SEABRIDGE GOLD

GOLD MARKET UPDATE

November 22, 2023

THE CURRENT NARRATIVE

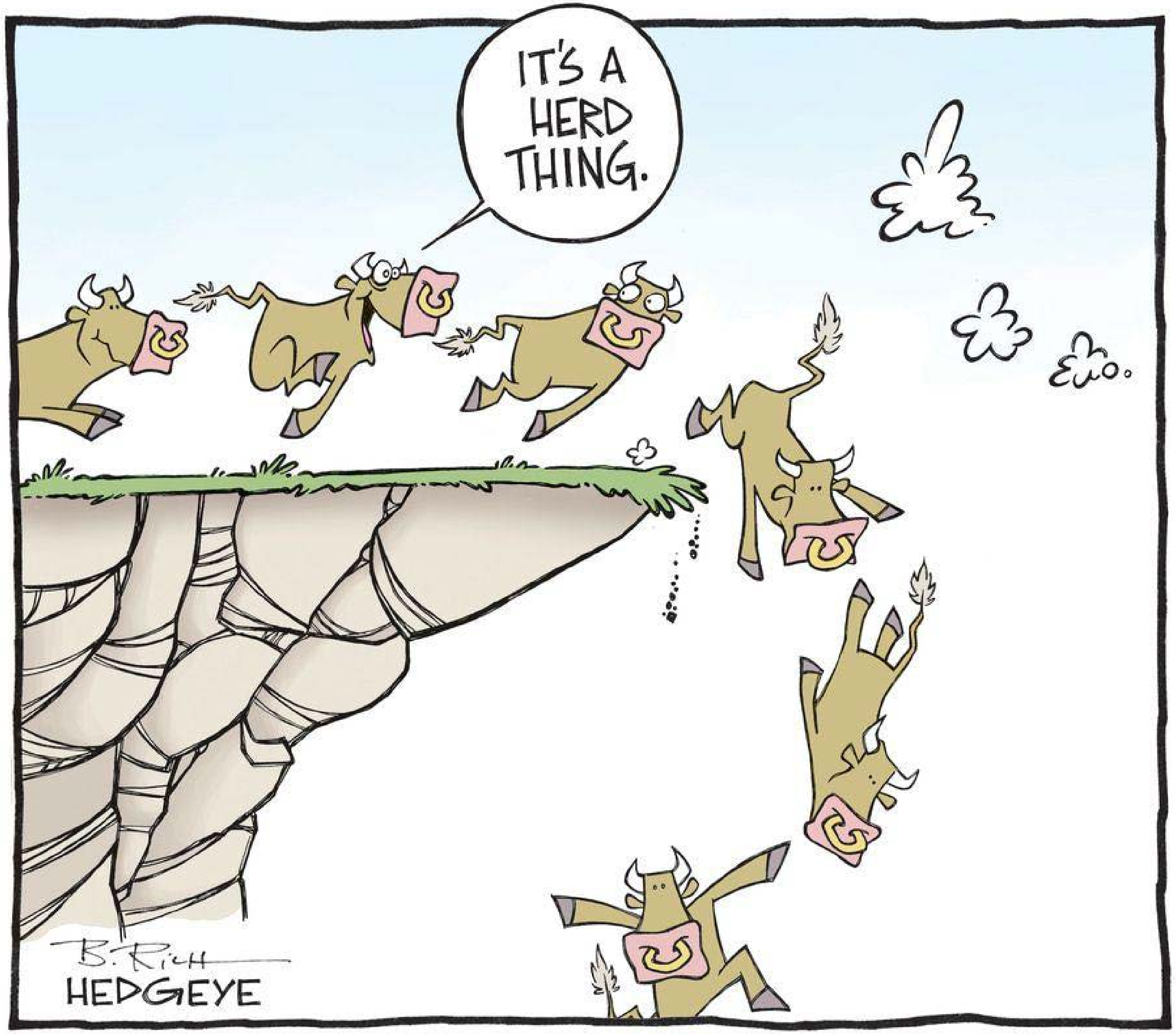
- The Fed is successfully taking down inflation
- Rate hikes are done
- Rate cuts expected by mid-2024
- No recession: A soft landing
- Treasury yields have peaked

What this Means for Gold?

