

GOLD MARKET UPDATE

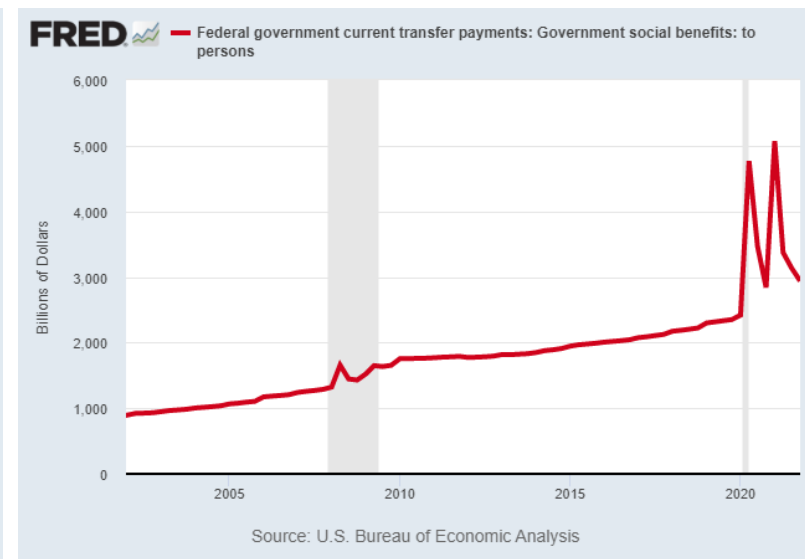
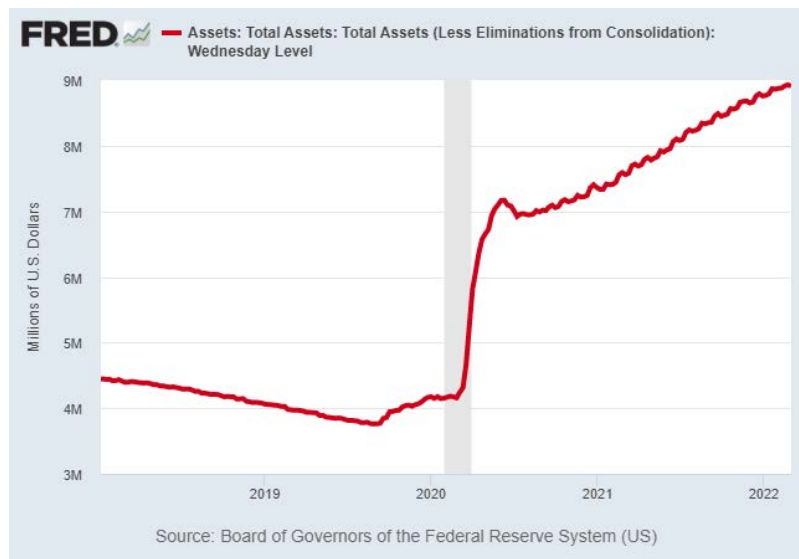
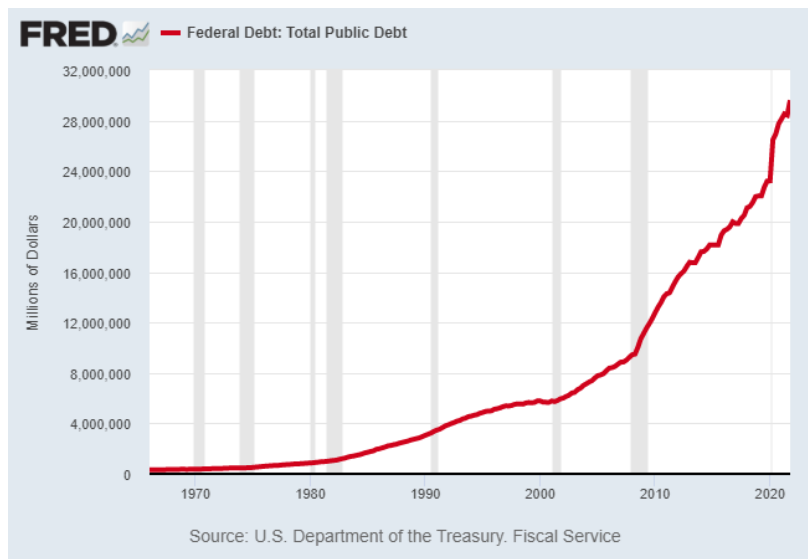
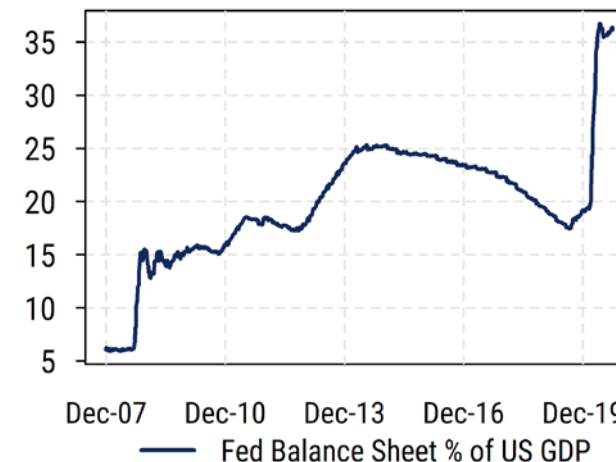
March, 2022



