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## Prices, Prices, and More Prices

When you think of it, there is a dizzying array of uranium prices. Not only are there spot and long-term contract prices, there are daily prices, broker posted bids and offers, and a whole spectrum of forward and future prices going out at least five years into the future. There are also a variety delivery prices which relate to past market activity. These are not market prices per se, although they are sometimes referenced as prices in long-term contracts, which give them some sort of market relevance.

And, this is just uranium. There are also enrichment and conversion prices, as well as EUP prices. These prices are linked to one another in ways that are important to understand, but not always appreciated.

One price that is likely receiving more attention today is the fund implied price or FIP. As its name suggests, the FIP is the level of the uranium price implied by the stock price of a fund or funds that hold uranium for investment purposes, in this case the fund operated by Uranium Participation Corporation (UPC). The link between the FIP and the physical spot price is especially interesting, and has special relevance in today's market, as will be explored below.

First, the FIP tends to be a leading indicator of the physical price as seen by comparing the price series in the chart, which tracks the history of the FIP versus the physical price. The FIP rose more quickly than spot prices in the 2006-2007 period, but also fell more quickly than spot prices in recent years. This suggests that some distance from the physical market and familiarity with other commodity markets and investments may provide an additional and useful perspective about the uranium market.

The chart below shows that the FIP dropped sooner and more decisively than the physical price since Fukushima, foreshadowing the decline in the latter price. Recently, the two price series have been in close proximity, suggesting the investor community and uranium market participants – and these two groups are not completely independent – are seeing the market in a similar way.

This brings us to a second and more complex interrelationship between the FIP and the physical price, and that relates to the ability of UPC to enter the market and buy uranium for the fund. At issue here is the fact that the FIP needs to be above the spot price in order for UPC to purchase uranium. In addition to this, there must be an investor commitment to fund the purchase.

Even when these conditions exist, the potential for UPC to purchase uranium, especially a large quantity, can drive up the spot price higher than the FIP. By the same token, UPC pulling back from the market tends to decrease the spot price. While at first blush this might support a UPC purchase by having the physical fall below the FIP, a falling spot price can also impact investor expectations and negatively impact the FIP, although other factors, such as exchange rates, can affect the FIP's value as well.

This interrelationship between the FIP and the physical price likely accounts for some of the recent market dynamics. Needless to say, UPC's purchase prospects and process are much different today than they were during the price boom years.

For those that consider the FIP to be a leading indicator of the physical price, the fact that the FIP has been in close proximity to the spot price could indicate that the market is near a bottom. However, the fact that there has been such a struggle for the FIP to break above the spot price could indicate that the spot price will not increase strongly anytime soon. Again, this is quite different than the situation that existed when UPC first made its purchases.

The FIP and the spot price are thus both somewhat interdependent measures of the prospects for the uranium market. In the early days, the FIP increased ahead of the physical price, foreshadowing its eventual climb. Of course, outside investor interest in uranium added more demand to the market and helped propel the price higher, thus making the FIP's movement somewhat of a self-fulfilling prophecy. However, investor interest (or disinterest) in uranium ultimately comes back to market fundamentals. Those fundamentals were quite strong in the 2004-2007 period, but are quite weak today.

One of our goals this year is to model and otherwise establish linkages with regard to the relationship and sensitivities between different nuclear fuel prices, including the relationship between market and delivery prices. We are well into that process, which also includes the development of new market models for supply components. In developing new models, it is important to recognize and incorporate these linkages in order to achieve an integrated and more complete view of the market.

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