

PRESS CUTTINGS

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Uranium on the turn, eventually

Poor old uranium. While all other commodities, almost without exception, have enjoyed prolonged periods of strength, if not uninterrupted gains over the past year and bit, uranium has been in the doldrums.

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- Feature



Kazatomprom vowed to switch off 10% of its production in one of the first real signs the uranium market was turning

Those calling for price increases last year led their arguments with the number of nuclear reactors being built, principally in China. The commodity-hungry powerhouse is responsible for 27 of the 69 reactors currently under construction. It has approved another 40 reactors and there are 136 under proposal. Meanwhile, India reckons it will build another 60 reactors and Japan is warming up to the idea of nuclear, once more.

If 'reactors under construction' was the jab in the pro-uranium assault, then the knock-out punch was meant to be the number of utilities – apparently a conservative group – coming out of contract and keen to lock in longer-term supply. There are, apparently, many of these utilities, particularly in the US

But, despite this enthusiastic rhetoric, the uranium price remained unchanged and in fact lost 40% of its value over 2016.

The problem has been the stockpiles sloshing around in the spot and medium-term market, which have kept utilities well-fed. The uranium market was thought to be in surplus by some 20 million pounds at the end of last year.

The first signs this situation was turning around came early this year when Kazakhstan state-owned energy group Kazatomprom said it was pulling 10% of its production, or about 3% of global production. This has been followed by similar moves by major producer Cameco, while other heavyweights have reportedly been making similar noises.

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Spot prices responded almost immediately, moving up some 45% from a December low of less than US\$18 per pound to briefly reach \$26/lb in late January.

More recently, The US Department of Energy this week said it will cut the maximum amount of uranium that can be transferred to contractors for clean-up services at the Portsmouth Gaseous Diffusion Plant in 2017-2018, which removes some 1.1Mlb from the market over that period, according to Cantor Fitzgerald analyst Rob Chang, who described the development as "very positive" and predicted a price response in the near term.

Prices remain, so far, around those January levels, but the risk seems to be almost entirely on the upside.

Paul Atherley, managing director of uranium development group Berkeley Energia, is better placed than most to discuss what's actually happening on the ground in the uranium space – he was in China negotiating offtake and financing deals when he spoke to Mining Journal this week.

"The cure to low prices is even lower prices and when that happens you start seeing supply-side destruction, and that's exactly what has been happening so far this year," he said.

"Up until four or five years ago, most uranium was traded under term contracts. More recently, there has been no-term contracting with more uranium traded on spot or mid-term markets.

"That's fine; end users can go to these markets for their uranium for the moment. But if they want to be sure of supply four or five or 10 years out, they can't be sure these markets will be there.

"As we see more and more supply-side disruption – as we've seen with Cameco, Areva and in Kazakhstan – those shorter-term markets will dry up and people will increasingly move back to term contracts.

"We're talking to groups that are looking at the period from 2019-2020 onwards. That is in part because that is when we'll be in production [at the Salamanca project in Spain] but it is also reflective of when buyers expect to see price rises significantly beyond levels we're currently seeing."

Atherley expected contract price levels in the high \$30s ramping up to around \$50 from 2019 to 2024, implying a higher spot-market price and a continuing northward trend.

This view is at least partly shared by BMO Capital Markets analyst Alexander Pearce, who reckons the uranium market will tip into undersupply next year.

"In combination with structural production changes from Kazakhstan, the world's biggest producer of uranium, we are now more optimistic on the uranium price outlook than we have been for quite some time – cautiously so," he said in note late in the first quarter.

Pearce reiterated the likelihood of a lag in price response despite the optimism, citing “excess inventories generated since 2009”, which would “likely provide a buffer”.

The BMO 2017 price forecast was a little under \$27/lb, though it’s medium-term outlook is even more bullish than Atherley’s – BMO is expecting the price in 2020 to reach \$60/b; the level at which most analysts feel new production would be incentivised.

The reason for Pearce’s more positive forecasting could be put down to the dramatic effect an increasing number of mature long-term contracts could have on the market – but not in the way one might expect.

Contrary to the standard argument from recent years – utilities coming out of contract will have to lock in supply – these concluding contracts could also have a serious impact on the supply side.

Several analysts have speculated there are many mines, including some large ones, only surviving because they are delivering into long-term contracts at materially higher prices than we have today. As they come out of contract and have to deliver into the spot market, they will be cash flow negative.

In such a scenario, something will then have to give and there is the potential for a violent response – if a big mine drops out of the game, there will be a very fast and drastic reaction in the spot market.

This could come over the next couple of years and buyers are positioning themselves now so they’re not caught up in the resulting skirmish.

Though the timing of a meaningful recovery in the uranium market remains unclear, that momentum is gathering behind a resurgence is unquestionable.