INFLATION IS THE STORY FOR THE NEXT DECADE

- ▶ Fiscal and monetary support has gone directly to the real economy since 2019, unlike the QE of 2009-14 which was corralled by the financial system
- ▶ The Federal Reserve's balance sheet soared to US\$8.8 trillion and the dollars went through the Treasury to the public. This is debt monetization. Inflation has been unleashed
- ▶ The invasion of Ukraine is driving energy and commodities prices higher

Federal Reserve Total Assets as a % of US GDP



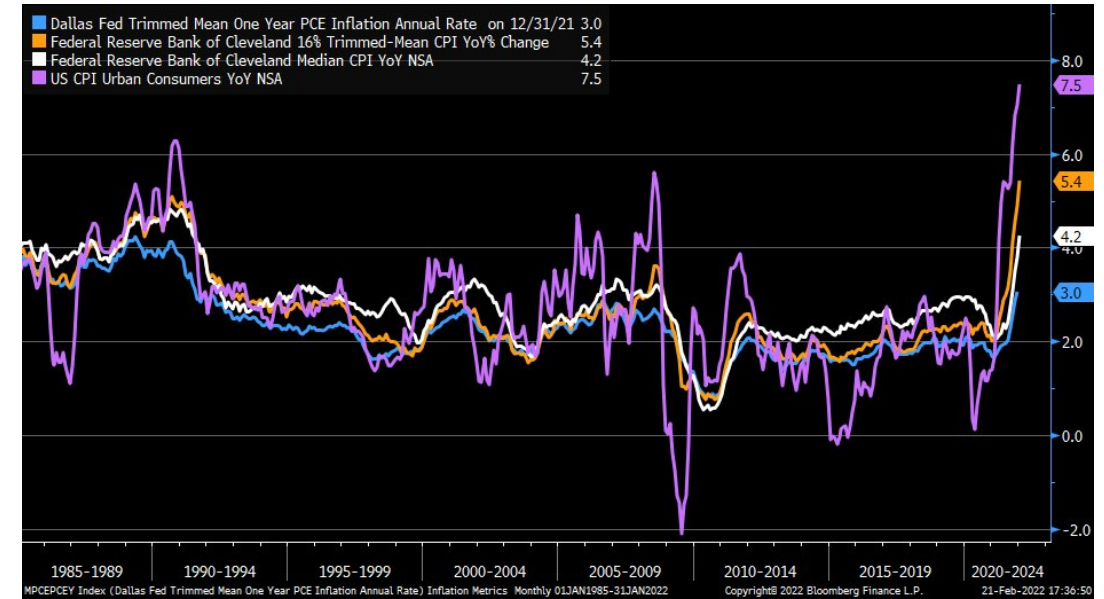
INFLATION IS UP ANY WAY YOU MEASURE IT

- ▶ The Fed's key measures of U.S. inflation are climbing at its fastest pace in decades