- Gold is stalled 3-6% below its all-time high forming a triple top
- Big tech equities remain the focus for speculation, not gold stocks
- Gold stocks are near all-time lows vs gold price
- Junior gold stocks and development companies are struggling
- Mergers/acquisitions in the gold space

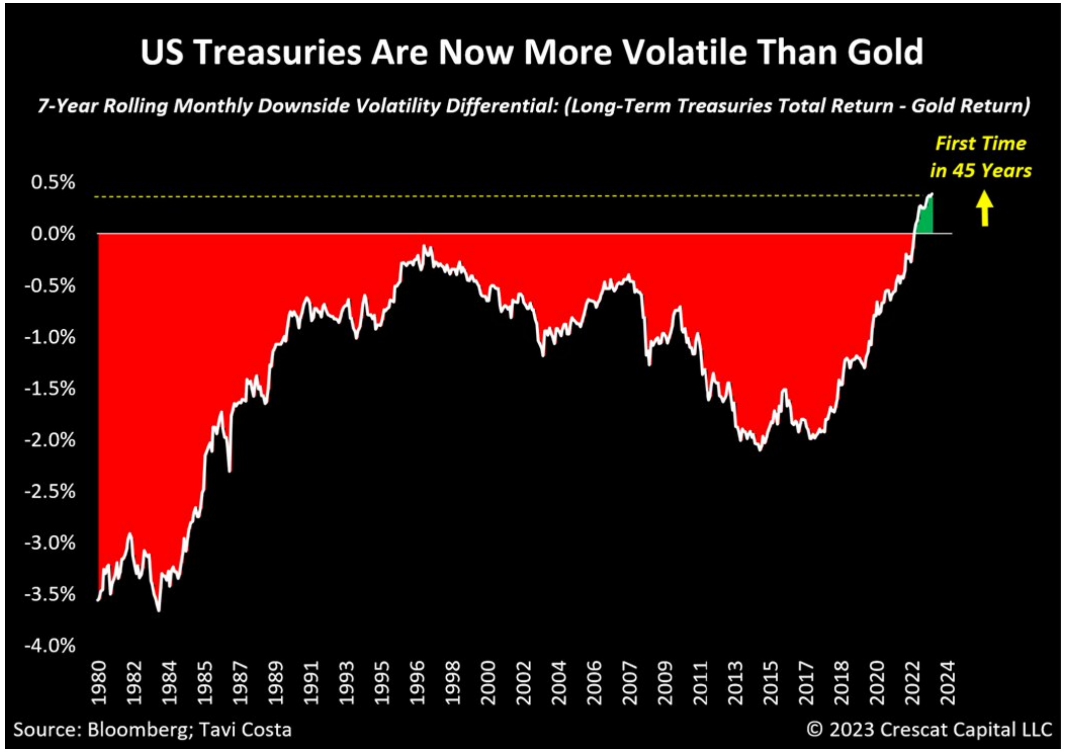
VanEck Vectors Gold Miners ETF/SPDR Gold Shares

