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Lions and Tigers and Bears...Oh My!

August is usually a quiet month, with little going on. Many people are out on vacation, Congress is in recess, etc. Every four years there are exceptions, with the summer Olympics and the national political conventions in the U.S. taking place. The Democratic convention is later this month, and while the Republican convention doesn't start until September 1, the hoopla and anticipation surrounding it starts this month as well.

The uranium market usually takes a snooze in August, as demand drops off and returns in September. This August is no exception, with price seemingly on autopilot at \$64.50 as the market drifts along. However, the relative calm of the uranium market belies the events that are unfolding in the industry and around the world. With respect to uranium, the big three that have surfaced this month are another water inflow at Cigar Lake, the increasing potential of India entering the uranium market, and the Russian/Georgian "skirmish," for the lack of a better word.

All of these developments are relatively recent, and there is an issue of how much, or even if, they will affect the market. Certainly the spot price has not reacted yet, but this is not surprising given the lethargy at this time of the year. The fund implied price (FIP) increased by almost 10% last week, although we can't tell whether this is being driven solely by these three developments. While these events are quite recent, we will present some initial impressions below.

The Cigar Lake water incident just occurred last week (see news brief on page 2) and thus is very new. There has already been a lot of speculation about its ultimate impact, and it seems likely that this will cause a delay in the operation of the mine. The only question is how long this delay will be. It also raises the question, which we have raised before, of whether there will be subsequent problems at Cigar Lake. If you have 3 floods, why can't you have 4 or 5, or even more? It's not that we want to put doubts with regard to this mine – those doubts are already there anyway, it's a question of what actions will buyers take (if any) in response to this latest episode.

Another issue is pending market participation by India, which has now survived a vote of confidence for the party in power, as well as a vote by the IAEA. Next up is a vote by the Uranium Suppliers Group (NSG) which is meeting later this week to decide whether to grant India a waiver for nuclear trade (see story on page 2). While many people have been focusing on the passage of the 123 Agreement in the U.S. as the precipitating event for nuclear trade with India, the truly crucial event is the NSG vote, as that will open the door for countries to supply India with nuclear technology and materials. That is, if this waiver is granted, countries that have bilateral agreements with India can begin to trade with India. For now, this doesn't include the United States because the lack of a 123 Agreement prevents the U.S. from selling nuclear-related materials to India.

Now, it is true that we have known for a long time that India has been going down this path, so what's the big deal? First, it is only recently that India has cleared some important hurdles (the confidence vote and the IAEA vote) and is now on the doorstep of clearing another (the NSG vote). Second, it's the likelihood if not the fact that India's demand has yet to be factored into the market. Preliminary results of our biannual market survey indicate that by a 3:1 margin participants do not believe that India's demand has been priced into the market. (Note: if you haven't completed our survey, you still have time to do so.) It's well known that India is suffering a shortage of uranium, but the country has been out of the nuclear fuel market for such a long time that it's hard to envision the extent of India's involvement and exactly how this will impact the market.

The last but also very recent development is the clash between Russia and Georgia. It's not the conflict per se that is important; it is how this conflict and its resolution will affect Russia's relations with the United States and Europe. Also, it's not like this conflict does not have anything to do with energy, as Georgia possesses strategic ports and has a key pipeline running through it. This serves as a reminder of the importance of supply assurance and energy security for uranium as well as natural gas and oil. It will likely take much longer for the ramifications of this episode and the political reactions of it to play out, but it is still something to follow.

On the nuclear fuel front, the key issues are the future of the U.S.-Russia 123 Agreement, Russia's nuclear trade with Ukraine – especially Ukraine's involvement in the Angarsk enrichment facility, and expansion of Russian uranium production with Western participation, which is currently part of Russia's Concept-2020. Finally, while it is thought that the HEU deal is sacrosanct, recent developments are not encouraging for any further HEU down-blending by Russia.

The title of the cover comes from the Wizard of Oz, a phrase spoken by Dorothy as she heads down the yellow brick road to Oz. Perhaps by now it makes a little more sense – you should be able to figure out whom the tiger and the bear are, and two out of three aren't bad in the analogy department. Also, like Dorothy in the Land of Oz, we don't know what lies ahead when it comes to these recent developments, and it's easy to let our imaginations run away with themselves. However, it's pretty easy to argue that these developments are not good for the market from the standpoint of lessening the future volatility of price.

What effect they eventually have depends not only on what happens in these areas but importantly how market participants react based on what they think might happen. If nothing else, these developments reinforce the inherent uncertainty in the market and the fact that this uncertainty emanates from more than just one source – here the uncertainty is both on the supply and demand side of the equation. Usually August is a boring month; this year is proving to be an exception.

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