Source: Bloomberg

TSX: SEA | NYSE: SA

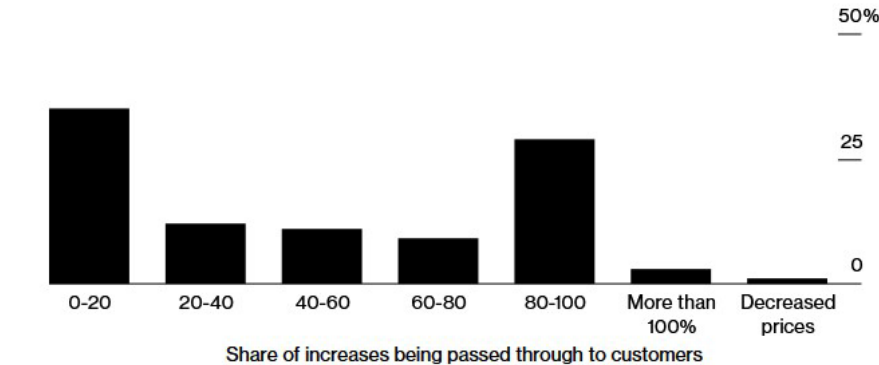


THERE IS MUCH MORE INFLATION TO COME

- ▶ Companies are beginning to pass on their cost increases to customers
- ▶ CPI has greatly outpaced wages
- ▶ Massive increase in rental prices but CPI component lags
- ▶ Inflation has greatly surpassed expectations from central banks and many economists globally

Profit Squeeze

If your firm is facing rising costs, what share are you passing through to customers in the form of higher prices?



Source: Kansas City Federal Reserve

Citi Inflation Surprise Index - Eurozone



The Daily Shot*

Source: Citibank

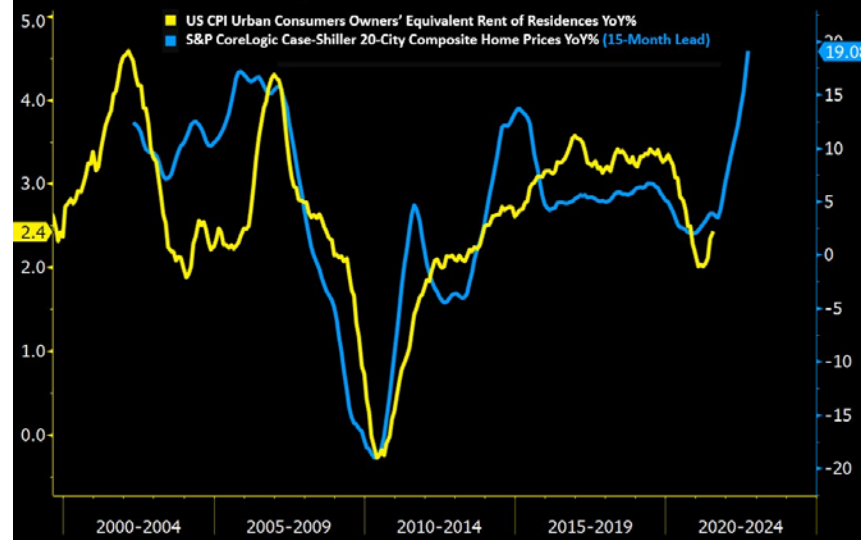
The Three Inflationary Waves of the 70s



Source: Federal Reserve

TSX: SEA | NYSE: SA

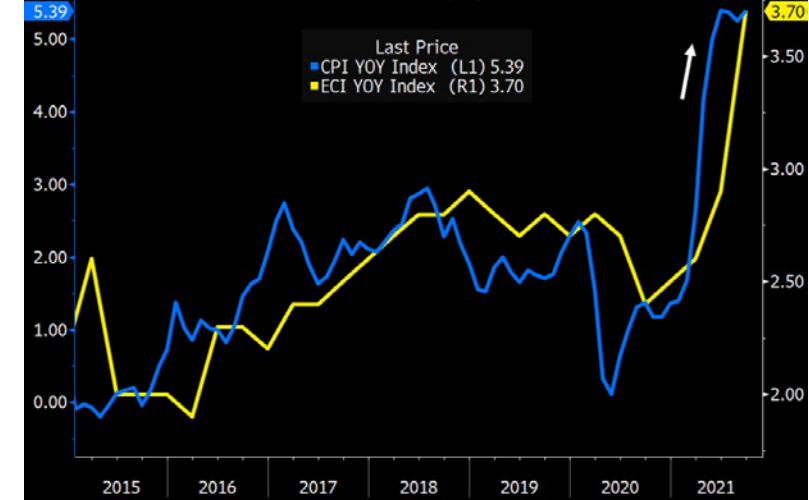
CPI Owners Equivalent Rent vs. Home Prices



