

TRADETECH CEO: SPECULATORS COULD DRIVE URANIUM TO \$55/POUND

A Conversation with Gene Clark,
Chief Executive of TradeTech LLC



Gene Clark, CEO of TradeTech LLC. It is a Colorado-based company with offices in Denver, Chapel Hill, and Dallas. TradeTech also has representative offices in London, Tokyo, and Zurich. TradeTech LLC, and its predecessor companies, has been covering the domestic nuclear fuel cycle industry for more than 35 years. TradeTech LLC is widely recognized for its expertise in trading activities and its comprehensive knowledge of the technical, economic and political factors affecting this industry.

Summary: TradeTech LLC Chief Executive Gene Clark talked with StockInterview about the uranium bull market, where his price models show uranium prices heading and when to expect the peak of the current upward cycle of the bull market. When will “hard” times again hit the uranium market, and how long will the trough last? And what does the future hold for the uranium price? An industry insider gives us his insights.

StockInterview:

When the uranium bull market began, did you foresee \$40/pound uranium, now that the spot price has risen above this level?

Gene Clark:

I don't think any of us saw \$40 per pound coming. We had price projections at the time that indicated probably \$25 per pound, which would be a long term equilibrium price in constant dollar terms. But, I think it was a surprise the price went up so high. I think what's going, the biggest factor right now, is the advent of the so called hedge funds or speculator funds and other such groups. The price started to go up, and they came into the market with the express purpose of buying for holding and then selling into the market later to realize the trading profit. In 2005, the hedge funds were responsible for purchasing about 10 million pounds of the 29 million pounds purchased. I think the market is now finally adjusting to the realities of primary supply and demand. It's been a depressed market for 20 or 30 years, primarily from the draw down of excess inventories, and what we call secondary supply.

StockInterview:

Will the speculators remain active in driving the spot uranium price higher?

Gene Clark:

I think there is still some room for further speculation activity. Uranium Participation Corporation, for example, is rumored to be about to come to the equities market again to raise funds for another purchase. They're asking for authority to buy UF6, as well as U308, and different forms of uranium than they were locked into before. Whether it be at the 10 million pound level (size of purchase), I think it kind of depends on where the market goes. If it tends to flatten out, then I think there's going to be obviously less interest on their part. When they were active in the market, they, of course, wanted the price to go up. Therefore, they weren't too careful about what they paid for uranium. I think that's a part of it. In the long run, it was due for a readjustment to reflect prices of the cost of new production facilities. But, the hedge funds came in and overdrove the market. Eventually, what it's going to wind up doing is, if they sell off, it could have the impact of driving prices back down below where they would otherwise have gone.

StockInterview:

Did the speculators interfere with the trading efficiency of the uranium market?

Gene Clark:

In theory, speculators come in, tend to take the risk and smooth out market prices. But, it never really works out that way. They always come in and only take the risk, if there's an opportunity to make money. So some people make a lot of money. It does tend to upset the market. If you get away from the primary users of uranium and primary producers of uranium as your market participants, then you tend to introduce more noise than you would like.

StockInterview:

With that in mind, in which direction are your price projections going?

Gene Clark:

We're actually updating our uranium price forecast right now. We haven't decided on a reference case yet. The reference cases we're looking at will peak at about \$50 to \$55 per pound in about three years, and will then drop off pretty drastically. It has to do with a selling of the speculator reserves, the uranium that's being held (for speculative purposes). I can see it coming back down to \$30, maybe below \$30 per pound. Then, in the long run - out through 2020 - getting easily back up over \$40 per pound.

StockInterview:

Are you predicting a down cycle during the course of the uranium bull market?

Gene Clark:

Yes. It's pretty consistent with everything we're doing with the changes in requirements, in different cases of high, low, and medium demand. Our modeling system is projecting this. It has to do with the supply and demand balance and the cost on the margin. The way to describe it is that prices have come to a point now of higher than we would have projected them to be, such that over-supply is going to evolve. The large low cost projects will reach a point where supply then overshoots demand for a few years, which causes the price to come back down. Then demand growth, in the long run, picks up and puts a lot of pressure on the supply market to be able to meet the demand. So you wind up with pressure toward the end of the period.

StockInterview:

But the markets are finicky, filled with variables, and can frequently trick price models.

Gene Clark:

Here's what it would take to shoot that down: We have a problem with small numbers, and there are some very large projects - Cigar Lake, for example. The expansion of Olympic Dam in Australia would be going from about 12 million pounds of production to over 30 million pounds, if they finish. If you shift that out by four or five years, or if the owner decides, "No, we're not going to expand at all," you have a drastic effect. Then you would wind up with \$100 per pound uranium, I think.

StockInterview:

What are your estimates on the peak price years and the bottom years?

