

Is uranium about to breakout?

On Friday, September 14, uranium increased to US\$ 27.30 a pound. Is this going to be the breakout indicator? Historically, uranium reached an all time high of US\$143 in May of 2007 and a record low of US\$7.10 in December of 2000.

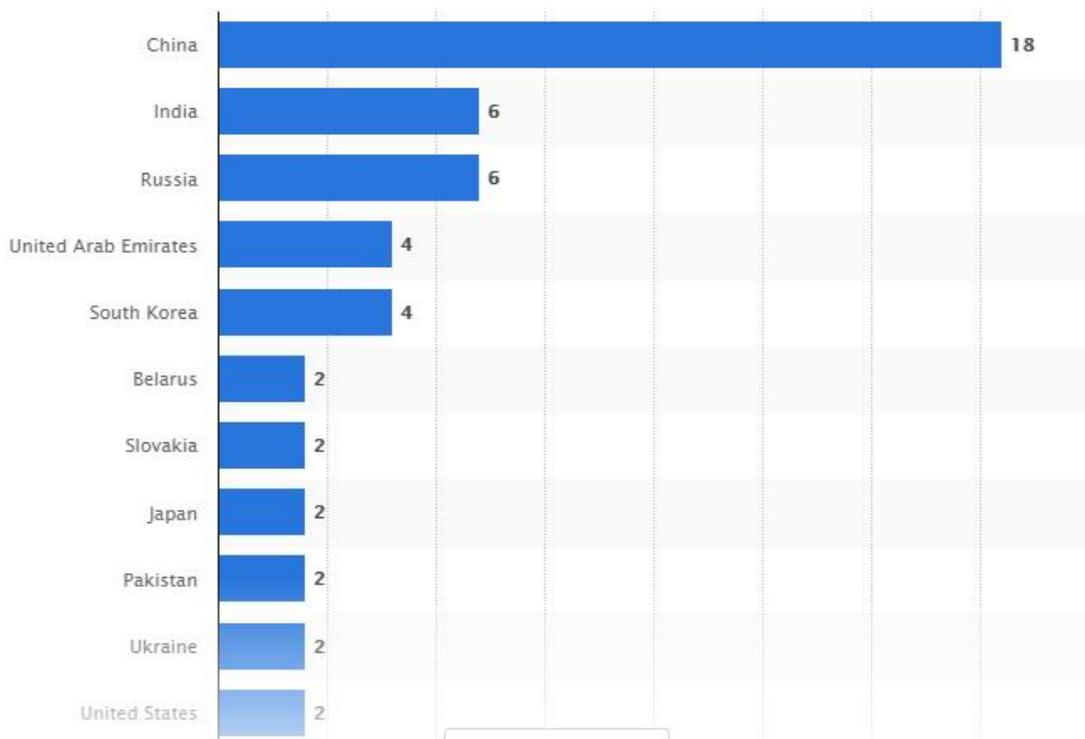
Uranium price 2018 and 2010-2018



Uranium demand set to increase

A major percentage of all uranium is used in nuclear power plants to generate electricity. With mounting demand for electricity all across the globe and the growing capacity of nuclear reactors, the uranium market is set for significant expansion. China (with 18 reactors under construction) and

Russia are the fastest growing markets for uranium. It is estimated that India, Europe, and the Middle East will also join the uranium party. Over the coming years all these regions are projected to expand their use of nuclear energy and invest in uranium mining operations, which will ultimately drive the global uranium market.



Number of under construction nuclear reactors worldwide as of February 2018

Despite its perceived risks and history, nuclear energy is a relatively green form of power generation, as it is emissions free. New projects are going to be continually needed to meet the increased demand for electricity.

Uranium supply – Low prices fail to stimulate new supply

Current uranium prices are well below what is needed to stimulate new sources of supply. This means we will continue to see global uranium inventories decline. Recent current low prices have made 75% of uranium mines uneconomical, at the same time a few big mines in Australia and Africa are running low on ore. Low ore grades further make the mines uneconomic

causing a further scale back or even a possible closure. Prices are so low, it is actually cheaper to buy uranium from mobile storage than it is to mine it. In addition to this, obtaining mining permits is a lengthy process. These factors are expected to limit near term supply to the uranium market.

Cameco the Canadian producer has closed down mines, but still has supply commitments in long term contracts with utilities. Cameco Vice President David Doerksen said Cameco expects its share of the 2018 production to be 9.1 million pounds with purchases of 8-9 million pounds. With sales deliveries of 33 million pounds. "We will have to rely on our inventories, or make opportunistic purchases, to meet these commitments. It seems that many in the industry are relying on inventory. I would suggest that only a relatively small portion of the inventory overhang is truly mobile."

Uranium demand now exceed supply (but there is a large inventory overhang)

Uranium mines will only produce around 135 million pounds in 2018, compared to demand of about 190 million pounds, leaving a 55 million pound shortfall. Annually the US uses approximately 50 million pounds of uranium but only produces 2.5 million, so it needs to import the balance. To put this in perspective the US has 99 nuclear reactors but produces only enough for one reactor, thus making them the most vulnerable country to the supply risk of uranium.

Uranium inventory

As of February 2018, global uranium inventory is said to be around 1.79 billion pounds. Most of this inventory is not for sale and held for strategic purposes. In fact, less than 10% (~179m) is available ("mobile") to the market. Given the current 55 million pounds per annum deficit the world may have a uranium shortage within the next few years, especially with new demand from the 57 reactors currently under construction.

In conclusion, the world is going to continue to build more and more nuclear power plants to meet future electricity demand. With constrained future uranium supply, speculators are betting on a rising uranium price. Most uranium companies are currently very cheap, as sentiment has been terrible the past 5 years. However the past 4 months are showing strong signs of a uranium turnaround. Investors should take note and take a fresh look at the uranium sector.