Source: US Bureau of Labor Statistics

Wage-Price Spiral

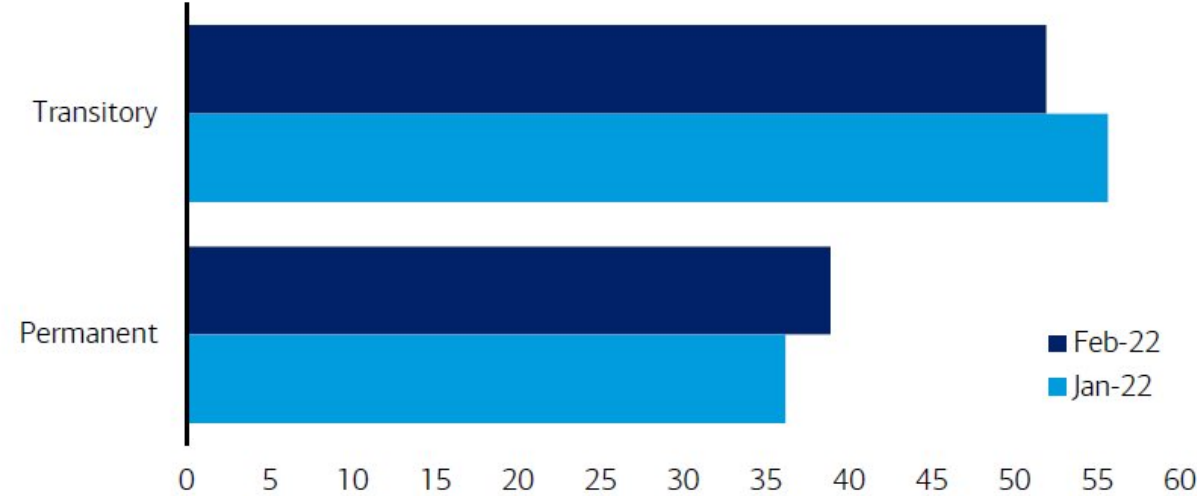
Consumer Price Index vs. Employment Cost Index