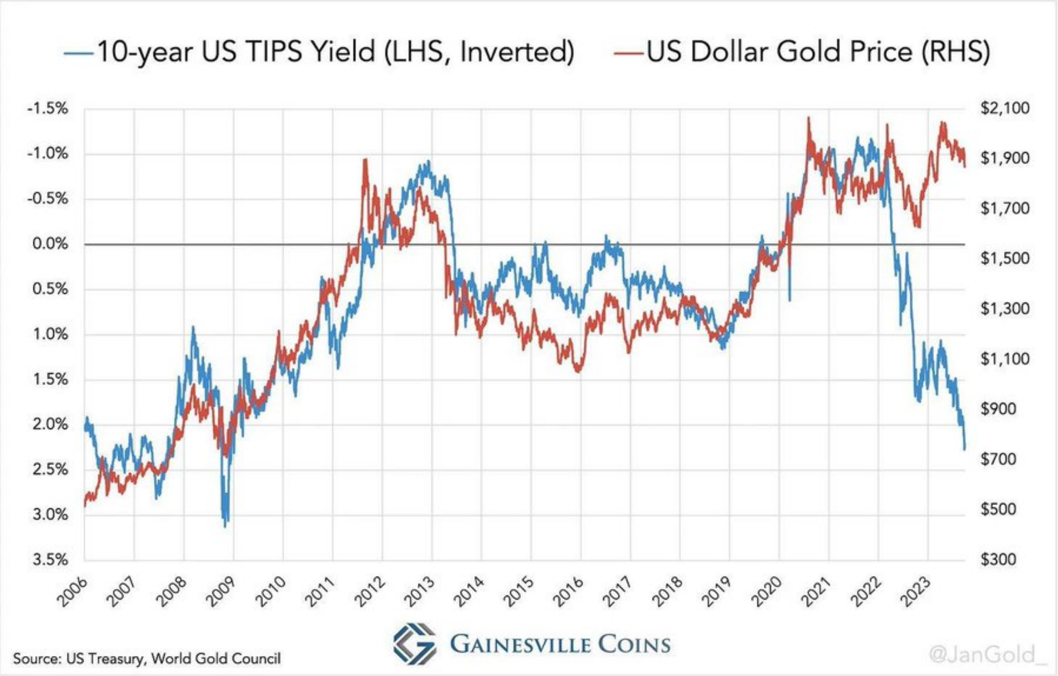
THE MARKET IS MISSING THE OBVIOUS

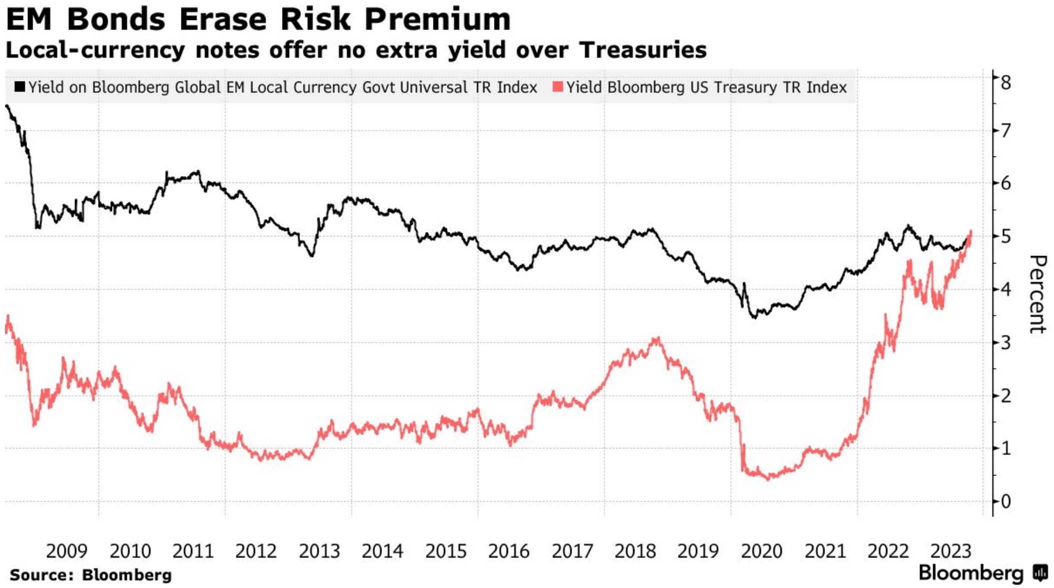


REALITY IS IN THE TREASURY MARKET

- Gold is signaling a major change in the system…after many decades, the gold price no longer correlates inversely with real yields
- Why? Gold is sniffing out a sovereign debt crisis
- U.S. Treasuries no longer have a risk premium over Emerging Market debt
- Volatility in the Treasury market is now higher than the gold market. Bloomberg reports that liquidity is very poor

