

SEABRIDGE GOLD

2024 ANNUAL GENERAL MEETING

NOTES FOR A GOLD MARKET UPDATE

JUNE 27, 2024

I was right and I was wrong.

Last annual meeting I predicted a \$2300 gold price within a year but for the wrong reasons.

The Fed did not cut rates or do new QE although they did find new ways to add liquidity. We did not get Yield Curve Control to finance the Treasury and we did not get a return to negative real interest rates.

The result? Western investors sold gold by the boat load.

Five things happened that aren't supposed to happen.

Real interest rates went up but so did gold.

Net ETF selling hit record levels, but gold went up.

COMEX Open Interest fell more than 20% but gold went up.

The dollar was strong, but gold went up.

Gold went up but gold stocks didn't.

What happened?

Central banks across Asia and the Middle East bought more gold than westerners sold.

Chinese private investors aggressively bought gold instead of real estate and tech stocks.

Gold moved back to the center of the financial and FX markets as an active asset thanks to the BRICS, with a huge assist from US and EU sanctions on Russia.

The West has lost control of the gold market. Singapore and Shanghai are replacing London and New York.

The good news is that gold is replacing the dollar as a central bank asset and as an instrument of final settlement in trade, at least among the BRICS in their energy dealings, which are massive.

The percentage of the global oil trade transacted in other than dollars was essentially zero in 2021. In 2023 it was estimated by Bloomberg at 20%. The oil market is 20Xs the gold market. As an oil currency, gold is likely going much higher.

The bad news? Central banks and Asian private investors don't buy gold stocks. Western investors do (or don't).

The even better news is that all the reasons I thought gold would rise last year...rate cuts, QE, Yield Curve Control and negative real interest rates...are still coming and western investors will once again start buying gold for all the traditional reasons.

Let's look at the western world's financial set up:

First, US government spending is out of control. US spending grew 22% y/y in May after a 23% rise in April. US Federal spending accounts for 23% of US GDP, generating 5.1% y/y nominal GDP growth all by itself.

The good news is the US probably can't have a meaningful recession or rapid growth in unemployment. So, no rate cuts likely from this quarter.

The bad news is this is inflationary because the government buys goods and services but does not create them. This spending is being heavily financed by T-Bills which are very close to the government printing its own cash. A 0 duration Treasury Bill that bears no interest is called a Federal Reserve Note.

This runaway spending is being financed by deficits...issuing more debt on which interest must be paid.

The latest data shows the US is adding \$1T in new Federal debt every 100 days. Interest expense is now more than \$1T annually and growing exponentially as the debt rolls over and more debt is issued at rates higher than the debt it is replacing. Annualized interest expense could top \$1.6T by year end.

The interest expense now exceeds defense spending. Ferguson's Law says empires that spend more on interest than defense disappear...the Romans, the French, the British being prime examples.

US sovereign debt is simply too big for its economy, and it is choking growth. Future economic activity has been dragged forward into the present by expanding credit markets, leaving less room for the future. With a debt to GDP ratio of 122%, the US cannot grow out of its debt problem.

And the debt must be financed. Foreign central banks are buying an ever-smaller share of this debt. The old paradigm of cycling the US trade deficit into the budget deficit has gone. Central banks are replacing Treasuries with gold in their reserves as the total debt issuance continues to grow.

Since 2014, Fed changes to bank regulations and policies have forced...and incentivized...commercial banks operating in the US to buy and hold Treasuries. In a period of ZIRP, this has proved disastrous for the banks.

The FDIC calculates that US banks have a net mark-to-market loss on Treasuries of \$517 Billion due to rising interest rates. Add to this an estimated \$1T in losses to smaller and regional US banks on CRE loans if they were also marked to market.

The FDIC estimates real world accounting would bankrupt up to 700 small and regional banks. These banks can't attract savings to finance themselves because the Treasury is taking the available cash into T-Bill driven money market funds to finance its huge deficit. The banks can't compete with these rates.

And this is not some future problem. Norinchukin, Japan's 5th largest bank with \$840 Billion in assets, announced last week they "will sell more than 10 trillion yen (\$63 billion) of its holdings of US and European government bonds during the year ending March 2025 as it aims to stem its losses from bets on low-yield foreign bonds, a main cause of its deteriorating balance sheet, and lower the risks associated with holding foreign government bonds."

The day of reckoning on more than a decade of ZIRP and NIRP is here, and we think central bank QE will soon be needed to avoid a sovereign debt market blowup.

If anything, Europe is worse. “French election results have the potential to reverberate throughout European debt markets and beyond. According to reports, hedge funds have been huge buyers at European debt auctions, often taking 20 to even as much as 50%. Moreover, the great U.S. 'basis trade' has apparently taken hold in Europe...

“So, it’s safe to assume that the European debt market is highly levered. This speculative leverage is on top of the typical vulnerability associated with European banks’ huge holdings of the region’s sovereign bonds. The traditional 'doom loop' of simultaneous gloom enveloping bonds and the banking system is today even dooier with the highly levered hedge funds so actively involved.”
{Doug Noland Credit Bubble Bulletin}.

A rising stock market is critical to funding the Treasury and preventing the deficit from screaming higher. In a fully financialized economy, the market is now the tail that wags the dog.

Will the Treasury cut spending to reduce the deficit? We don’t think it can because that would cause a deep recession and make the deficit worse.

We believe the Fed cannot let either the stock market or the Treasury market fail. We think the choice is to print or default. And they will decide to print.

Will the Fed print into rising inflation and a falling dollar to finance the deficit? We believe it will.

Will the Fed bring down interest rates to help the banks and reduce the Treasury’s interest expense? We think so.

Will the Fed embrace negative real interest rates to reduce the ratio of debt to GDP, just as it did after World War 2? We don’t see an alternative.

In our view, these policies will trigger the next leg up in gold sometime in the next year. And it will bring the western investor back into gold stocks.

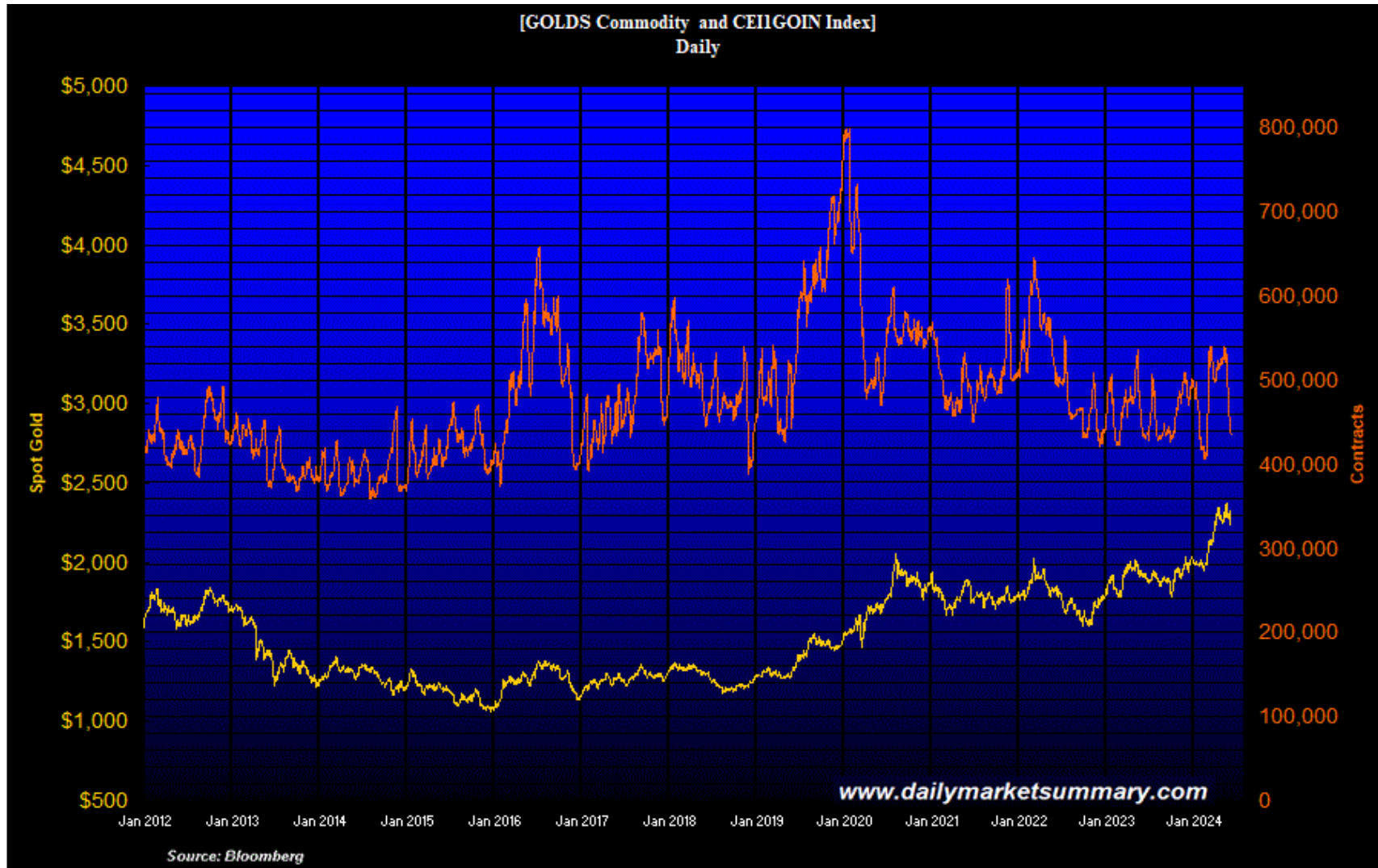
James Anthony A founder and former chairman of Seabridge Gold