Source: Bloomberg

BUT MARKETS STILL DON'T GET THE INFLATION STORY

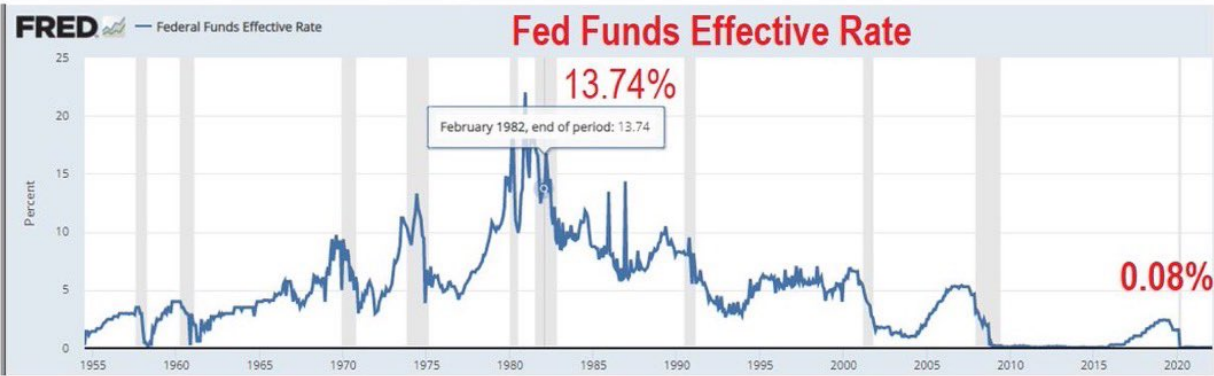
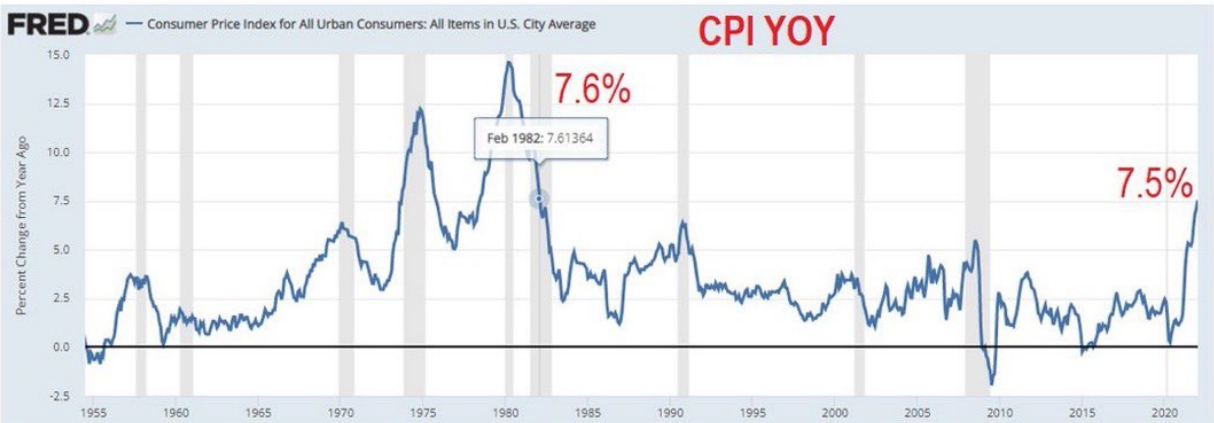
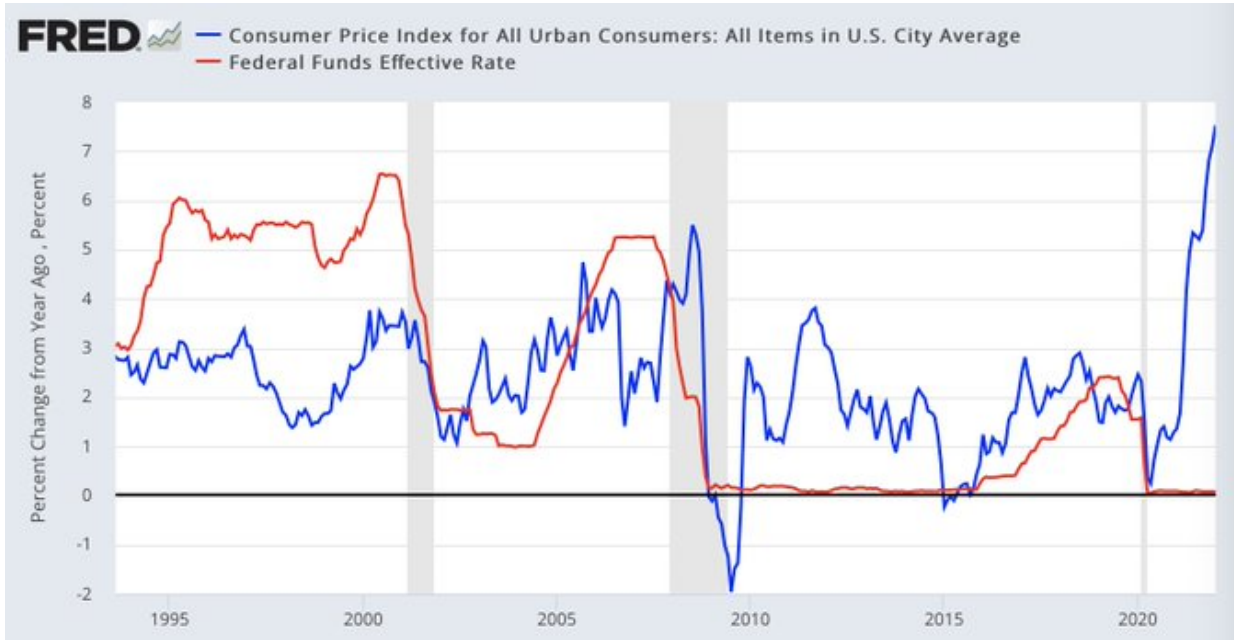
Chart 9: 39% of investors think inflation is permanent
Do you think inflation is transitory or permanent?



...and only 39% think inflation is permanent while 52% think it is transitory...

