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# SEABRIDGE GOLD

GOLD MARKET UPDATE

# CENTRAL BANKS TURN TO GOLD

Why are central banks exchanging reserve dollars for gold in accelerating amounts?

Central bank purchases of gold hit 417 tonnes in the final three months of 2022, a new quarterly record (up from the previous record of 400 tonnes in the prior quarter and roughly 12 times higher than the fourth quarter a year ago). It took the annual total to 1,136 tonnes worth an estimated \$70 Billion, more than double the tonnage of 2021. Since 2010 central banks have been net purchasers of gold following two decades of net sales. Something significant has changed.

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## Central bank buying in 2022 was the second highest on record\*



Sources: Metals Focus, Refinitiv GFMS, World Gold Council; Disclaimer  
\*Data to 31 December 2022.

## CENTRAL BANKS TURN TO GOLD CONTINUED

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The World Gold Council states that a lack of “counterparty risk” is a key attraction of the metal for central banks, compared with currencies under the control of foreign governments. Sanctions imposed by the US Treasury in connection with the Russian invasion of Ukraine have frozen US dollar balances and greatly reduced the attractiveness of dollar reserves. This is certainly a factor, but we think there is more at work than security of reserves.

The BRIC countries (Brazil, Russia, India, and China) are beginning to implement trade among themselves directly, in their own currencies, without moving the transactions through US dollars. In this arrangement, there needs to be a medium of exchange accepted as final settlement for residual balances. Some analysts are surmising that gold may become the favoured final settlement medium. As the Saudis and other major commodity producers indicate their intention to join the BRIC trading system, we see a growing preference for accepting and holding real, commodity-based currencies not as prone to dilution as the unbacked financial currencies of the West.

We think this means gold may now be moving back to a central role in the global financial system, not only as a preferred but passive reserve but also as part of an active settlement mechanism. At one time, the vital energy trade was shaped by mid-east oil producers requiring a petrodollar good as gold for the purchase of their production; they did not want to accept a depreciating currency for a depleting resource. The extraordinary US fiscal response to the pandemic... printing dollars for support of the US economy (and not limited to financial markets which enabled dollar holders to offset monetary expansion)... has broken the long standing link between the dollar and gold which Paul Volcker fought hard to preserve.

If we are right, and gold becomes an active part of the global financial system, there is no telling what price it may command in the West’s fiat currencies.