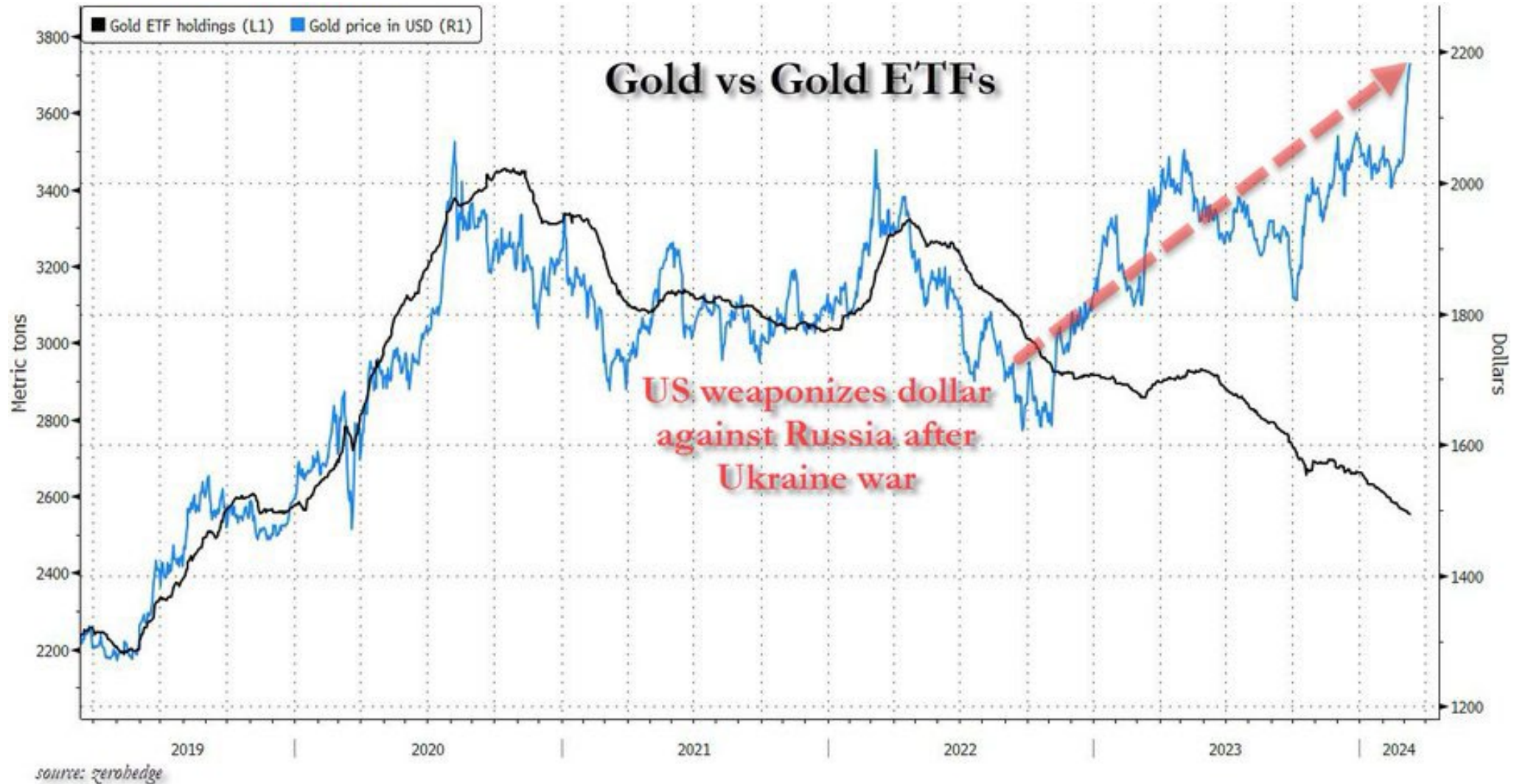
GOLD MARKET UPDATE

June 27, 2024

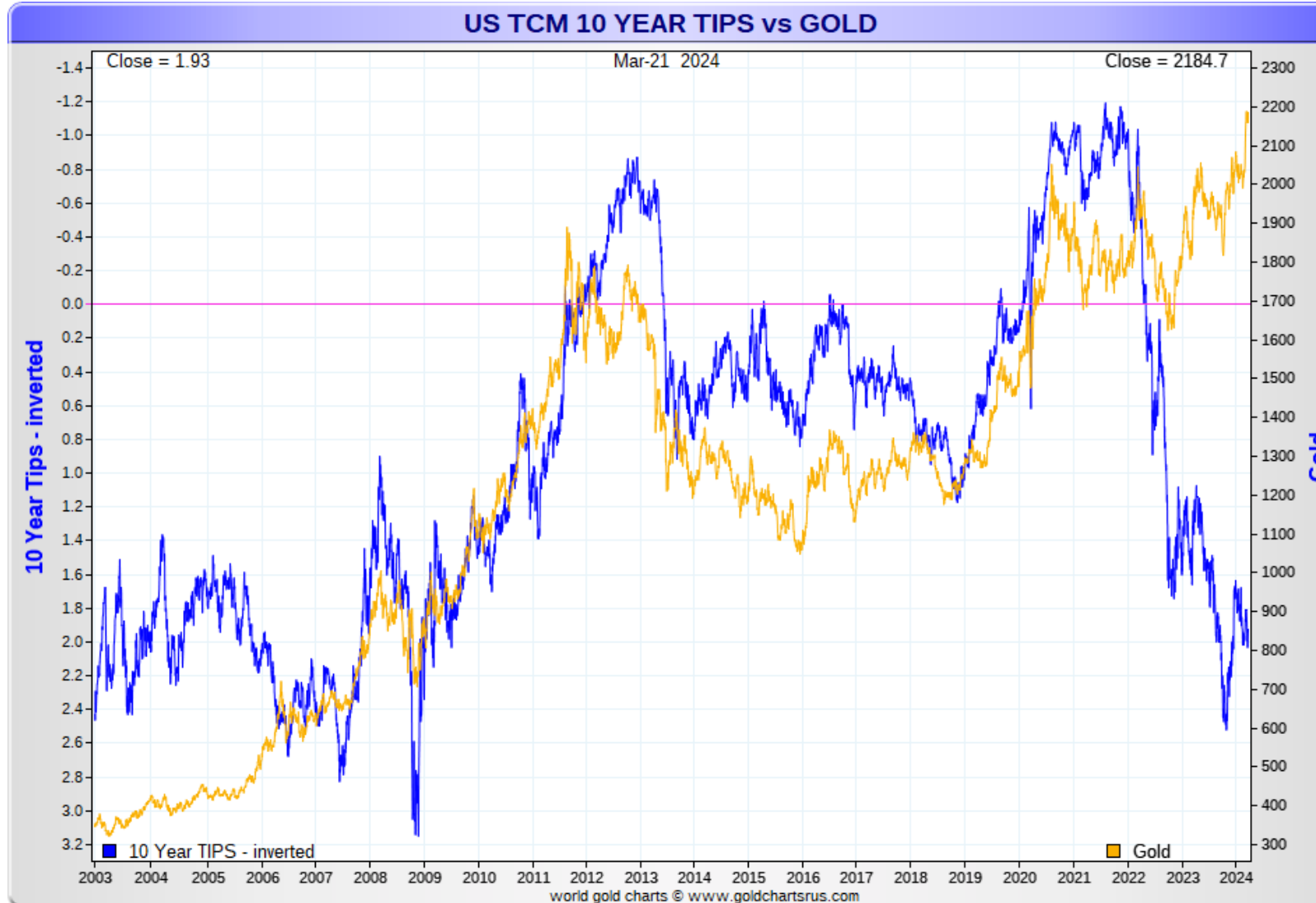
GOLD RISES AS COMEX OPEN INTEREST FALLS: NO WESTERN SPECULATION



GOLD PRICE RISES AS PHYSICAL GOLD ETFS SELL AGGRESSIVELY



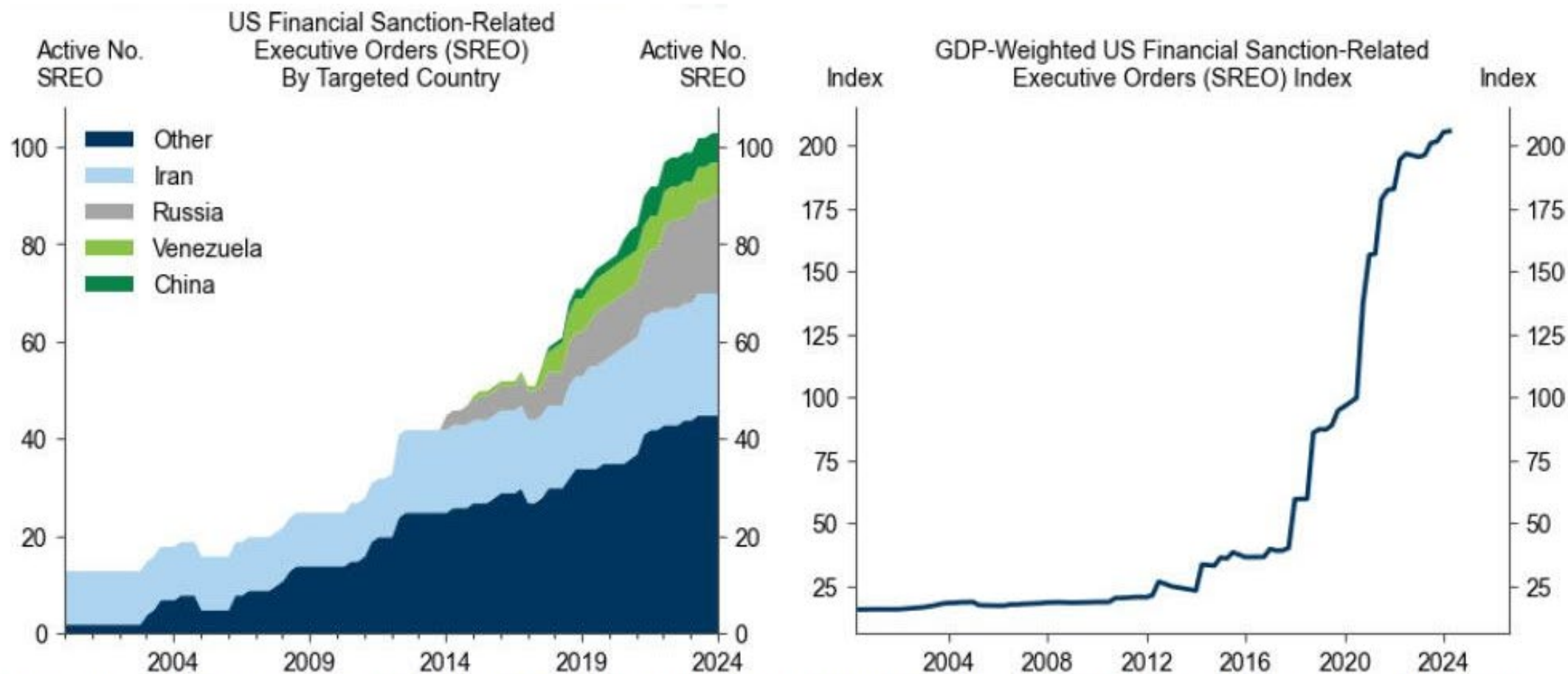
GOLD IS NOW RISING WITH REAL RATES AS MEASURED BY 10YR TIPS



GOLD MINERS ARE +40% BELOW 2011 LEVELS WITH GOLD +\$500 HIGHER



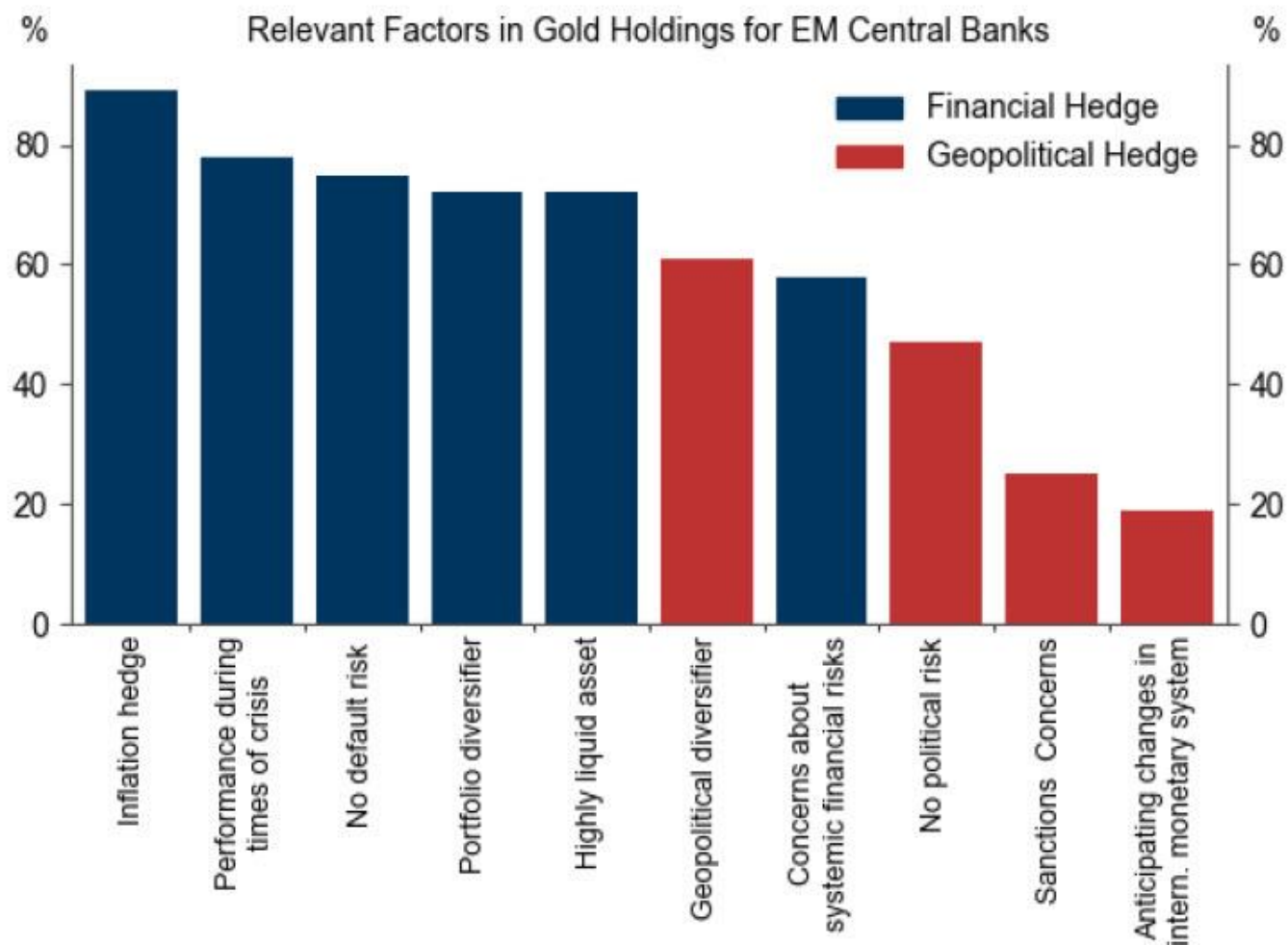