Source: BofA Global Fund Manager Survey

THE FED IS SO FAR BEHIND THE CURVE IT IS IN ANOTHER COUNTRY

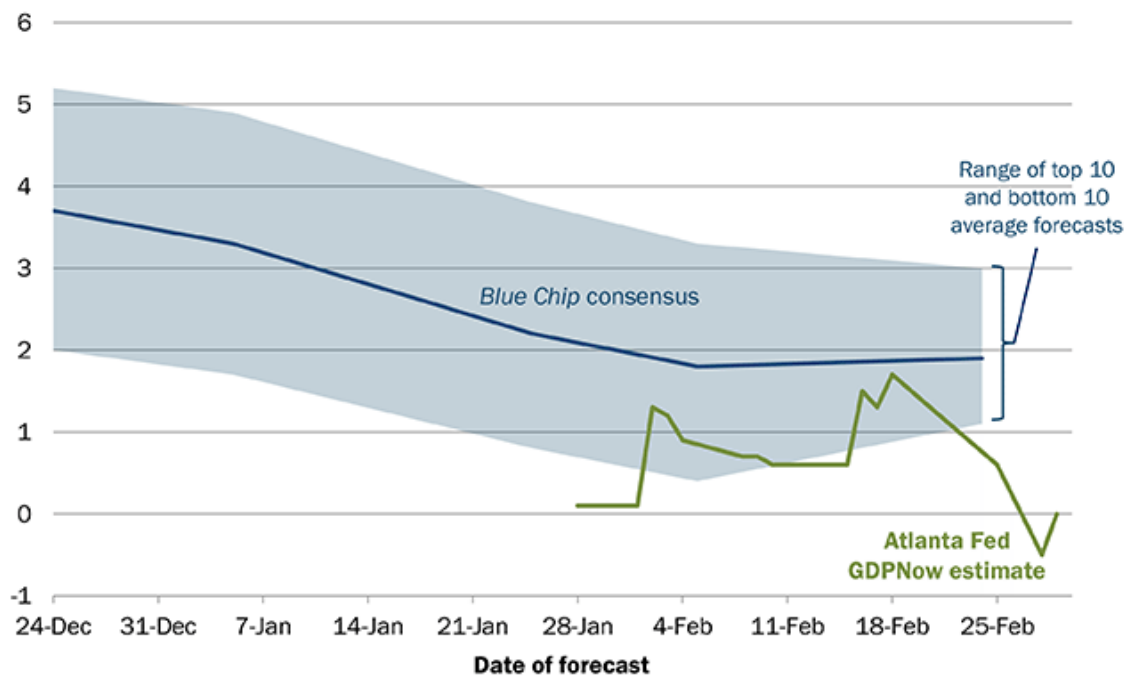


MEANWHILE, THE ECONOMY IS HEADED DOWNHILL... HAS THE FED MISSED THE WINDOW TO TIGHTEN?

- ▶ Material decline in U.S. real GDP forecasts and consumer sentiment
- ▶ Increased probability that we are heading to stagflation environment

