks who recycled their trade surplus dollars into Treasuries
- The dollar was universally accepted and reasonably stable vs oil so it worked as the world's reserve asset
- In 2010, foreign Treasury holdings flatlined while U.S. debt continued to grow. QE filled the gap.
- Commercial banking reserve requirements were revised to force them to hold more Treasuries and MBS during a period of zero interest rates.
- The US proved it could no longer fund its deficits from capital markets.
- The table was set for a major problem when rates increased.



FUNDING PROBLEM #1: THE U.S. TREASURY

- In 2018, the Fed tried to normalize monetary policy which was roundly rejected by markets. A sign of things to come.
- The pandemic led to shutdowns and an extraordinary $10 trillion in US fiscal and monetary stimulus. Debt rose to $31 trillion. The Fed balance sheet more than doubled to $9 trillion
- The U.S. deficit now requires 72% of estimated global growth to fund from capital markets.
- Deficits are rising as tax revenues fall (capital gains evaporate) and the fiscal authority continues to spend aggressively on programs that slow growth.
- The Fed and other central banks are selling Treasuries. Commercial banks are also sellers. Bids are declining.
- Treasury interest expense is soaring which is a classic doom loop. Issue more debt to pay interest on debt. Estimates of $900 billion annually by year end.
- Jeffrey Gundlach calls the Treasury market “wildly illiquid”. Here’s why: It’s just too big.



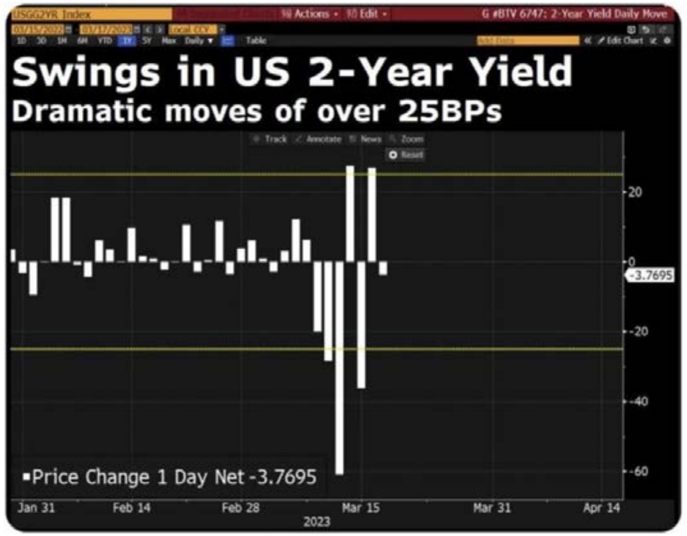
FUNDING PROBLEM #1: THE U.S. TREASURY (CONTINUED)

David Ingles @DavidInglesTV · Mar 17

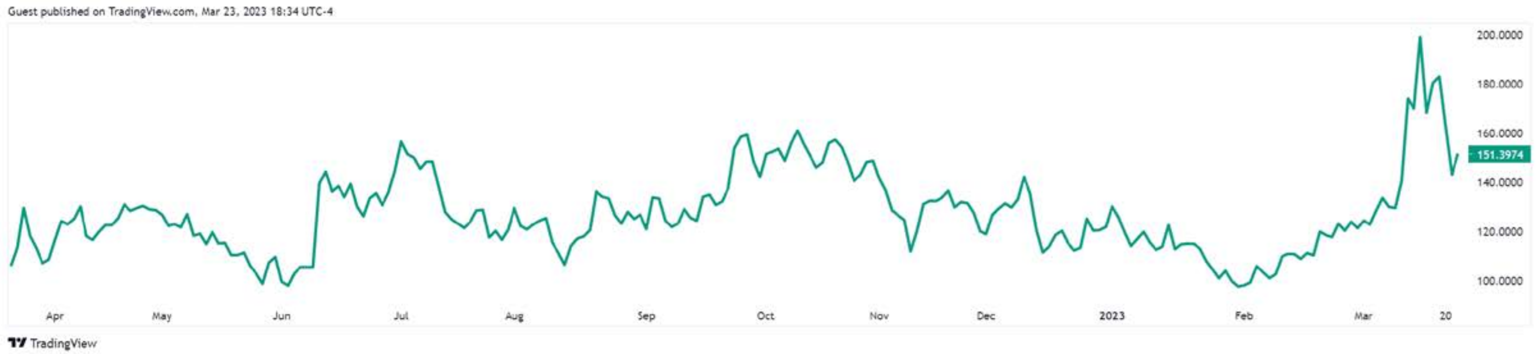
The US 2Y treasury posted a 3-SIGMA MOVE, EACH DAY, SEVERAL TIMES IN A ROW.

Statistical odds: Once every 50+ million years. This week's volatility predates most dinosaurs (assuming they traded treasuries). And that's not an exaggeration.