U.S. FINANCIAL SANCTIONS HAVE RISEN SHARPLY



Left panel: Active US financial sanctions by country, as reported by OFAC, current as of April 23, 2024. Right panel: The index multiplies the count of financial sanctions per country with their share in world GDP based on purchasing-power parity (PPP).

Source: OFAC, Haver Analytics, IMF, Goldman Sachs Global Investment Research

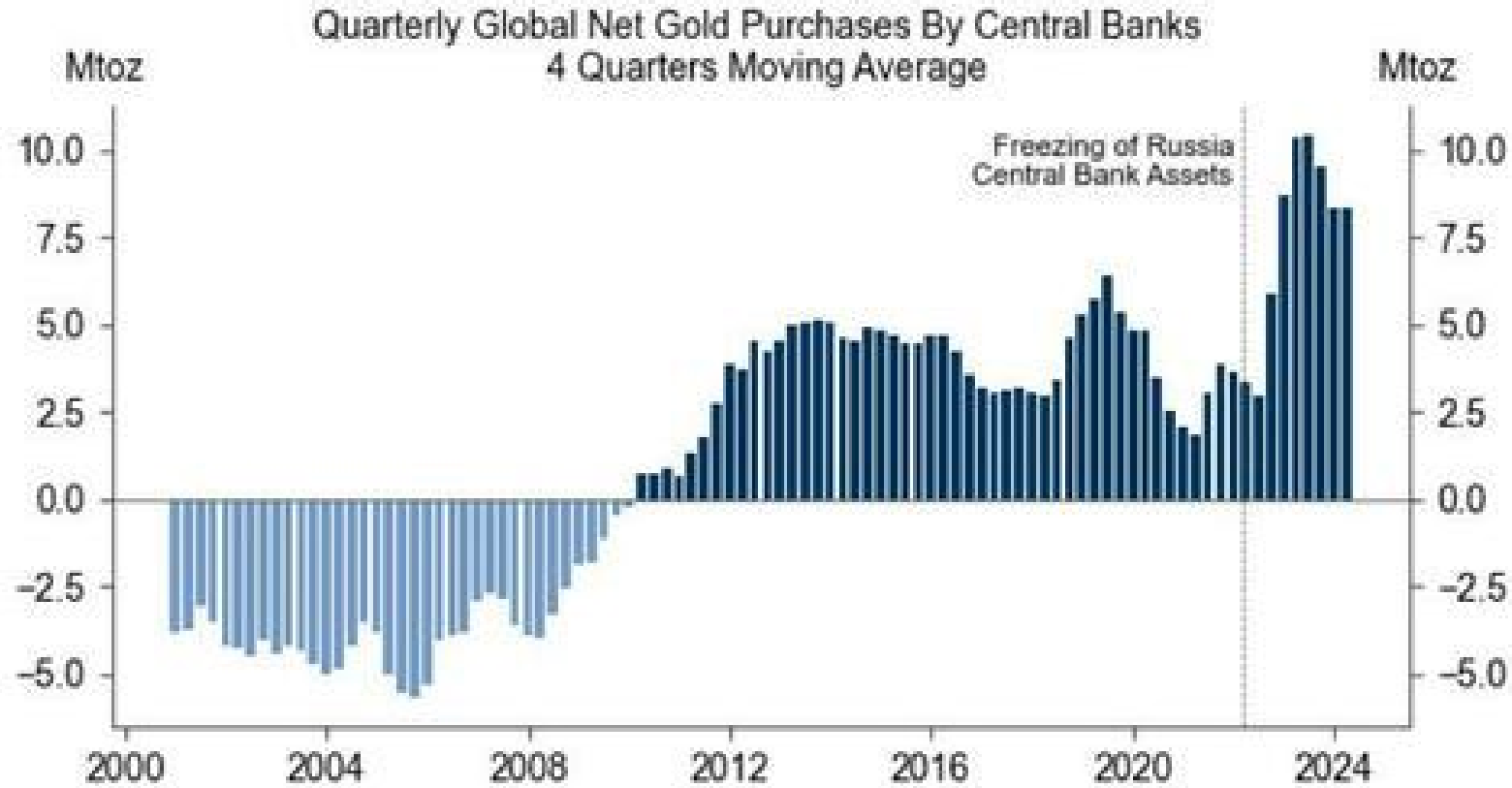
EM CENTRAL BANKS BUY GOLD AS A FINANCIAL & GEOPOLITICAL HEDGE