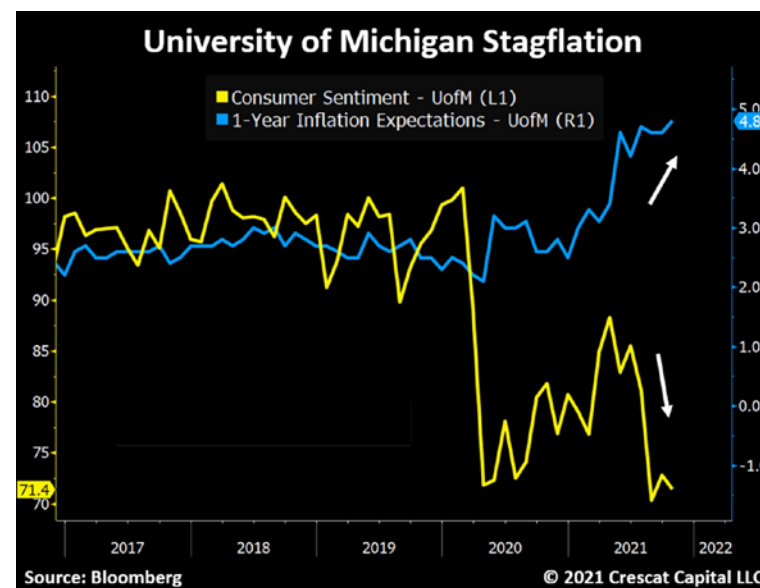
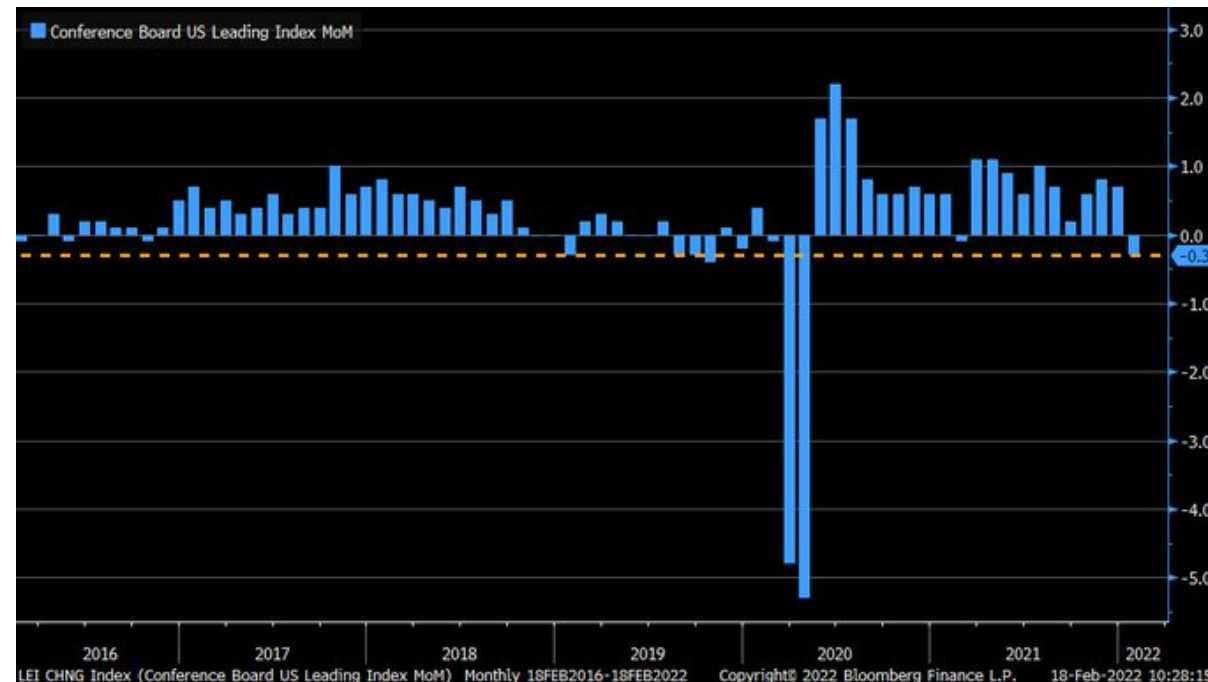
Evolution of Atlanta Fed GDPNow real GDP estimate for 2022: Q1

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

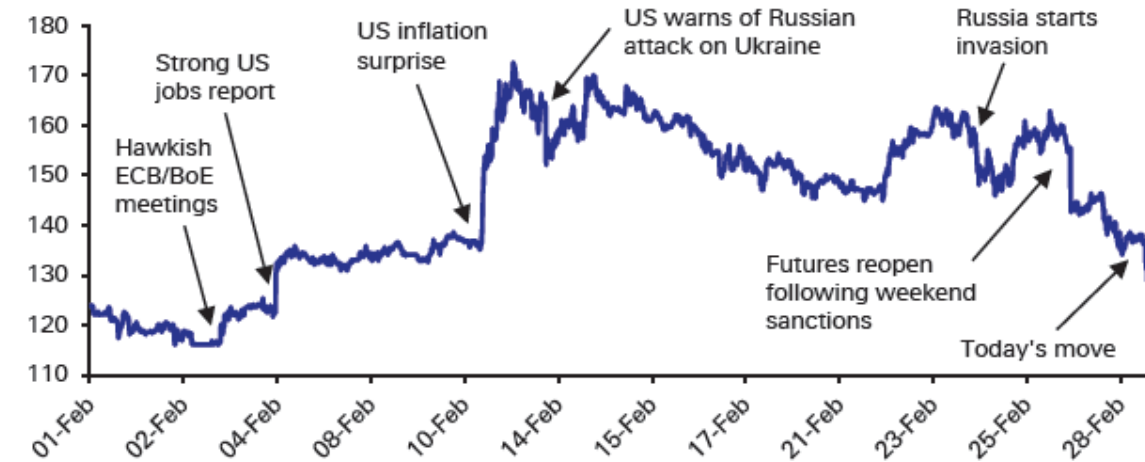
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.