Gene Clark:

A lot of things could change, but here is what we're looking at. In one case scenario, the speculators are really going to stay out of the market and holding onto their stuff for a long time. If so, then we're going to be at the peak by the end of this year. If they stay active in the market and buying, then that stretches it out further. Depending on the scenario, we see the peak possibly at 2008 or so. I would say we're looking at a trough around the timeframe of 2011 to 2013. Then back up after that.

StockInterview:

How do you arrive at your weekly numbers for the spot uranium price?

Gene Clark:

We get our data from all of the key sources: the utility fuel managers, sales staff and management of uranium producers and processors, and uranium traders, brokers and asset managers. Some are, of course, more cooperative than others, and whom we call depends on the type of information we are seeking. Since our price indicators are a judgment call, we often focus on the losers in particular recent transactions, as those will be the next to make offers in the market.

StockInterview:

Let's back up a bit. Why has uranium gone up past the levels of the "cost of production," which would place the spot price between \$25 and \$35/pound?

Gene Clark:

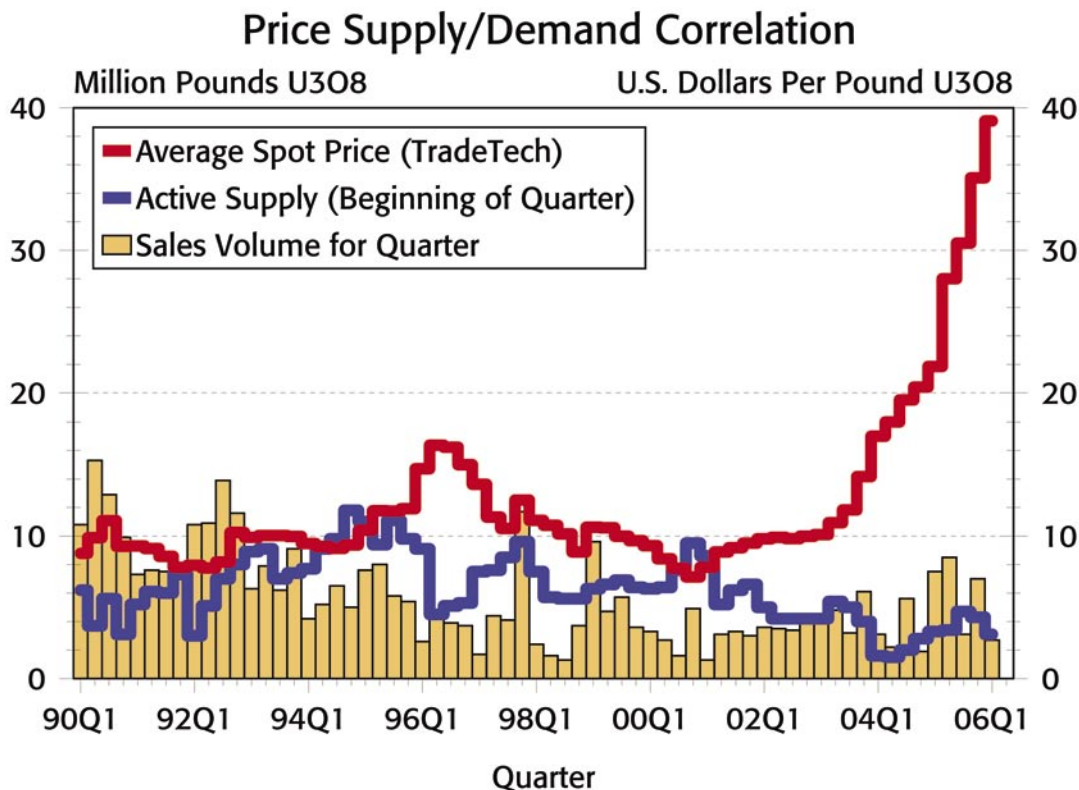
The biggest factor, in signaling the market, was when utilities went out for long term bid requests. They found they reached a period in which producers would have to build new facilities. Producers building those facilities felt, "I have to make at least enough profit to cover a return on the construction costs for these facilities." That was much higher than the market at the time. Basically, you reached a point where the cheap stuff has been sold. Now, we have to actually spend some money, some capital, to build new facilities, new mines and new mills. That was, I think, the earliest signal of the price needing to adjust.

StockInterview:

Isn't there a ton of hype across all media channels about the "nuclear renaissance" and the demand for more nuclear energy?

Gene Clark:

First of all, all the hype about nuclear renaissance is really in the United States. The Chinese have had plans to expand for a long time. The Japanese have been steadily adding new capacity. Koreans have been adding new capacity. Indians have been adding new capacity all along, all the way through this, even before we started this discussion on nuclear renaissance. I think that phrase is really focused more in the United States, which really hasn't ordered a plant since 1976 or something like that. There is a boom. Maybe it's the uranium renaissance.



StockInterview:

Is all of what we've been reading just plain hype?