The chart shows the percentage of EM central banks that considered the factors to be 'highly relevant' or 'somewhat relevant' in their gold holdings decisions. 37 EM central banks were surveyed between 7 February and 7 April 2023 as part of the Central Bank Gold Reserves survey.

Source: World Gold Council, Goldman Sachs Global Investment Research

CENTRAL BANKS TURNED INTO NET GOLD BUYERS AFTER GFC AND THEIR PURCHASES HAVE TRIPLED SINCE MID-2022

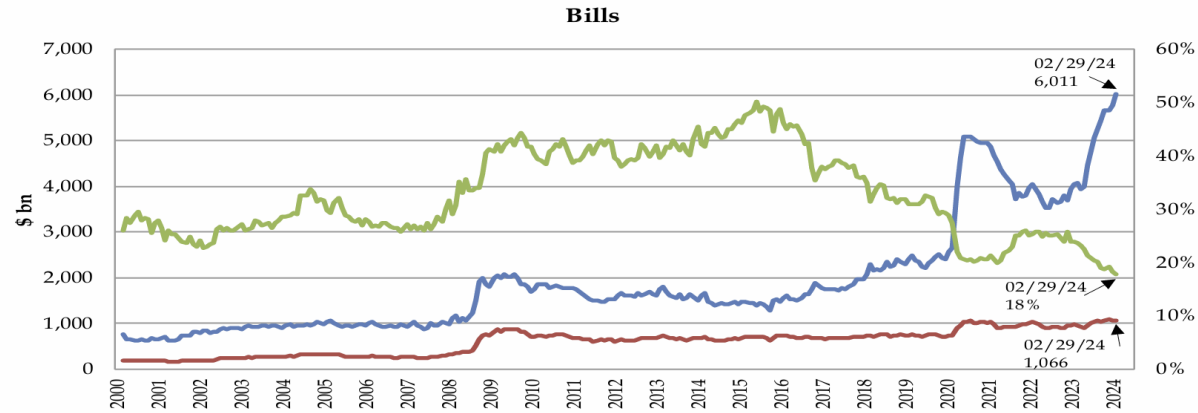


Net purchases/sales include both reported and unreported data. The World Gold Council sources quarterly central bank demand data from Metals Focus, whose estimates of total net gold purchases incorporate data from the IMF (reported), as well as international trade data and private sources (unreported).

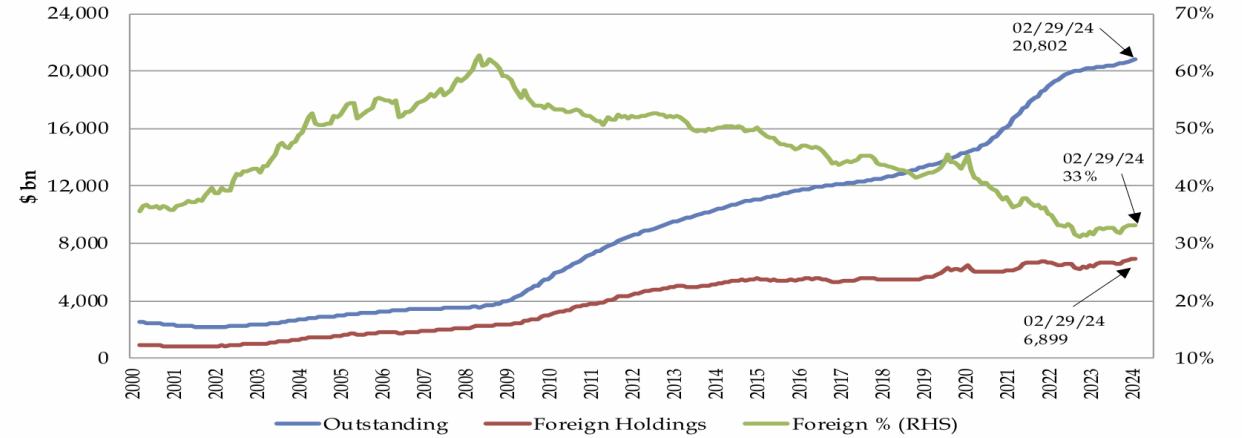
Source: World Gold Council, Metals Focus, Goldman Sachs Global Investment Research

FOREIGN TREASURY HOLDINGS COLLAPSED IN % TERMS AFTER GFC (GREEN)

Total Foreign Holdings



Nominal Coupons, TIPS, and FRNs

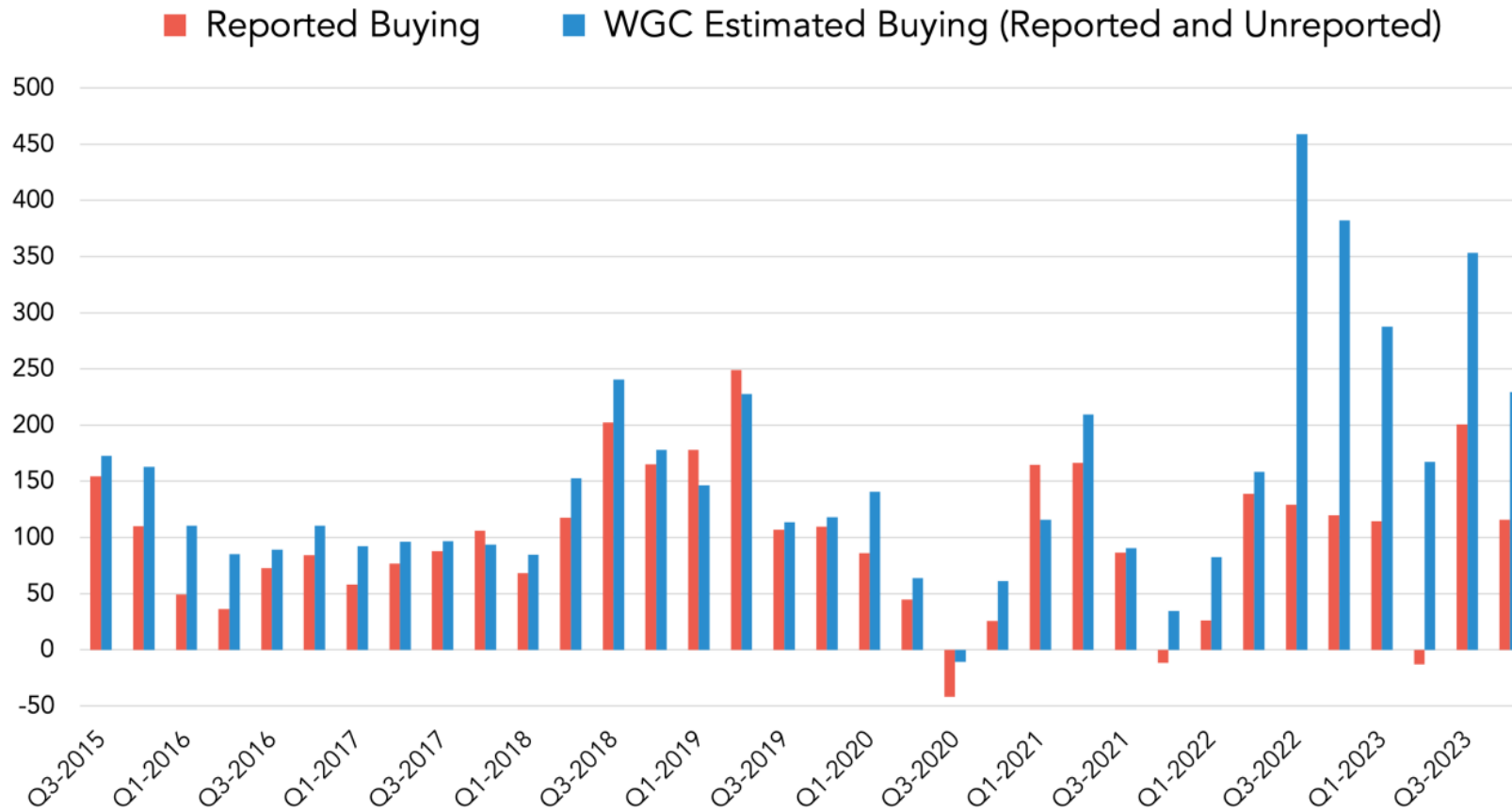


Source: Treasury International Capital (TIC) System as of February 2024.