GOLD TO OUTPERFORM IN THIS RISING RATE ENVIRONMENT

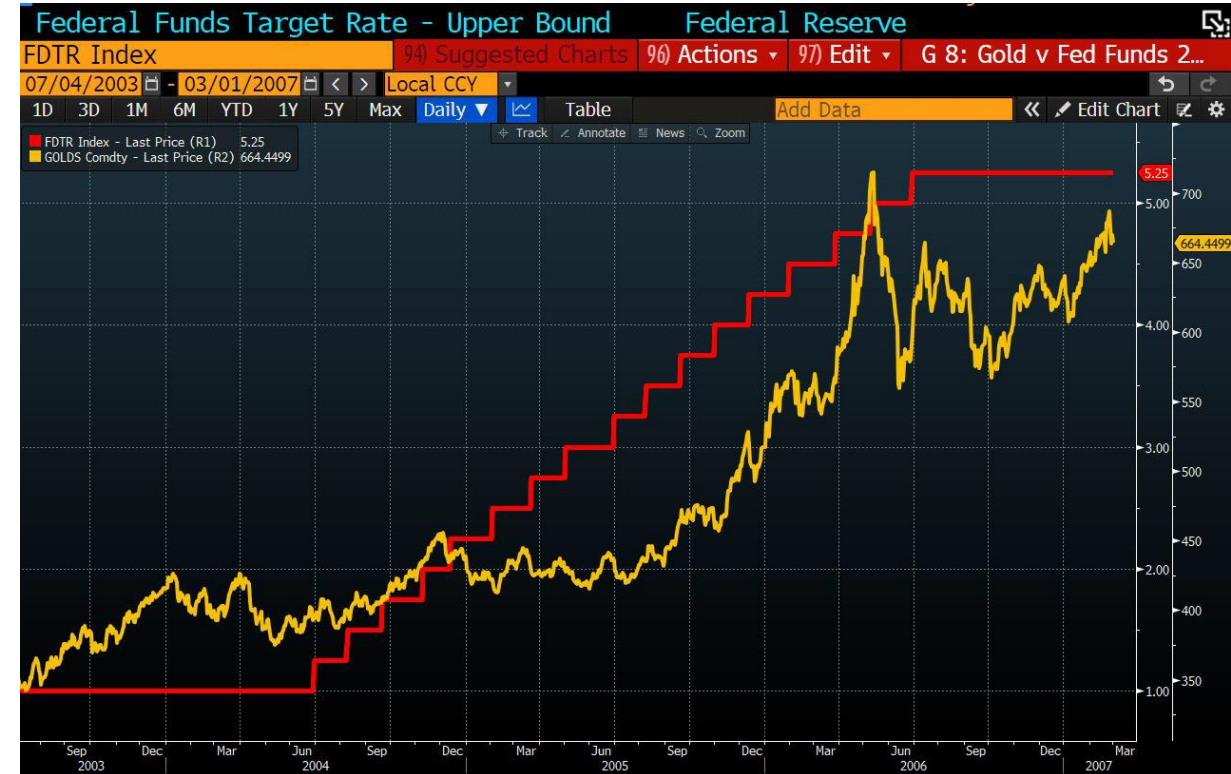
- ▶ The markets were confident the Fed could defeat inflation, predicting up to 7 rate hikes in a row causing gold to lag. But no longer.

Figure 1: Amount of Fed hikes (bps) priced in by the December 2022 meeting. Today has seen a sharp move lower so far after a turnaround in February.



Source: Bloomberg Finance LP, Deutsche Bank. March 1st pricing up to 11:50 London time

- ▶ In any case, gold does well when the Fed raises rates to fight inflation. 17 straight rate hikes from 2004-8 and gold rose 82%



GOLD HAS BROKEN ALL THREE MOVING AVERAGES

- ▶ Even before the Russian-Ukrainian war, the gold price broke above moving averages and resistance
- ▶ With gold surpassing US\$1,950/oz, strong likelihood of breaking through major technical resistance levels at US\$2,000 and all-time high of US\$2,075/oz in August 2020