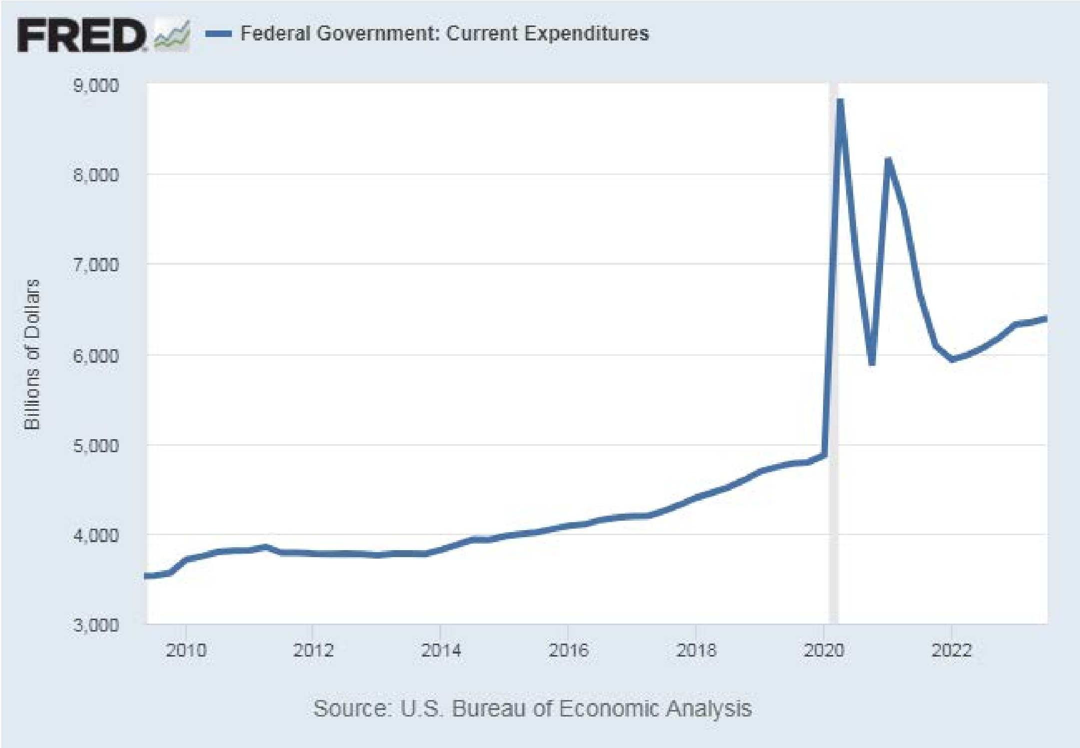


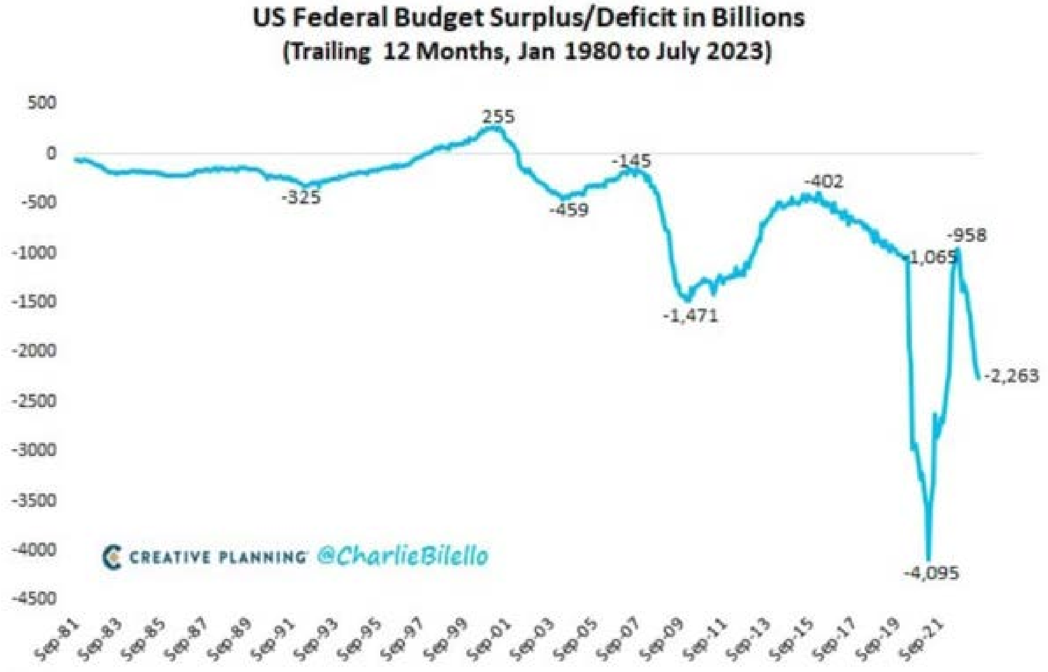


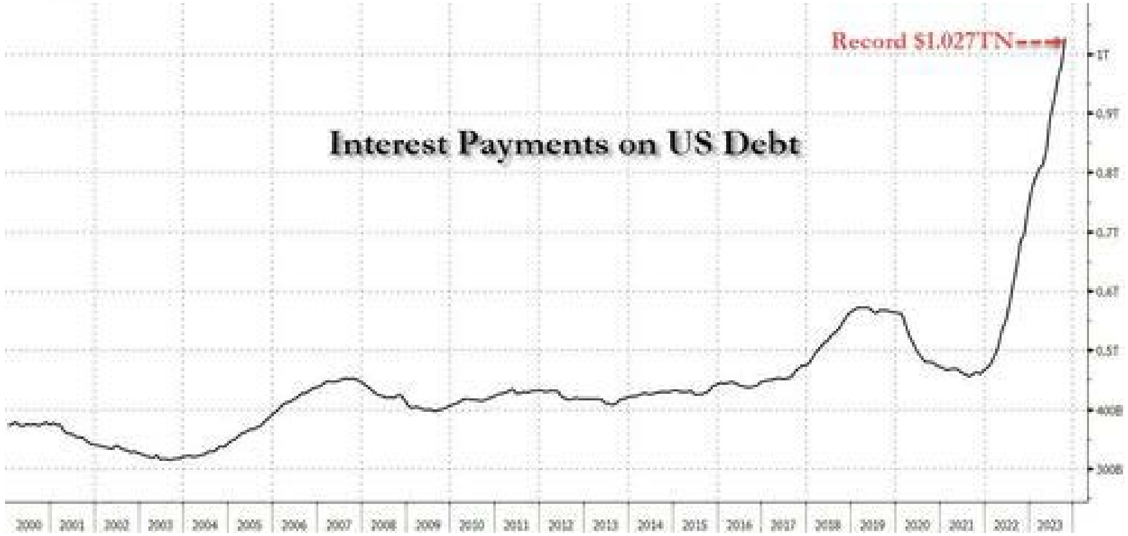


THE U.S. DEFICIT IS ACCELERATING AGAIN

- Deficit now at 8% of GDP, exceeding $2.3 trillion annually and growing as Treasury spending explodes
- Fed rate hikes are driving interest expense, which has nearly doubled in 2 years to more than $1 trillion annually and growing fast
- Only Fed quantitative easing enabled the COVID spending spikes







U.S. FUNDING REQUIREMENTS

- **Luke Gromen: "Assume private markets must absorb at least $350B-$430B net effective new UST issuance per MONTH…"**
- Dealers are over-stuffed with Treasuries. Hedge funds have taken over Treasury market making with the basis trade (sell cash, buy futures) using leverage of 100-500Xs…what could possibly go wrong?
- Can the private market fund this without the Fed? We don't think so

$2.3T deficit
(assuming no growth and no recession)

+

$1T-2T in net foreign U.S. Treasuries selling
(current rate assumes USD and oil price remain stable)