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.

CENTRAL BANK GOLD BUYING BIGGER THAN REPORTED

Quarterly Central Bank Gold Buying (Tonnes)



Source: World Gold Council, Gainesville Coins, Metals Focus, IMF, BIS

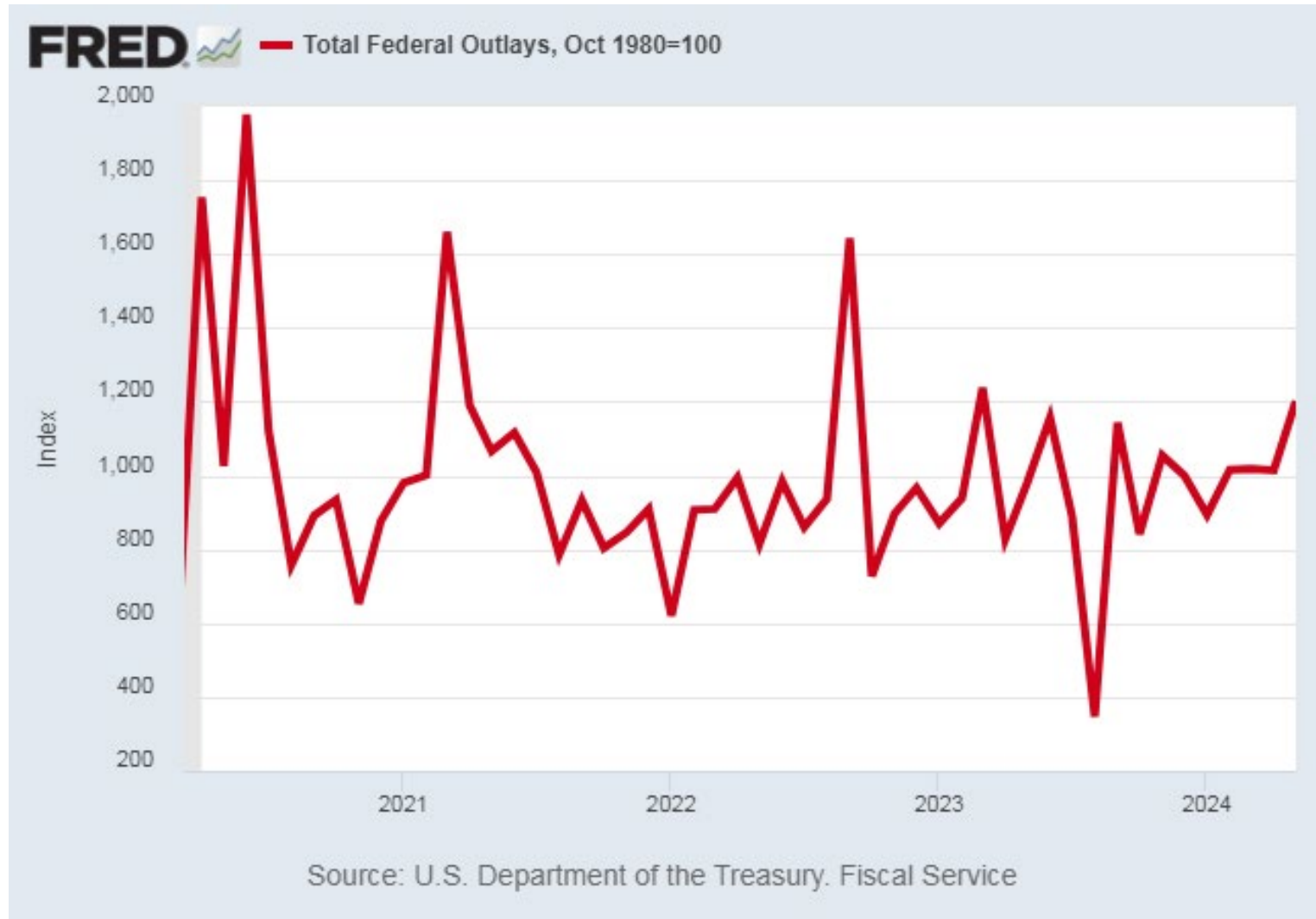


@JanGold_

CHINA'S GOLD RUSH REPLACES TREASURIES WITH GOLD

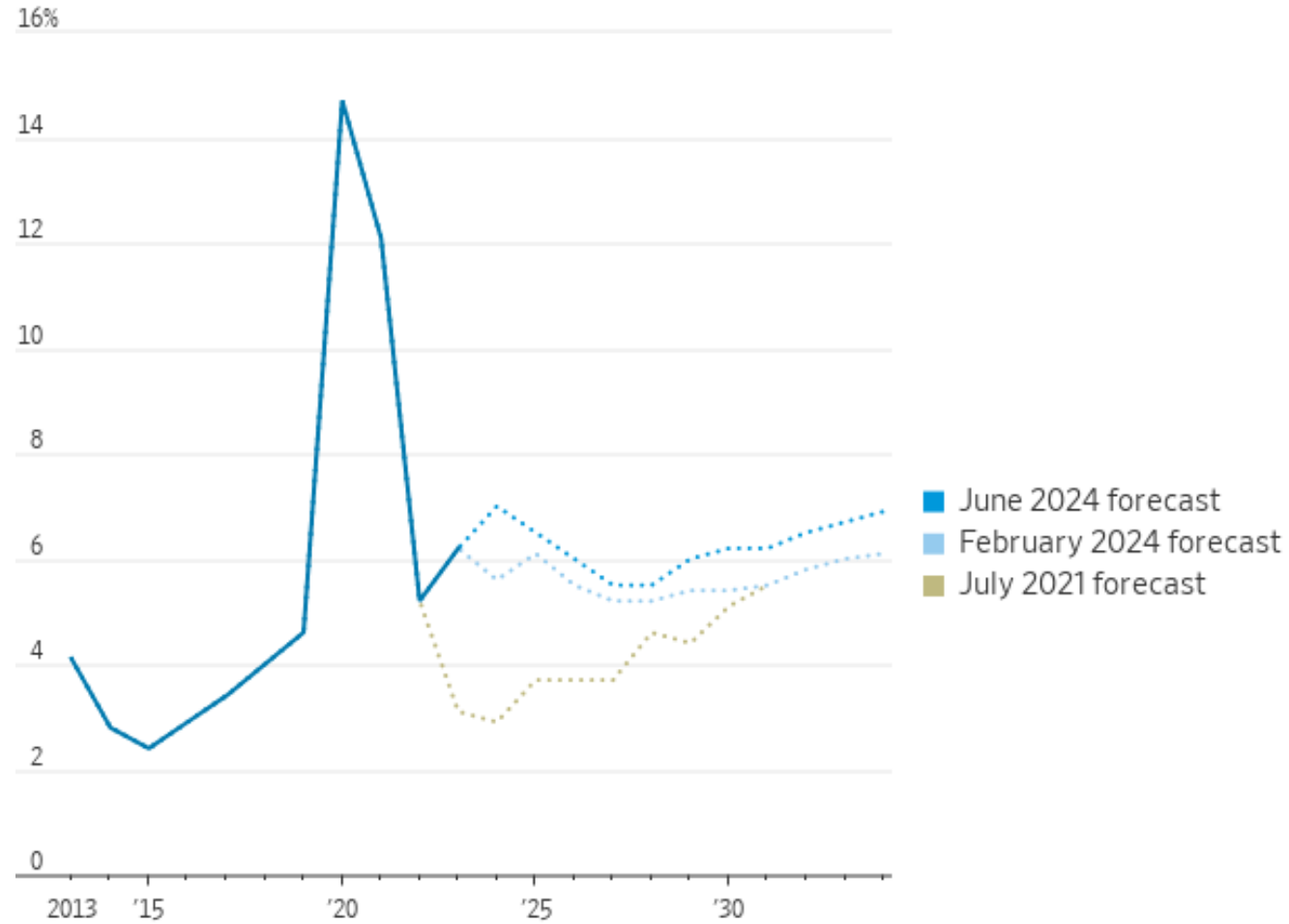


