### Title:

UxC President To U.S. Utilities: Buy American

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#### Summary:

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StockInterview: How would you sum up the uranium market right now?

Jeff Combs: There's a very tight supply/demand situation that exists now for deliveries over the next several years. If you were going out today to buy uranium for 2007, 2008, and 2009, there's not that much available supply. The supply/demand balance is very tight, and I think that's going to be reflected in prices continuing to rise for a while as utilities seek to fill demand for those delivery years. Since most contracting in uranium is done on a term basis, you're always looking out several years. By the time you reach 2009, for example, you're looking to fill needs in 2012 and beyond. By that time, supply might have responded sufficiently, or even "over-responded." Of course, whether or not the supply/demand balance is tighter then depends on how nuclear power

expansion is progressing at that point and what happens with respect to the HEU deal. But, in the meantime, production will have had more time to react to higher prices, and this could alleviate some of the supply/demand pressures.

StockInterview: How are escalating market-related contracts impacting the uranium price?

Jeff Combs: It's pretty much a sellers' market right now. You have escalating floor prices that are maybe not too much lower than the current spot price. If you have ceiling prices, they'll be much higher than the current price, and those will also escalate. In some cases, you don't even have ceiling prices. In rare cases, you don't have either ceiling or floor prices. Most producers are looking to sign market-related contracts and not fix the price even on an escalated basis in the future, although they would want floor protection. To a large extent, the utilities don't have too much choice in the matter except to wait and hope that the competitive landscape changes in the future. However, in many cases they need to procure uranium now and can't afford to wait. Thus, they must accept what is being offered.

StockInterview: Do you continue to see a speculative frenzy in the market?

Jeff Combs: There's still some speculative activity in the market, but I wouldn't call it so much a frenzy. The importance of this speculative buying has been somewhat over-blown. Total hedge fund/investor volume to date is about 11 million pounds. This buying started towards the end of 2004. The bulk of it was during 2005, and it has continued into this year. It will be much less over the first part of this year versus the first part of 2005; about a half a million pounds so far this year versus 5.5 million pounds through May of 2005. There is probably too much emphasis put on the role of hedge funds or investment funds in the market. If you look at the market, the price - especially the long term contract prices - has been leading the spot price up. The speculators really aren't involved in that part of the market. Over the same time the hedge funds/investor funds were buying, you've probably had a third of a billion pounds transacted under long-term contracts. If you go forward several years from now, you see a very tight supply/demand situation in the market. If you wanted a pure base-escalated contract, the base price for this might be close to \$50 today, a good bit higher than the spot price and about a third or so higher than the long-term price at the beginning of the year.

StockInterview: We've been led to believe the HEU deal with Russia will not be renewed. What is your feeling?

Jeff Combs: You need to consider how much things have changed from when the

current HEU deal was signed. At that time, the Russian economy was struggling, as was Russia's nuclear power program. Now Russia's economy is much more robust, thanks to energy exports. Russia is experiencing a nuclear power renaissance of its own. From this perspective, I think it's quite unlikely that the HEU deal will be renewed. When I say that, I'm referring to the deal between an agent acting for the Russian Government and an agent acting for the U.S. Government. I don't think that necessarily means that there will not be any HEU blended down after the current deal is over, but that could be done for internal consumption in Russia or be used as supply for countries where Russia is exporting fuel for Russian-supplied reactors.

StockInterview: The trading volume on the spot uranium market has fallen off after what transpired in 2005.

Jeff Combs: The volume now is certainly less than what it was last year. Volume so far for the year is 6.3 million pounds on the spot market. If this rate were maintained, it would put volume close to 20 million pounds for the year. This would make it more of a typical market in terms of volume from the standpoint of recent history before 2005. Whether or not volume is higher than this depends a lot on the extent to which utilities that are out in the long term market, right now, are able to get offers to cover requirements in 2007, 2008, and 2009. If they're not successful, they might come back into the spot market. That could boost spot buying somewhat later in the year. Also, some producers have been buying on the spot market. If this buying picks up, it could add to volume as well

StockInterview: Do you believe we're going to see \$50/pound uranium in the near term?

