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COMMODITIES CORNER

Mine Shutdown Heats Up Uranium Prices

By Myra P. Saefong
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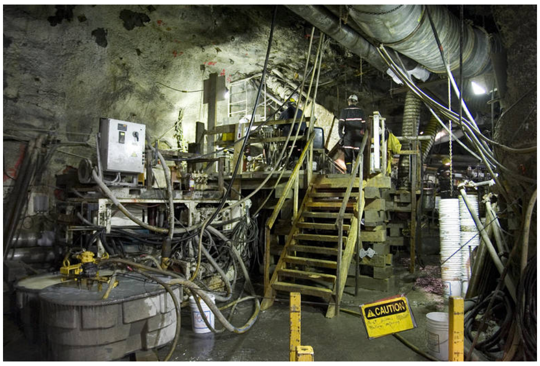

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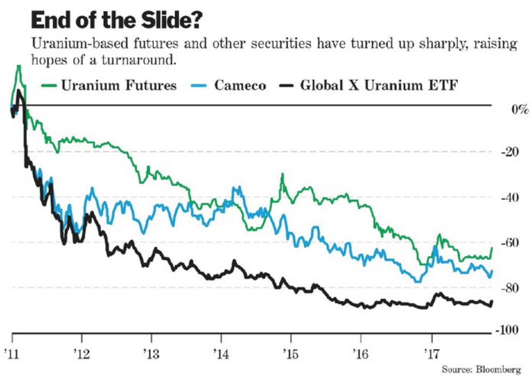
DJ Commodity Index

News of the shutdown of the world's largest uranium mine has rallied prices for the heavy metal, and could help revive a market that has suffered ever since Japan's Fukushima nuclear disaster nearly seven years ago.

Cameco (ticker: CCJ), which provides roughly 17% of the world's uranium production, announced on Nov. 8 that it will temporarily suspend production at its McArthur River mining and Key Lake milling operations in Canada by the end of January. It blamed weakness in uranium prices, which it said had fallen by more than 70% since the Fukushima accident in March 2011. McArthur River is the world's largest high-grade uranium mine.

The news sent weekly spot prices for uranium up by nearly $3, to $23 a pound, on Nov. 13, according to nuclear-fuel consultancy Ux Consulting. Weekly prices stood at $20.25 a pound on Nov. 6, ahead of the announcement, holding in the tight range of $19.25 and $20.75 they had traded at from late May. January uranium futures traded on Globex settled at $24.40 on Thursday. "This is the last gasp of the uranium bear market," says Christopher Ecclestone, a mining strategist at investment bank and research firm Hallgarten & Co., adding that the market is likely to "perk up" from here.

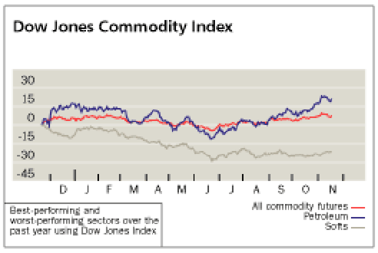
Cameco said it expects the suspension to last 10 months. "The McArthur River cutback amounts to a 15 million- to 18 million-pound production reduction for 2018," says Jonathan Hinze, executive vice president of international operations at Ux Consulting. "With this move by Cameco, the market has reacted with several traders and utilities entering the market to secure spot material ahead of what they



believe may be an additional upward trajectory in price."

On Friday, shares of Cameco climbed 3%, and they're up more than 15% month to date. The Global X Uranium exchange-traded fund (URA) rose nearly 4% for the session and trades more than 18% higher for the month.

There is "already a forecasted shortage in supply for uranium in a few years," says Joseph Reagor, managing director and senior research analyst at Roth Capital Partners. Still, the shutdown could "clean up inventory, which has weighed on the uranium price since Fukushima."



On March 11, 2011, a 9.0-magnitude earthquake, the strongest ever recorded in Japan, caused massive tsunamis that flooded the Fukushima Daiichi power plant, prompting the worst nuclear disaster in a quarter-century. Nuclear power was shunned in the wake of the accident, and prices for uranium, which is used as fuel for nuclear reactors, plummeted from a weekly spot price of $66.50 on March 7, 2011, according to data from Ux Consulting.

Cameco's move may continue to boost uranium, though Ecclestone expects prices to struggle as they get closer to the $30 level—possibly by year end. "Everyone knows that Cameco can reopen [the mine] pretty swiftly," Ecclestone says.

THE OUTPUT REDUCTION, however, comes at a time when uranium demand is expected to rise. A 2015 report from World Nuclear Association projected a 26% increase in uranium demand from 2015 to 2025. "Nuclear power plants continue to be a cheap and clean source of energy, and, as such, utilities are incentivized to build more," says Reagor.

China, for instance, has 37 nuclear power reactors in operation and another 20 under construction, with a nuclear power push driven by air pollution concerns, according to the World Nuclear Association. So far this year, however, there have been only a few reactors that have started operations in China, Russia, and Pakistan, says Hinze. There have been no new units in the U.S. this year, and the "future for new nuclear power in the U.S. does not look very bright right now, but there are efforts to maintain the current fleet of 99 reactors through new state and federal policies." Last year, the U.S. saw a nuclear power reactor come on-line for the first time in 20 years.

It's too early to predict if the Cameco announcement will "lead to a sustained upward spot uranium price move, but it is clear that the supply side of the equation is now reacting to the outlook of flat- or low-growth prospects," Hinze says. "This development is important for the market to correct and should allow for large inventories that have been built up since Fukushima to be drawn down in the coming years."

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