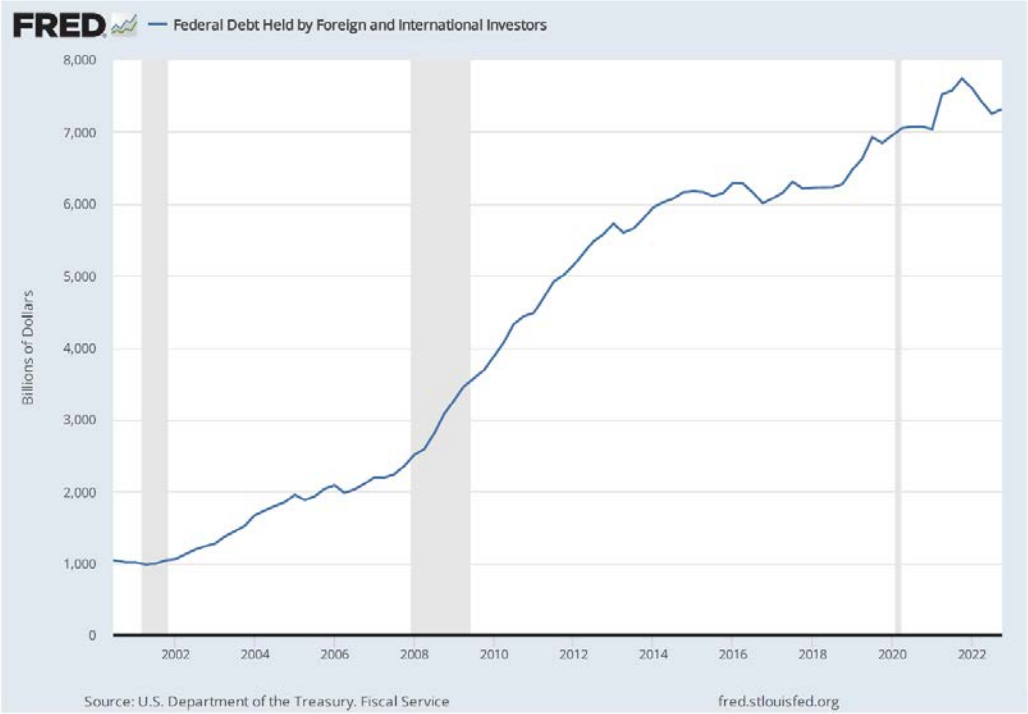
Math by @DRBCurtis



The Move Index of Treasury Market Volatility

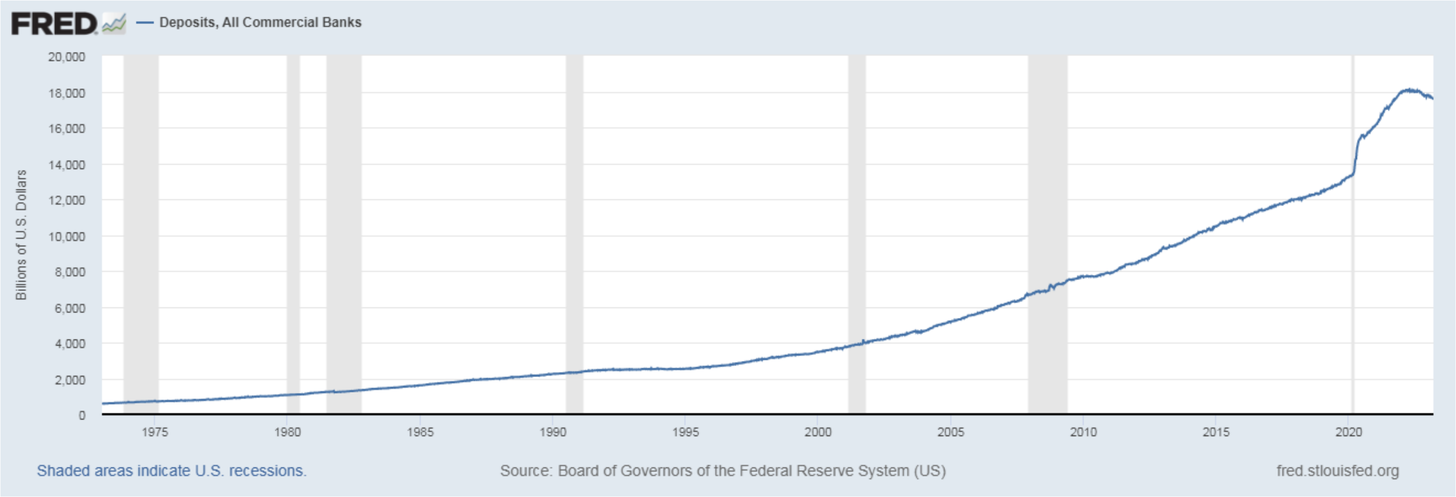


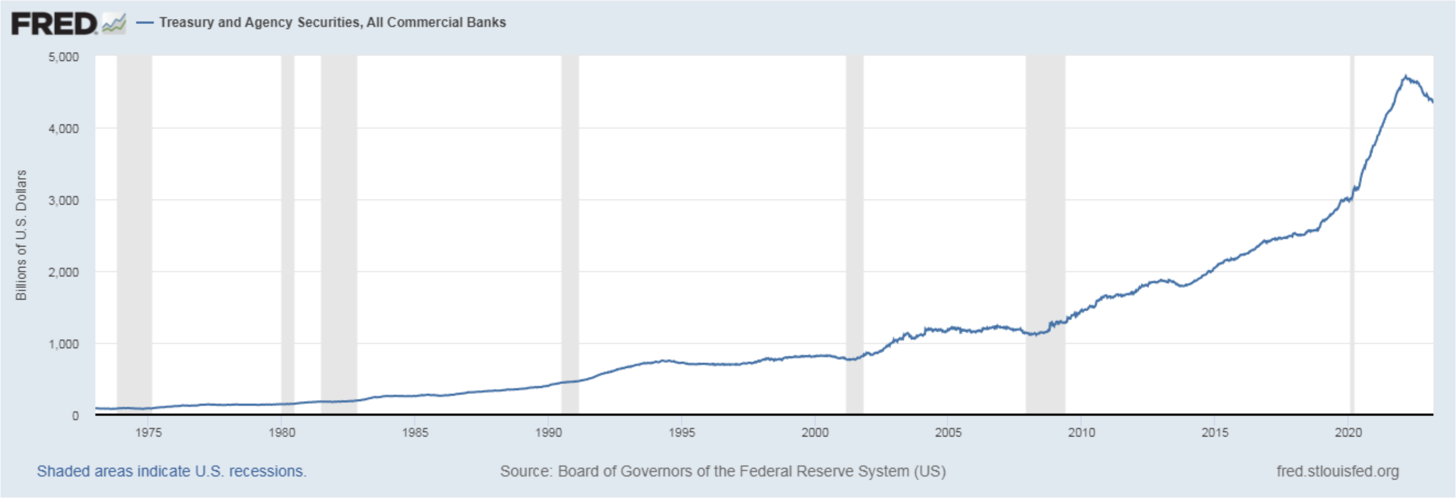
Foreign sales of $450B in Treasuries in 2022 Nearly Destroyed the Market



FUNDING PROBLEM #2: COMMERCIAL BANKS

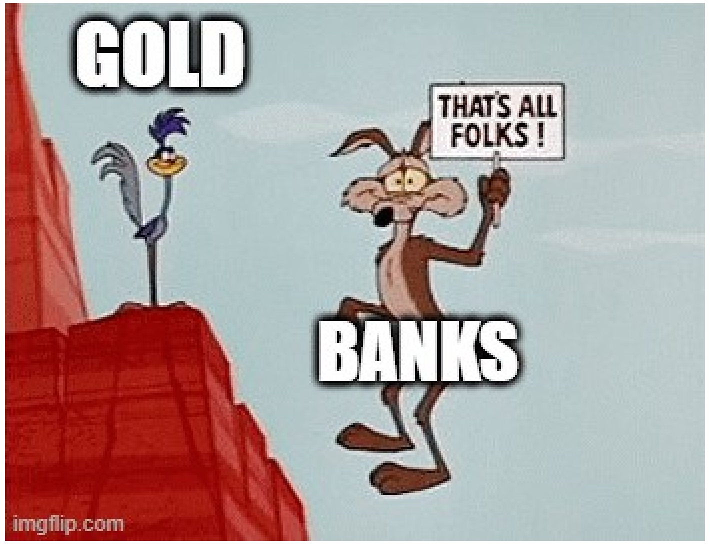
- Banks lend long and borrow short. Volatility, risks and yields were very low 2010-2019
- The pandemic weakened loan demand and tightened lending standards while COVID stimulus flooded the banking system with zero cost savings. Banks bought debt securities
- The Fed continued QE and ZIRP 10 months too long, creating inflation (transitory!) aided by Congress spending unnecessary extra trillions into the economy
- The Fed started the most aggressive tightening in history in 2022
- 2022 was the worst year in Treasury market history due in part to $450 billion in foreign selling
- Deposits left banks for higher returns which banks couldn't match because of low yielding assets
- Treasuries and agency debt fell in value but banks had to sell for liquidity





THE RESPONSE: SAVE THE TREASURY MARKET

- BTFP stops banks selling Treasuries and MBS. $2.7 trillion held by U.S. banks can be pledged for free cash at par value…no haircuts. QE by another name. What happens after 1 year? A market overhang?
- Implied guarantee of all U.S. bank deposits…$18 trillion total…but you must go bust first
- BTFP does nothing for the thousands of banks losing more deposits than they have assets eligible for BTFP
- Dollar swaps with 5 other central banks to slow the sale of $7.3 trillion in Treasuries owned by foreign central banks and bail out foreign banks
- Bottom line: Expand the Fed balance sheet. +$400 billion added to the Fed balance sheet in just 2 weeks. 2/3 of a year's QT.



WHAT ABOUT GOLD?

- Tightening is over. Inflation is no longer issue #1. The Treasury market is.
- Dollar liquidity must increase to prevent liquidation of Treasuries.
- The dollar is being sacrificed and inflation won't go back to 2% (see latest services PMI)
- Central banks are exchanging dollar assets for gold. Gold returns to the financial system.
- In 2022, official gold reserves went up a record 1,136t while dollar FX reserves fell a record $950 billion
- Gold has entered a new bull market. New highs this year.