SEABRIDGE GOLD

THE GOLD MARKET

Catching Up to Paper Supply?

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The Gold Market: Catching Up to Paper Supply?

As the historic gold run continues, analysts have been forced to raise their targets again and again. They explain their new targets by referring to the same factors: central bank buying, dollar weakness, sanctions and uncertainty economically and financially. All of these factors are relevant, but we think there may be a bigger picture that explains why the run continues and likely has much further to go.

In 1971, when the US defaulted on its gold obligations by closing the gold window, a strong dollar policy was born. The objective was to move gold out of the global financial system and replace it with a 'dollar as good as gold', to quote former Federal Reserve Chairman Alan Greenspan.

The strong dollar policy had many dimensions: creating COMEX as a paper gold market where producers could short gold and speculators could play the gold market for dollar profits without ever owning the metal; making gold a Tier 3 asset under Basil 1 (no longer as good as dollars); allowing central banks to record their gold loans as if they were vaulted gold reserves; pushing Saudi to accept only dollars for oil (establishing the Petrodollar); implementing IMF policy prohibiting gold use as a currency; organizing European central banks to consistently and loudly sell gold; and driving US rates to 18% to strengthen the dollar and drive down the gold price.

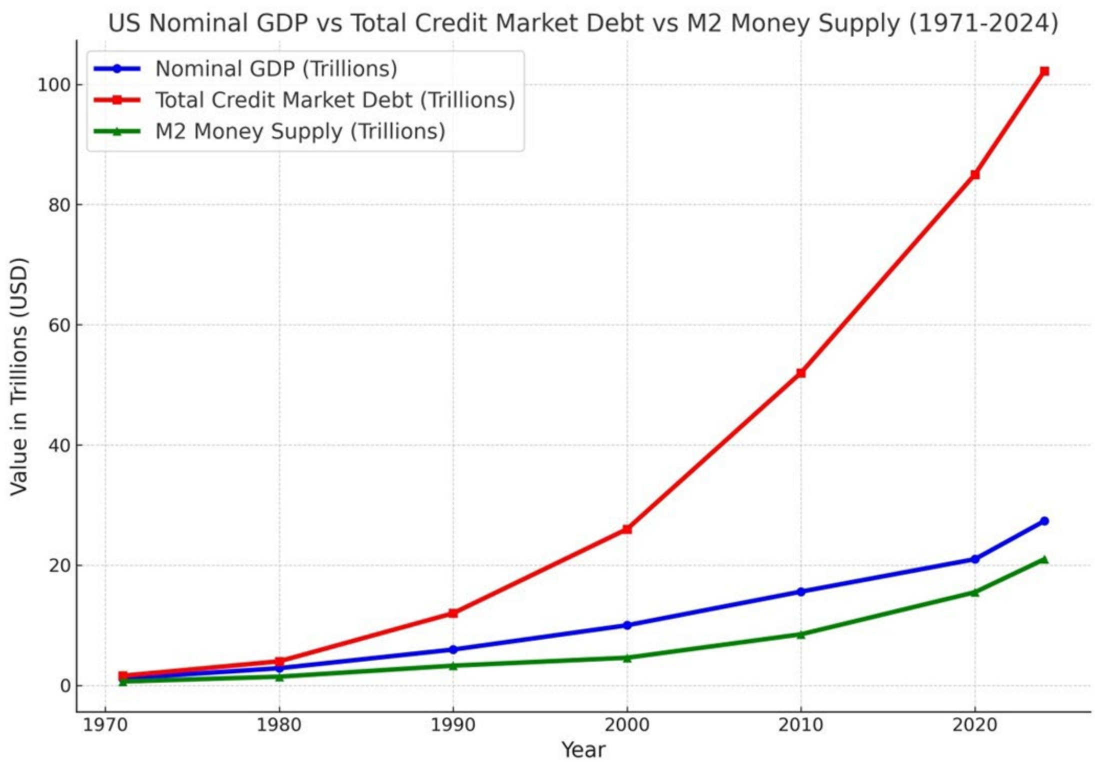
The result was a 20-year gold bear market in which it fell against King Dollar and became the financial community's pet rock.

With gold no longer backing credit and fiat currency, the financial world went wild. From 1971 to 2024:

▸ US Credit market debt grew from US$398B to US$102T (256x increase)

▸ US M2 money supply grew from US$650B to US$21.5T (33x increase)

▸ US nominal GDP grew from US$1.16T to US$30.3T (26x increase)



When the US economy ran into recessions or a financial crisis, the Fed created more liquidity, in 1998, 2000-1, 2008, 2018 and finally the lollapalooza in 2020-2 to fight the pandemic shutdowns. By 2014, the strong dollar policy was dying, and central banks went from sellers to net buyers of gold. Then came the Ukraine war, more sanctions and the freezing of Russia's fiat currency-denominated assets. Gold is now returning to the center of the global financial system, first as the only reliable and universally accepted safe haven, replacing the dollar and Treasuries as the preferred reserve asset.

As the US has increasingly used the dollar as a geopolitical weapon, gold has also increasingly become a preferred means of final settlement for cross border transactions where the principals are at odds with American foreign policy. China is taking the lead by setting up offshore gold depositories to facilitate cross border yuan transactions settled in gold, a step towards a gold backed currency. This is reminiscent of gold bills of exchange, the surety that underpinned international trade in the 19th century.

Gold is no longer just a passive asset. The new/old uses for gold could not work with a $1045 price, where it was in 2015 at the beginning of the current gold bull market, because at this price there isn't enough value to provide the backing needed. Neither, in our opinion, does the recent new high at $3500. About $20T in global above ground gold (half of it in jewelry) now backs about $415T of tradable debt. In a pinch, it's not nearly enough. We think we are witnessing the process of the value of real money narrowing the gap to the world of paper.