REAL U.S. FEDERAL GOV'T SPENDING IS RISING AGAIN AFTER PANDEMIC



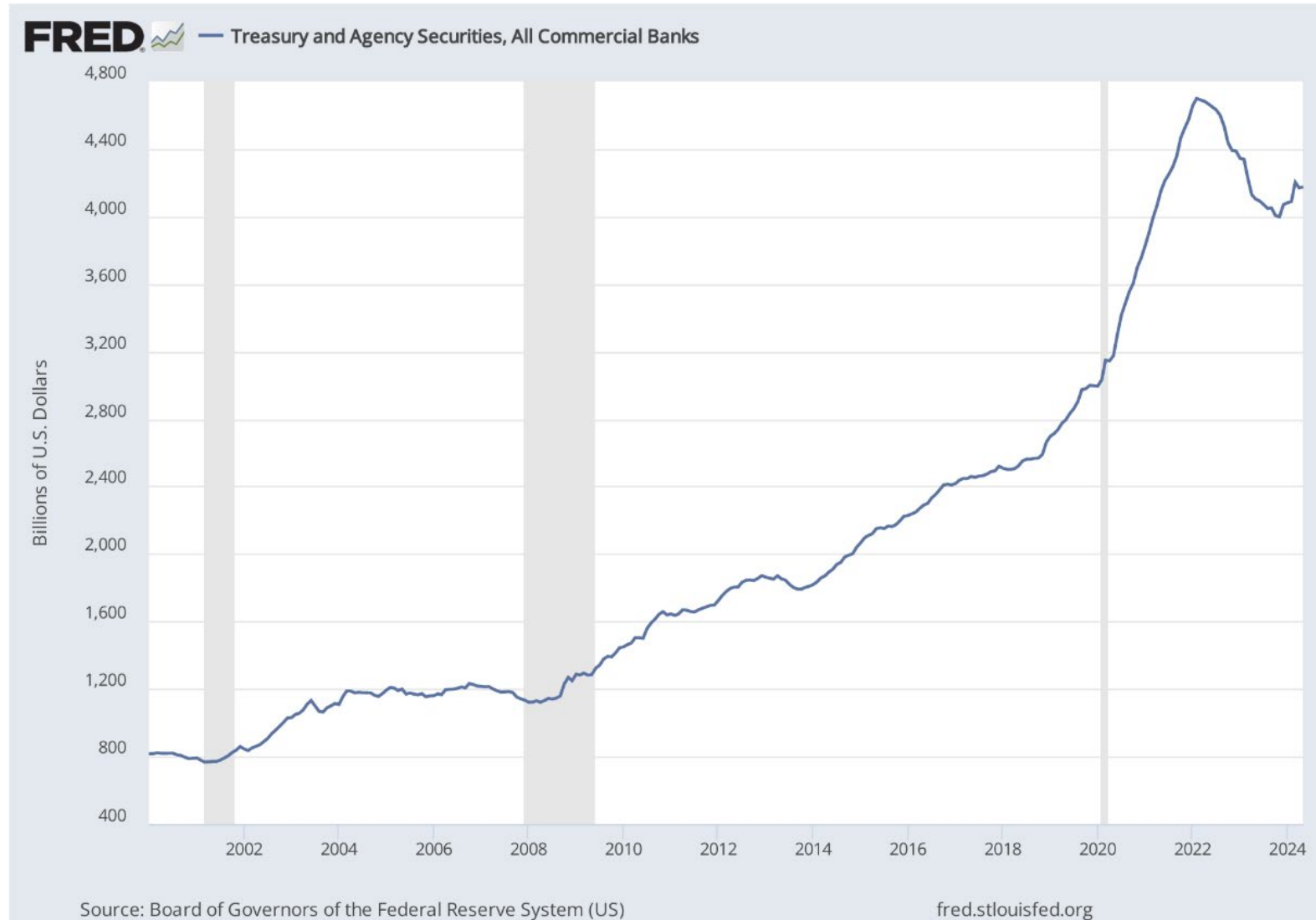
U.S. FEDERAL DEFICIT IS RISING AGAIN ECLIPSING CBO ESTIMATES

Federal deficit as a share of GDP

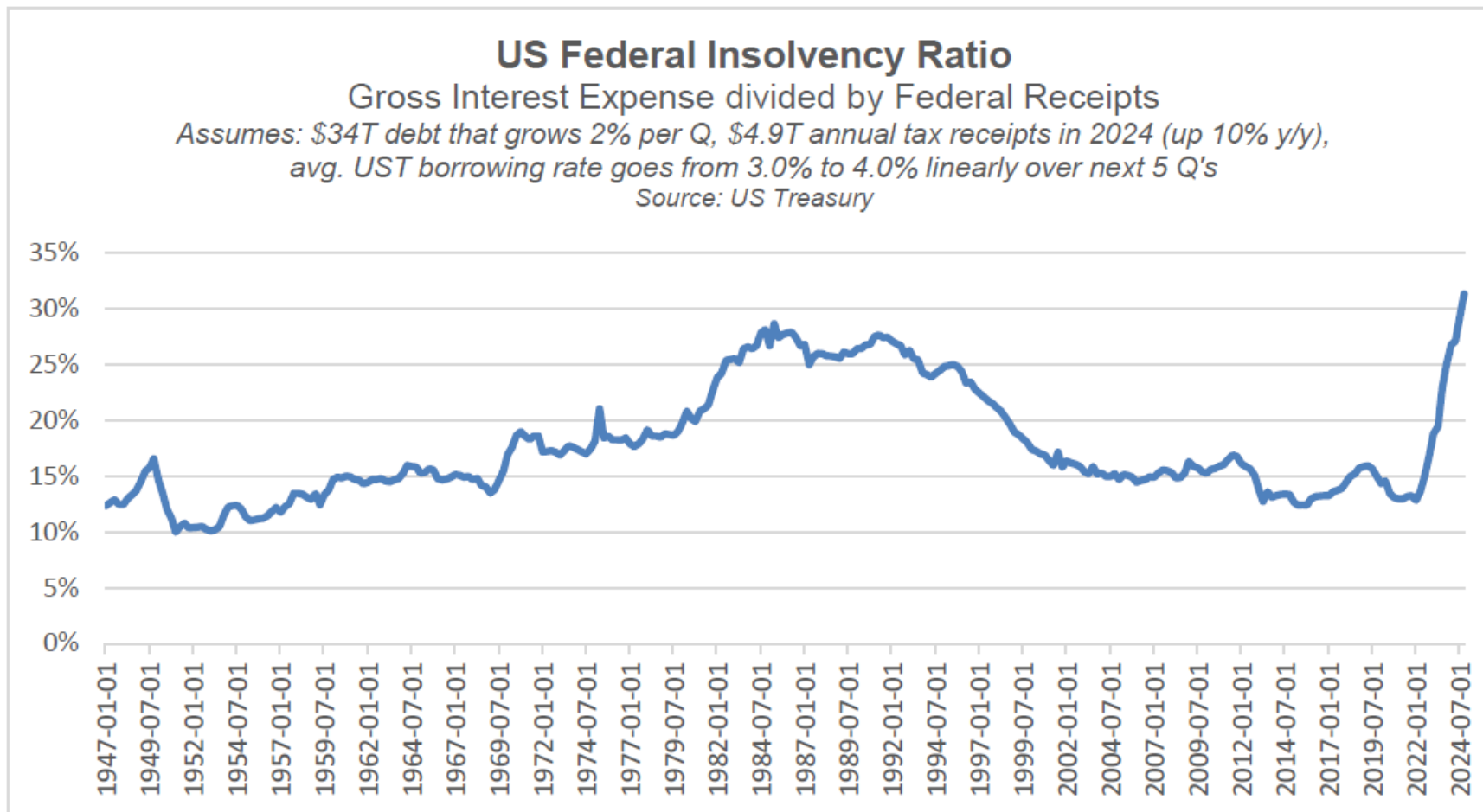


Source: Congressional Budget Office

BANKS HAVE BEEN PUSHED INTO TREASURIES SINCE THE GFC (DE FACTO QE)



