



Looking Backward & Forward with Respect to Prices

As we enter a new year or a new decade, there is a tendency to look backward as well as forward to examine where we have been and where we are going. This same differentiation applies to various price information that is made available to industry participants, as will be discussed below.

There are essentially two types of price information made available to the market, one is market information reported by private organizations, such as UxC, and the other is region-specific contract price data reported by government agencies. In the government group, there are two main agencies that collect price data – the Energy Information Administration (EIA) and the EURATOM Supply Agency (ESA). Anything that the EIA or ESA does is necessarily backward-looking in that they are reporting data on deals or information that has been submitted to them and which, by definition, took place in the past. The more recent the vintage of the data, the more relevant it is for representing the recent market situation.

Like private companies, government agencies look to make improvements in the data they report. Last year, the ESA came out with the MAC-3, which provides the average delivered price for long-term contracts and amendments to long-term contracts signed by participating EURATOM members over the most recent three-year period. The MAC-3 price published for 2008 was \$47.94/lb. U₃O₈, which was a good bit higher than the average delivered price reported by ESA for contracts of any vintage (\$26.72), but also a good bit lower than beginning base prices offered for new long-term contracts in 2008 (these were in the range of \$70 to \$95). Thus, while the data published by the ESA represents the delivery prices for 2008 for contracts signed in the most recent three years, they certainly do not represent the prices for material offered under long-term contracts during 2008.

To report price information that is more reflective of the current market, government agencies could increase the frequency of data collection and reporting, although this task could be confounded by confidentiality concerns, which require that enough data points be available to be aggregated into a reportable price. However, no matter how frequent the data collection and reporting, price information based on transaction data will fail to represent the current market because of the delay between collecting and reporting the information. There is an additional market disconnect associated with long-term contracts, which may be only finalized a number of months after the offers were received.

Our function is different than government entities in that we are trying to capture the current and future market on more of a real-time basis. In this respect, we typically do not rely on transaction data, unless the transaction took place in the very recent past and is considered the most recent price point or it is evident that the seller would be willing to sell more at this price. By focusing on offers, we are considering those prices at which sellers would be willing to transact in today's market, on both a spot and long-term contract basis.

Both the spot and long-term prices that we publish are forward-looking in that they incorporate expectations that market players have about the future. Obviously, if a mine flood or other production problem has just occurred, this signals a future reduction in supplies, just as the appearance of a new supply source (like DOE announcing that it will sell off or transfer some of its inventory) indicates that there will be more supplies made available to the market. The market reacts immediately to these developments, and any inventory that is held is deemed to be worth more or less depending on the development.

We also look to make improvements to the price data we report. In this respect, we helped develop the uranium futures contract in 2007 and introduced the UxC Broker Average Price (BAP) last year. We also report bids and offers posted by brokers in order to more fully characterize the market, because this provides an indication of what individual market participants are prepared to do. Like government agencies, we ensure the confidentiality of the data we collect.

It is important to understand what price information represents so that it can be used properly and effectively. While the average prices reported by government agencies are based on what companies actually paid for material, they do not represent the price at which uranium can be acquired now or in the future, and thus are not reflective of the current market. However, these agencies do provide useful data, and the more information that is made available about prices, the better.

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