+

$1.2T in Fed Quantitative Tightening

+

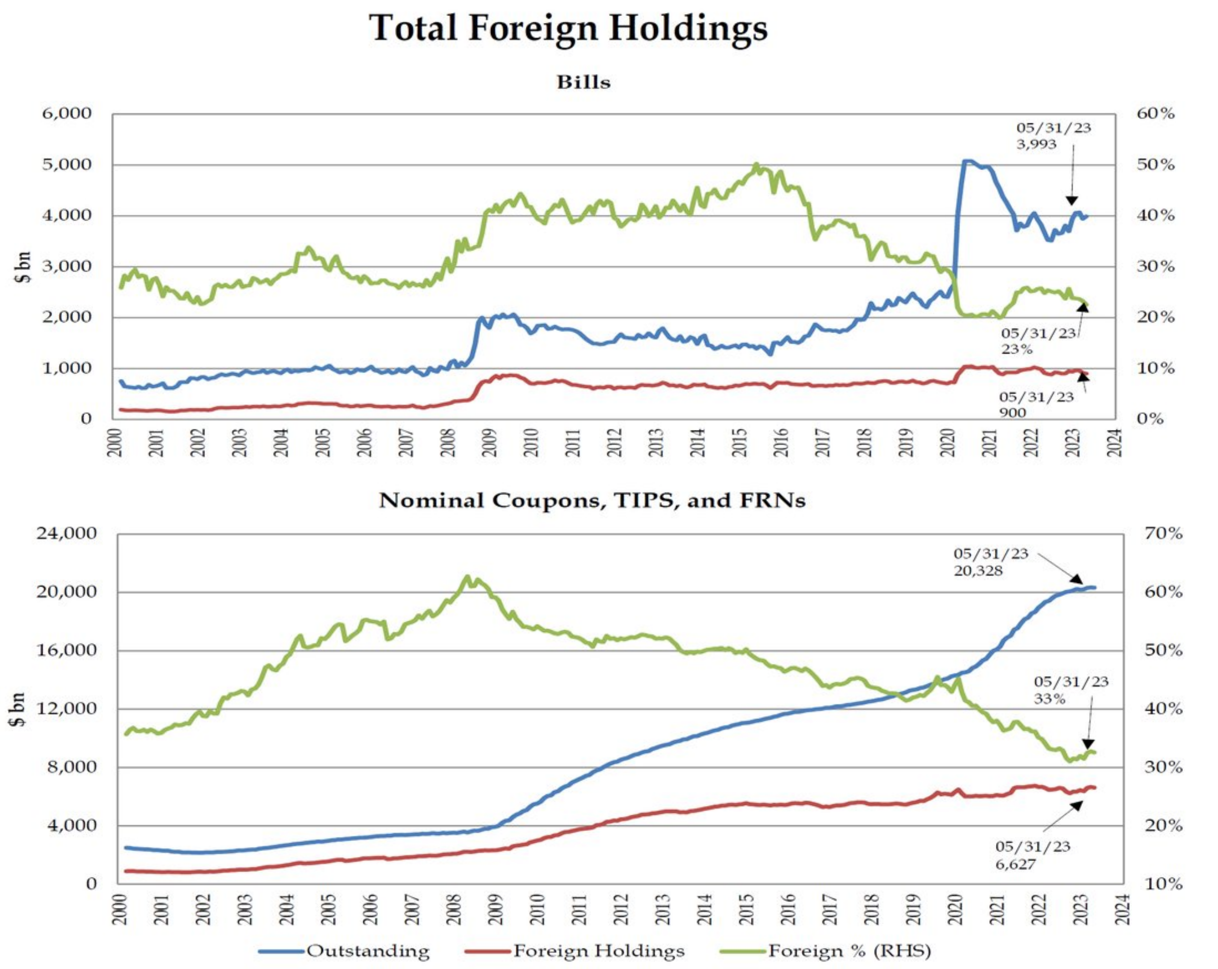
$5T in U.S. Treasury refinancings next year

=

$9.5T > $10.5T needed

FOREIGN HOLDINGS OF TREASURIES REMAIN A WILDCARD

- Foreign share of UST T-Bill holdings (green line in top chart) fell from 50% in 2015 to 23% now
- Foreign share of UST note & bond holdings (green line in bottom chart) fell from 63% in 2009 to 33% now