FED RATE HIKES DRIVE TREASURY INTEREST EXPENSE FASTER THAN REVENUES

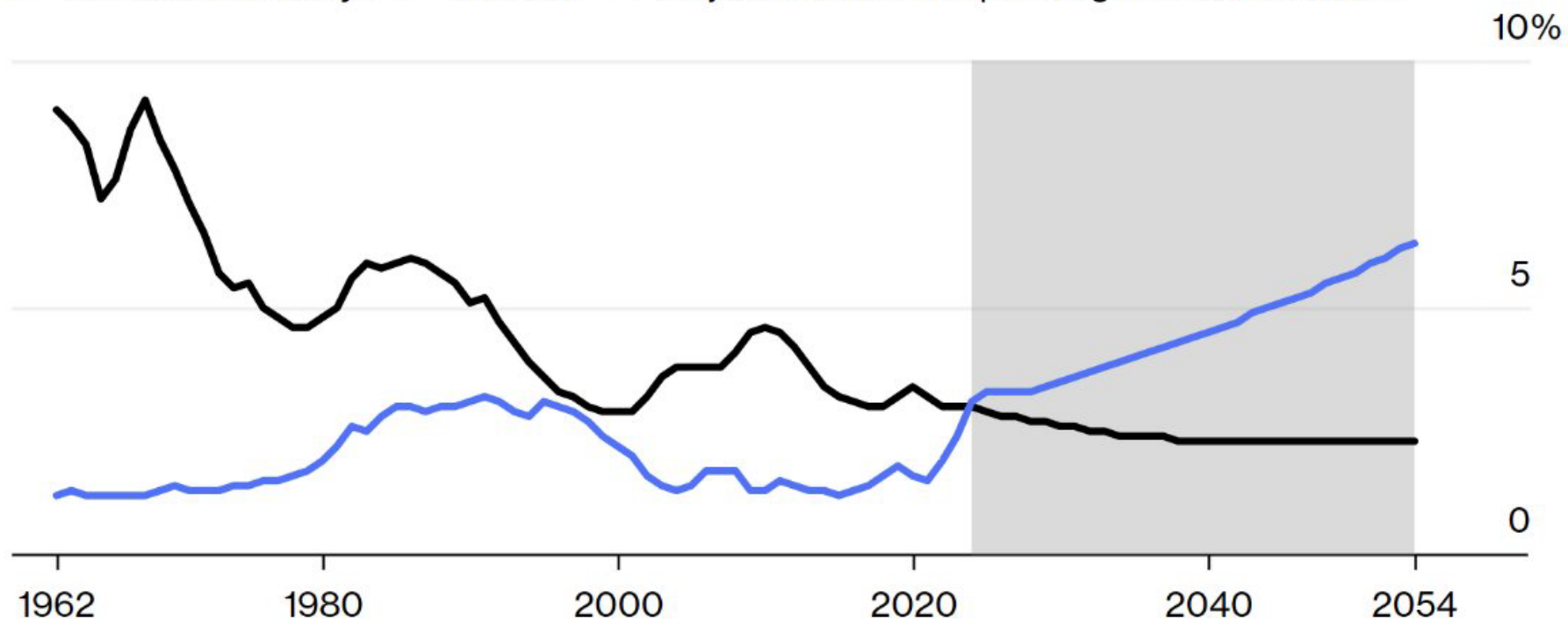


ALREADY THERE: CBO PROJECTIONS ARRIVE 2 YEARS EARLY

Rising US Debt Service Will Swamp Defense Spending

Share of GDP

Net interest outlays / Defense / Projected defense spending and debt interest

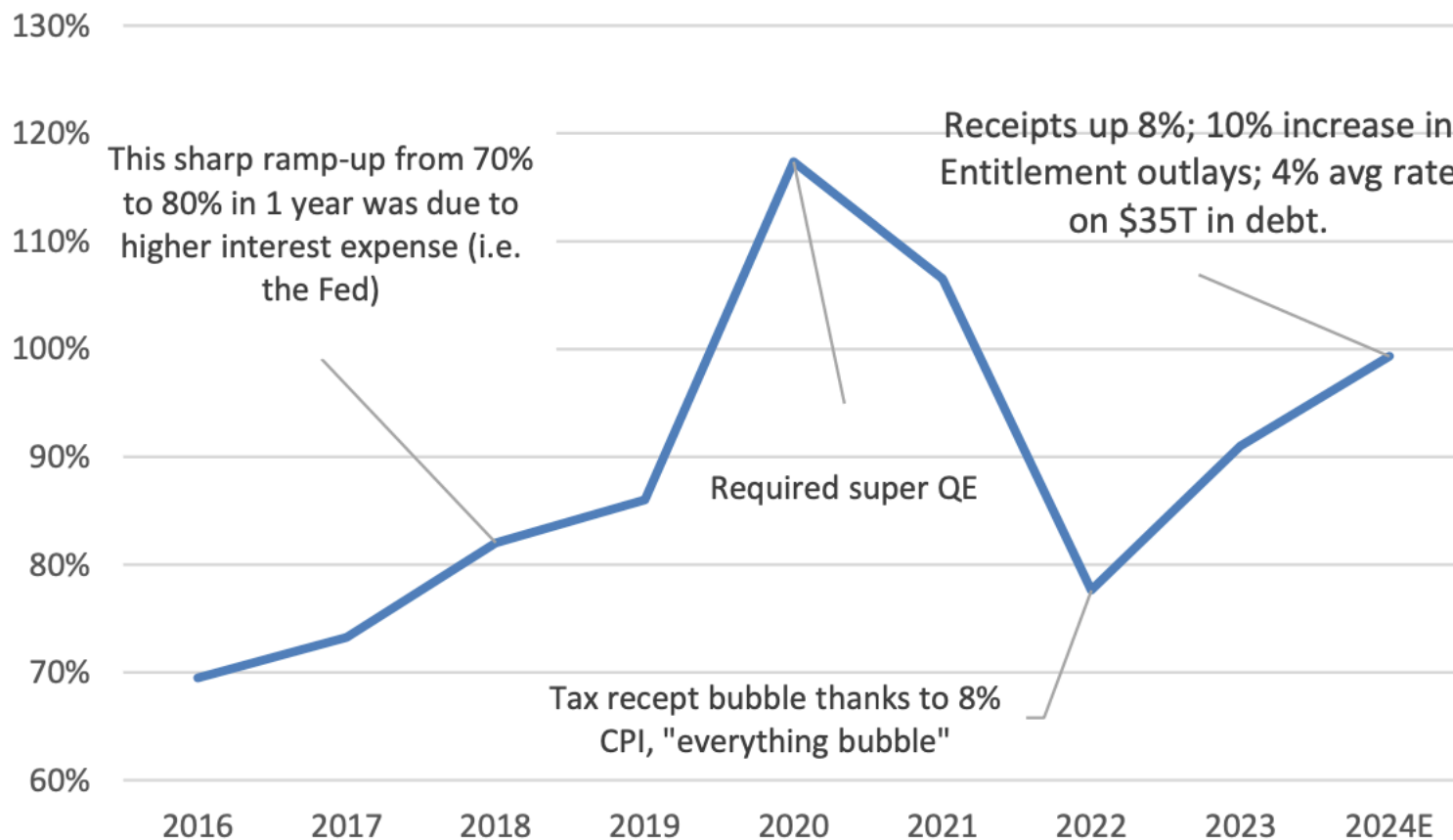


Source: Congressional Budget Office

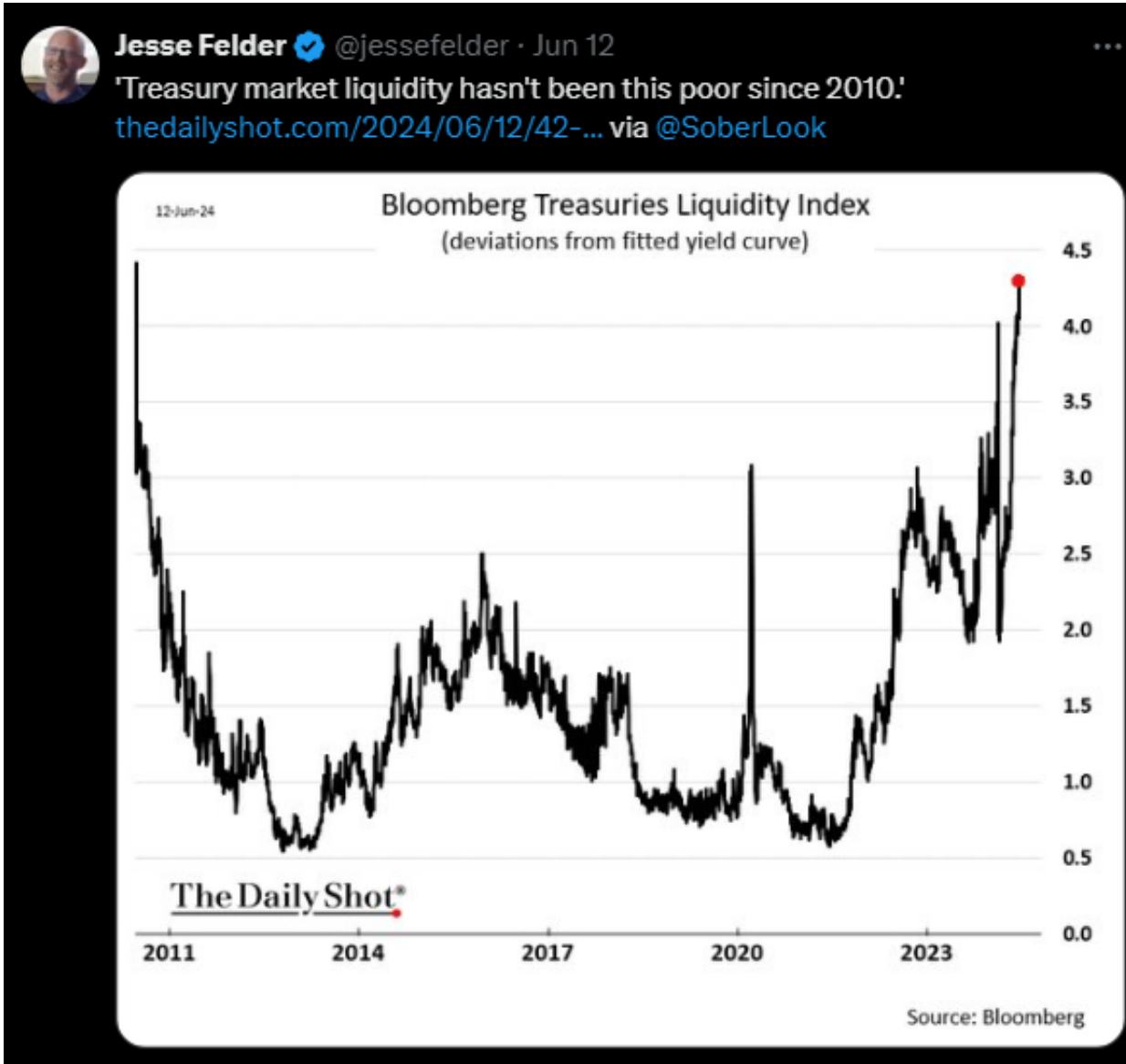
TREASURY INTEREST AND ENTITLEMENT EXPENSES = 100% OF TAX REVENUES

