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URANIUM AT $100/POUND?

Energy Guru Forecasts Uranium Shortfall in Three Years

Will a pound of uranium cost more than a barrel of crude oil?

StockInterview.com's Andy Barrett interviewed Bill Powers, the influential editor of Chicago-based Canadian Energy Viewpoint. Powers focuses on investment opportunities in the Canadian energy sector, mainly independent oil & gas companies and now uranium companies. Bill Powers thinks uranium could reach $100/pound this decade. He told StockInterview.com, "This is an extremely bullish scenario right now because uranium prices have touched twenty-year highs at $18.50/pound, despite the fact that USEC is dumping more than three percent of the world's uranium consumption onto the market place. When this dries up, we should see markedly higher uranium prices."

Bill Powers,
editor of the Canadian Energy Viewpoint
http://www.canadianenergyviewpoint.com/about.html

StockInterview:
A lot of newsletters cover oil and gas, but why did you pick uranium, which hardly anyone is covering?

Bill Powers:
I feel the uranium market right now is the world's most unbalanced commodity market. In a sense, the world, through the nuclear power industry, consumes approximately 172 million pounds of uranium per year, and the world only produces about 92 million pounds of uranium per year. The supply deficit is made up through above-ground inventories, which are being worked down pretty quickly. Those numbers were supplied by Uranium Information Center. A lot of my information comes from the U.S. Department of Energy (DOE) or the Nuclear Regulatory Commission. For example, I discovered from them that the U.S. produced, through the 1980s, about 43.7 million pounds of uranium. And by 2002, the U.S. only produced about 2.34 million pounds of uranium.

StockInterview:
Where is uranium being produced in the United States?

Bill Powers:
Wyoming. There is also a uranium facility in Nebraska. I think there are two in-situ leach plants in Wyoming and another one in Nebraska. There are a couple of phosphate farmers in Florida who produce uranium. I believe there is a facility in Texas that also produces uranium. For the most part, the uranium industry in New Mexico has just about been wiped out. The very low prices that we've seen, for about twenty years, have pretty much wiped out the entire U.S. uranium industry. To go from over 43 million pounds to less than 2.5 million pounds, it has really only allowed the most productive, highest margin and most efficient mines in the country to continue operating in that environment.

StockInterview:
So that makes the U.S. a net importer of uranium?

Bill Powers:
Absolutely. According to the DOE, US imports have gone from 3.6 million pounds per year in 1980 to 52.7 million pounds per year in 2002. A lot of it comes from Canada, but a significant amount is coming from the Russians, through a program called HEU (highly enriched uranium): the megatons to megawatts program. It's where the United States Enrichment Corporation, as well as its partner in Russia, took highly enriched uranium and broke it down into lower grade uranium that could be marketed to nuclear power companies throughout North America and around the world. This has been one of the reasons we've had lower prices. All of this uranium has cluttered the market the past few years. And the US Enrichment Corporation has a lot to do with why we've seen low uranium prices here in the States. I had a conversation with them about the fact that since 1998, when they became a public company (after being a company that was owned by the U.S. government), their long-term inventories of uranium had declined. When they became a private corporation, the U.S. government gave them 7,000 tons of enriched uranium and 50 tons of highly enriched uranium. They have been selling about 6 million pounds of uranium into the marketplace every year since 1998. According to my conversation with them, they have about three to four more years of selling. It's because the US Enrichment Corporation wants to get out of the uranium storage business, and they want to be in the processing business.

StockInterview:
How long will it be, do you think, before USEC is going to stop being a factor on the selling price pressure of uranium?

Bill Powers:
I would probably say in about three years. For the uranium they are now selling, the cost of the uranium to them was zero. This has really made that company look very profitable. They are selling about $100 million worth of uranium every year, and they intend to do this at no matter what price. This is an extremely bullish scenario right now because uranium prices have touched twenty-year highs at $18.50/pound, despite the fact that USEC is dumping more than three percent of the world's uranium consumption onto the market place. When this dries up, we should see markedly higher uranium prices.

StockInterview:
How high is high when you say that?

Bill Powers:
I would say up to $100 per pound. In three years, we should be well over $50/pound. Before the end of this decade, uranium will probably be $100/pound. I would not say this, based on just USEC, but based on Cameco (NYSE: CCJ). They recently released a news item that says the Russians are going to be holding back some of their output from the megatons to megawatts project. Their (the Russian) uranium is going to be needed for internal consumption. Russia has a growing nuclear power industry. They need to have uranium supplies available. They're not going to be selling as much as they had in previous years. It appears it is going to be very important to factor in reduced Russian supplies as well as when USEC gets out of the business.