Gene Clark:

There is some hype, but there is also some substance. A part of it is certainly a change in public attitude about nuclear power. If I was riding on an airplane, ten years ago, and someone asked me what I did for a living, I was guaranteed to have a lousy trip, arguing about nuclear power. When I mention it now, I get a positive response. There's been a marked shift in public attitude about nuclear power. From the standpoint of the utilities that would be ordering nuclear plants. To the extent that they need new capacity, looking at nuclear now is not off the drawing boards, partly because of public attitude. The industry has been moving through this trough period, preparing itself for a new era. It remains to be seen when the first order comes. But when the first actual order of a nuclear power plant, along with the license application does come, I think you'll see several U.S. utilities following, probably five utilities very actively involved.

StockInterview:

When will that actually happen?

Gene Clark:

I think it will come within the next five years, the ordering process. Of course it will be probably another eight years before we actually see the first power plant from that process. We're talking probably about 13 years. That's how long it takes. You can actually construct one in 48 months, but you have to have been through the licensing. If you don't believe the anti-nuclear people are going to be psyched up to fight the first plant coming through, then you'd be very naïve. The first one is going to be more difficult and take more time, I think.

StockInterview:

One anti-nuclear group told us they do not believe we'll have more nuclear power plants in the United States.

Gene Clark:

That's possible, but given the current circumstances, my guess is we will have more nuclear plants. We need the capacity, whether we're going to build coal plants (or other types of power generating plants). I just came from California, moved here (to North Carolina) six months ago. They were talking in California about building gas-fired plants for base load generation, which is the most ridiculous thing you can imagine. The plants are cheap to build, but the fuel cost is exorbitant. I did a speech a couple of years ago, having looked at the Energy Information Administration's projections of gas demand. All the growth in natural gas demand is going to be in the electric utility sector. We are going to be importing 60 percent of our gas supplies by 2020. Does that make any sense? No. We have a lot of coal, but there are lots of complaints about coal burning. In our state of North Carolina, the attorney general is actually suing the Tennessee Valley Authority (TVA) for the damage from coal burning of the TVA's power plants in the adjacent state, in Tennessee. There's going to be continued pressure on coal burning. I think nuclear has as good a shot as any in terms of new capacity.

StockInterview:

Some critics have argued China and India will not be able to afford the massive nuclear power plant build up they've envisioned.

Gene Clark:

If you think the Chinese are going to have any problem financing things, you'd better think twice. Let's focus on India. India is a clear case where, and it is a good rule of thumb, one percent growth in gross domestic product requires one percent growth in electricity requirement. For India to grow economically, it needs electric power. Where are they going to get it? They have coal plants there, as well. Once you use up all your hydro capacity, you really don't have much to choose from, except coal, natural gas, and nuclear. To the extent that they can have economic growth and export income, coming into their country, they would be able to finance nuclear power plants. My guess is they're going to get the vendors of the nuclear plant to help finance them.

StockInterview:

Are you talking about the French?

Gene Clark:

Framatome - the company that constructs the nuclear plants. Financing is generally part of the package. The first plants in China were basically financed by the French government. If the French go into India, you'll see the same thing. The Russians have financed plants for developing countries. That's not unusual for them to do. The United States may, or may not, get involved. I think there have been some types of guarantees in the past, but not at the same level as the Russians and French do it. I think those are the big choices. I wouldn't be surprised to see the South Koreans involved in the reactor export market. They've pretty much developed their own technology now. They have the capability of building 100 percent of a nuclear power plant in South Korea: the pressure vessels, all the steel requirements. They can do it all. We really haven't seen them export yet, because they've used up all their manufacturing capacity for their own program. At some stage, I wouldn't be surprised to see that happen. And I think they would be able to finance reactor export sales.

StockInterview:

How are the U.S. utilities going to fare in getting their "share" of uranium to fuel our domestic nuclear power plants in the context of the apparent overwhelming Asian demand?

Gene Clark:

In reality, the U.S. utilities, which tend to wait longer to contract, may be the ones on the losing end because the Chinese and the Indians will contract early. The implication of current group-think is that the Chinese and Indians are not going to be able to find enough uranium for their new plants. But, they are committing for supplies way out into the future. When the U.S. utilities come to the market, they're going to look around say, "Oh blankety-blank, what happened? Where's the uranium?" They'll be the ones that sat around. I think that is what's going to happen unless things really change in the way contracting is done in the United States.

About...**Gene Clark**

CEO, TradeTech LLC.

Dr R. Gene Clark is the Chief Executive Officer and principal of TradeTech, which he co-founded in January 1995. Prior to this, he had held the positions of Executive Vice President of Global Nuclear Services and Supply Ltd (from its inception in 1991), Director of Marketing for NUEXCO Asia Ltd in Hong Kong, President of NUEXCO Information Services, and Director of the Nuclear and Alternative Fuels Division, Energy Information Administration, US Department of Energy. He has been involved in analysis of the nuclear power and nuclear fuel cycle industries, and later in marketing nuclear fuel and services, since 1974. Dr Clark graduated from Iowa State University at Ames in 1972 with a PhD in experimental nuclear physics.

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