US "True Interest Expense" as % of US Tax Receipts
 [Treasury Spending+ Entitlement Pay-Go (SSA + HHS)] Base Case

Sources: US Treasury, Fed, FFTT



AS ISSUANCE RISES AND BUYERS SHRINK, ILLIQUIDITY RISKS RISE



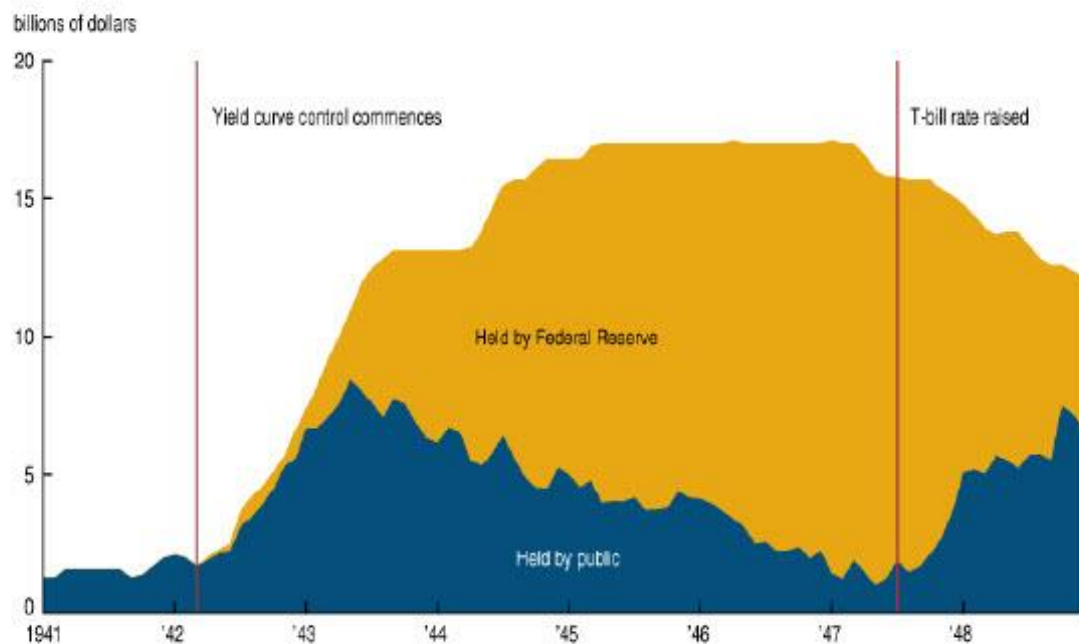
Jesse Felder @jessefelder · Jun 12

'Treasury market liquidity hasn't been this poor since 2010!'

thedailyshot.com/2024/06/12/42-... via @SoberLook

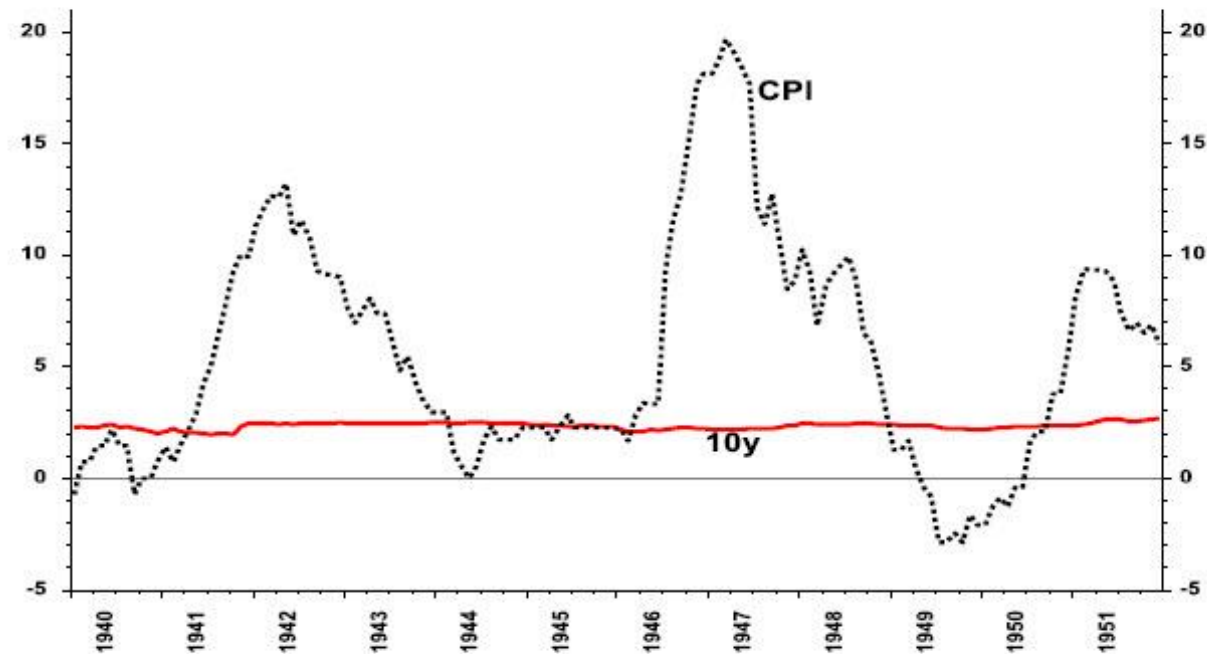
REAL RATES -14%: HOW THE FED SOLVED THE LAST DEBT/GDP CRISIS 1941-1951

Huge Fed buying of T-bills during US YCC 1942-1951



Source: <https://www.chicagofed.org/publications/economic-perspectives/2021/2>

US 10y bond yields were pinned at 2.5% during the US YCC

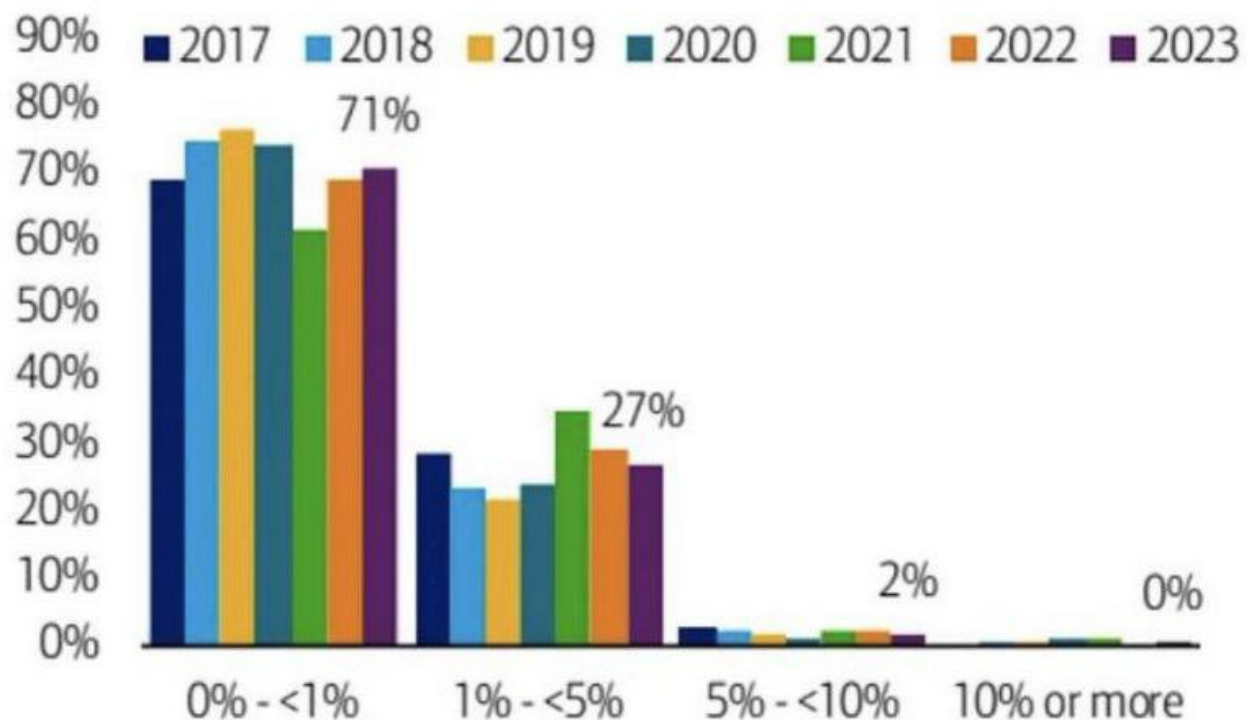


Source: Datastream

71% OF ADVISORS HAVE LITTLE TO NO EXPOSURE IN GOLD (<1% OF ASSETS)

Exhibit 60: 71% of advisors have little to no exposure in Gold (<1% of assets)

Asset allocated to gold among all book of business



Source: Wealth Management Marketing Research, BofA US Equity & US Quant Strategy

IN A SOVEREIGN DEBT/DOLLAR CRISIS GOLD MUST RISE 6-15XS IN DOLLARS

Market value of US official gold as a % of Foreign Held UST's

Source: Federal Reserve, FTTT