StockInterview:
How can a sophisticated investor benefit from uranium's rising price?

Bill Powers:
The most leveraged investments are the Canadian juniors. I believe Cameco (NYSE: CCJ) has other businesses out of uranium exploration and production, and it is a very safe way to play uranium. But I think there are far better opportunities out there. One of my favorite companies is Strathmore Minerals (TSX-V: STM). I really like their business model of acquiring a great deal of very prospective uranium properties at bargain basement prices. They're able to do this because, right now, uranium has gone through a twenty-year depression. The prices for some of these pretty far advanced projects are very cheap. I think they are well leveraged for that. Another safe way to play uranium is Denison Mines (TSX: DEN). They produce about 1.3 million pounds per year. They have properties are in McLean Lake, Saskatchewan, which is part of the Athabasca Basin. What I like about them is they are able to use their cash flow from their existing production to further expand some of their properties. With UEX Corporation (TSX: UEX), Cameco was the shareholder. UEX was founded several years ago with Pioneer Minerals. Both of the companies put in properties. It's look like they are rapidly advancing some of their properties in Athabasca. I believe they have about eleven properties they have an interest in. I have one more, but this is a small and speculative junior: JNR Resources (TSX-V: JNN). They have a project at Moore Lake in Athabasca they are advancing. They are trying to further define, delineate, this project. They have drilling this summer.

StockInterview:
What about other energy factors, such as crude oil, and what do you see happening there?

Bill Powers:
I would say crude oil is heading much higher. We have reached the worldwide production peak of crude oil, or we are very close to it. This is not very well recognized. As demand continues to rise, and world production starts a downward slope, we're heading for much higher crude oil prices. I see crude oil hitting $50 per barrel within the next eighteen months. I see much higher prices later this decade, if nothing goes wrong. What I mean by that is the natural market equilibrium price of crude oil should be $50 within the next eighteen months. And probably over $100 by the end of this decade if nothing goes dramatically wrong. That would come from the natural decline of existing reservoirs, limited new discoveries, and increasing demand. However, if a country, such as Saudi Arabia, were to have a regime change…..
StockInterview:
Are you looking for a regime change in Saudi Arabia?

Bill Powers:
Yes, there is a body of evidence that supports this. Terrorist incidents are becoming more violent and closer together in Saudi Arabia. Right now, we're seeing those attacks targeted to the oil workers. I believe it will not be too long before those attacks are focused more on the royal family. I believe that will be the next stage in Saudi Arabia. There's a very good chance, which history supports, is when there are sudden regime changes in oil-exporting countries, oil exports from those countries drop significantly.

StockInterview:
Aren't some members of the Saudi royal family, at least King Faud bin Abdul Aziz's eighty-one year old chain-smoking successor, Crown Prince Abdullah, leaning toward Islamic Fundamentalism??

Bill Powers:
Abdullah is likely to become the successor in Saudi Arabia. My understanding is King Faud is in Switzerland receiving medical treatment. When he dies, it is likely to turn into a power grab to become the next king. Regardless of what were to happen, as far as the political situation, a lot of their fields, especially Ghawar, which is the biggest oilfield in the world – it produces between 4 and 4.5 million barrels per day – there is evidence that this field could decline relatively soon. Saudi-Aramco has been injecting substantial amounts of water into injection wells to push the keep production flat What this has done is it keeps production flat, but it's sort of an illusionary fountain of youth. If you keep injecting water, the amount of water you produce, along with the oil, continues to rise. As the water cut continues to increase, the amount of oil produced can fall dramatically. If that were to happen, if Ghawar were to go into a permanent and irreversible decline – well, it could happen relatively quickly. There are other fields in the Middle East, such as Yibal in Oman, where they had a lot of water flooding and horizontal well drilling. Yibal has gone from 250,000 barrels per day in the late 1990s to about 80,000 barrels per day now. If we were to get that type of decline in Ghawar, the world is going to be seeing higher prices just on that. Right now, there is not any excess oil production supply anywhere in the world. A relatively small reduction in availability of supply will lead to an exponentially higher oil price.

Bill Powers,
Editor of the Canadian Energy Viewpoint

Bill became interested in oil and gas firms while searching for investment alternatives with an inverse relationship to the technology sector. Focusing on Canadian firms, to take advantage of the strengthening Canadian dollar, Bill completes both primary and secondary research to identify firms with strong value propositions – experienced management, strong balance sheets and growing earnings.

Bill has been an active investor for over 20 years and holds a BS degree in Finance from Georgetown University, Washington, DC. Please visit his website at http://www.canadianenergyviewpoint.com/