Jeff Combs: Oh yes, I think there's a good chance that we'll see \$50 per pound uranium this year, more likely in terms of long term contracts. I think the highest prices may be reached within the next couple of years. I think that's when supply will be the tightest. In our uranium market report, we develop three price scenarios - a base case, a high-price case, and a low-price case. Price spikes or overshoots its long-run equilibrium in all three scenarios. In the high case, which would be the most dramatic spike, I would say it would be somewhere in the \$60 - \$70 range. Price certainly could be higher than this if the wheels come off the wagon. I think you're definitely looking at price going into the \$50s. It's not too difficult to see a scenario where price goes into the \$60s. And then it would come down from there.

StockInterview: What goes up must come down?

Jeff Combs: I don't think these higher prices are sustainable in the long term.

You also have the situation now where utilities are going out to buy uranium, and they're not finding what they want over the 2007-2009 period. It might be the case that some of these newer producers, or producers in the process of expanding production, really aren't in a position to offer the supplies in those years. Ultimately, they will have the supply to offer in maybe 2009 or 2010. Since they're not offering it right now, price can be pushed up a fair amount, setting up the possibility for a correction in a few years when more of these supplies become available to the market. In the short term, uranium supply and demand are very inelastic. This sets up the potential for an explosive response in price, as witnessed by the recent behavior in price. I have to admit we've had to adjust our price projections upwards on more than one occasion.

StockInterview: What would be on your checklist of "shocks to the market" or the "wheels coming off the wagon"?

Jeff Combs: What we've pointed out for a while is that you have the vast bulk of supply coming from a few major production centers and blended-down HEU. If you have a problem with any one of those, it can have a large impact on the market. Obviously, we've already had problems at Olympic Dam and McArthur River, and now Cigar Lake, even before it gets into production. If you have problems at any of these in the future, or at Rossing or Ranger, it's going to impact the market. If you had some problem with the HEU deal between U.S. and Russia, it could have a devastating impact on the market. In the past, these problems have been caused by fire and floods, but other factors such as trade policies or the shortage of equipment could negatively impact supplies going forward.

StockInterview: But then why did the Cigar Lake delay seem to pass by unnoticed?

Jeff Combs: It hasn't seemed to have gotten a lot reaction in the market. I think it depends on how people look at it. I've heard somebody say, "Well, it just means that it just takes 2.5 million pounds of production out of the market because it gets delayed 6 months." Unless Cameco increases the rate at which it ramps up Cigar Lake, then it's going to take more than 2.5 million pounds out of the market, because it's not going to get to its desired production level until half a year later. Production will be lower in the intervening years, as well. The problem is that this delay in production is coming at a time when supplies are very tight in the market, the 2007-2009 timeframe. I think it could also impact the market by increasing the levels of inventories held because you really don't know when the next flood or next problem is going to occur. Until production expands more, any shock to supply could send prices much, much higher.

StockInterview: What should U.S. utilities do to protect their supply channels

in the face of possible market shocks and especially in light of the aggressive Asian appetite for uranium?

Jeff Combs: That's a good question. I think that U.S. utilities should support the expansion of production in the United States, in addition to maintaining their supply channels to major uranium producing countries, or perhaps developing them in the case of Kazakhstan. I think it's more of a case that U.S. utilities should look at what all their options are, try to stimulate additional supply options, and in the process promote domestic production. Right now the market is fairly concentrated. There are not a lot of suppliers. While foreign utilities haven't been, to date, looking at the U.S. as a supply source, they also have a desire to promote supply diversity, and could look to the U.S. for supply in the future.

StockInterview: To be blunt, are U.S. utilities going to get caught "with their pants down," at some point during this decade?

Jeff Combs: If you had some kind of supply interruption or shock as we were talking about before, certainly that would create problems, not just for U.S. utilities, but for any utilities that were uncovered or have contract payment terms that relate to the market price with no real ceiling price protection. If you have really aggressive nuclear expansion in China, if India is allowed to play in the market, and if Russia goes ahead with its reactor expansion program, this makes the chances of price getting out of control somewhat greater down the road. We've been warning of these issues for a while. I clearly don't think we're out of the woods yet. When I say that we're not out of the woods yet, I still believe that some utilities may be putting too much faith in current prices in that they believe that the now higher prices will take care of the problem of future supplies. While higher prices will certainly stimulate more production, I think that you must ask the question whether these prices are the antidote for the supply problem, or whether they are more a symptom of a severe deficit of supply that the market is facing. The answer to this probably determines how proactive utilities will be in securing future supplies. We wrote an editorial in 2003 that I think pretty well captured the state of the market at that time and the market environment we have seen since.