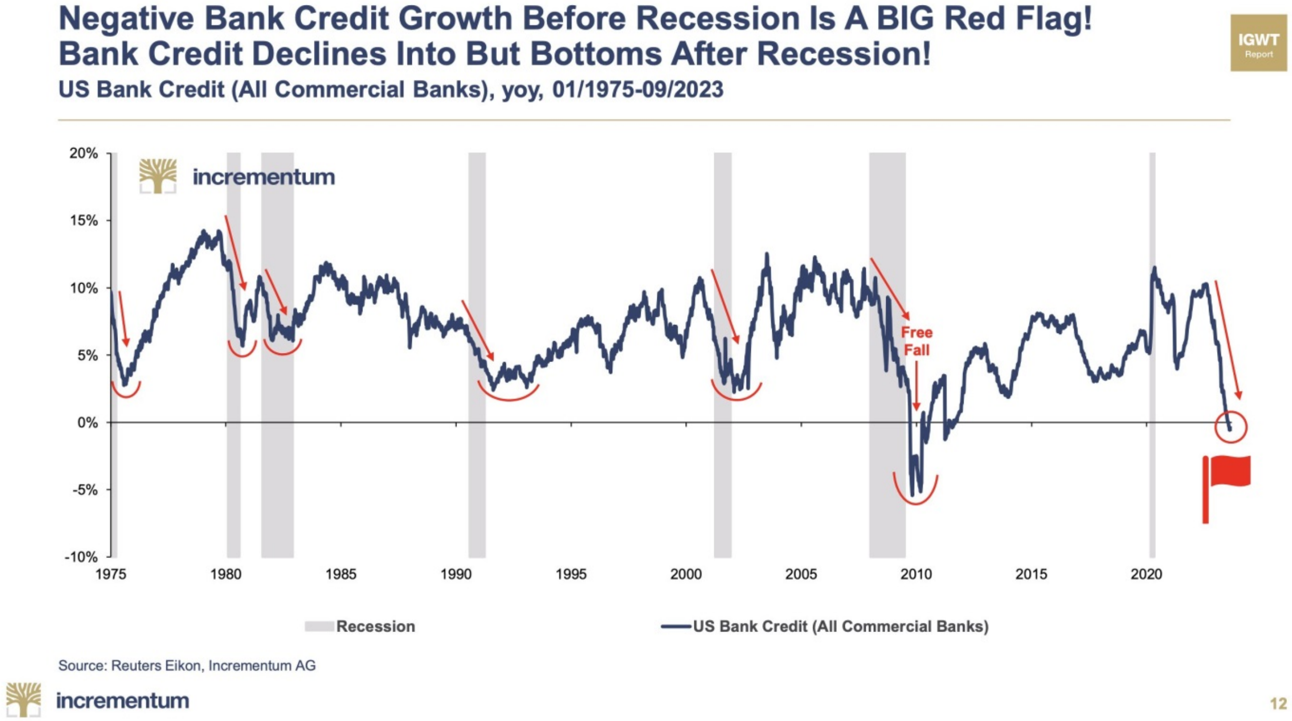
Source: Treasury International Capital (TIC) System as of May 2023.
For more information on foreign participation data, including more details about the TIC data shown here, please refer to Treasury Presentation to TBAC "Brief Overview of Key Data Sources on Foreign Participation in the U.S. Treasury Securities Market" at the Treasury February 2019 Refunding.

THE TREASURY RESPONSE SO FAR

- The Treasury announced moving more funding to T Bills, an unprecedented policy initiative typical of Emerging Markets with sovereign debt problems
- Nonetheless, the next coupon auction of $24B 30-year paper on Nov 9 nearly failed with a record spike in yields after issuance and dealers having to take down 24.7%, more than twice normal
- About $1.5T of FY2023's $2T deficit was financed by drawing down $2.5T in Reverse Repo cash sitting at the Fed at the start of the year…the remainder of the pandemic money printing binge of 2021
- In effect, the Treasury is still being funded by past Fed QE. Only $1T left, likely gone by January

AND WE THINK A RECESSION IS COMING

- There are many indicators of a recession approaching. Here's one



- The deficit is likely to go to 12%+ of GDP or $3.5T+
- QE is coming soon. The dollar will fall and gold will fly