



Back to the Futures: A Decade of the UX Uranium Futures Contract

This year marks the tenth anniversary of the CME Group/ NYMEX UX Uranium Futures Contract. The global nuclear fuel market has realized a tremendous change since the Contract was launched back in 2007. From the height of the Nuclear Renaissance and its requisite boom in prices to the bust following the Global Financial Crisis and Fukushima-Daiichi nuclear disaster in 2011, to the past few years characterized by a steep decent in prices, the UX Uranium Futures Contract has certainly run the gamut over the past decade. In this cover story, we provide some background on the history of the futures market and the UX Contract and provide insight on how the contract has evolved since inception with some additional details of where it might be heading in the future. But, before we delve into the history of the UX Uranium Futures Contract, it is instructive to discuss the history of the futures market in general to better understand its functionality today.

Futures markets date back as far as Ancient Mesopotamia under Hammurabi's Code, but regarding the modern era, the first organized futures exchanges began in the early 1700s at the Dojima Rice Exchange in Osaka, Japan, where merchants and farmers sought price security by locking in future prices for unproduced quantities of rice. The first futures exchange in the U.S. began trading in the early 19th century with the opening of the Chicago Mercantile Exchange (CME), which is still the largest futures exchange in the world today. The CME was set up in Chicago because the city is located close to the farmlands and cattle country of the U.S. Midwest, so it could serve as a hub for transportation, distribution, and trading of agricultural products. Agricultural products markets are subject to wild price fluctuations due to drought, blight, and various other supply and demand shocks, and therefore the CME sought to provide farmers, grain merchants, processors, and agriculture companies the ability to hedge for future price stability. It should also be mentioned that "hedging" is a future contracting process that is used to reduce any substantial losses or gains suffered by an individual or company and involves taking a position in one market to offset and balance against the risk adopted by assuming a position in a contrary or opposing market.

While the CME indeed started from humble, agrarian beginnings, today the market is essential to most all commodities and financial markets since it provides risk management tools related to currencies, interest rates, and stock and commodity indexes.

Thus, in May 2007, UxC and the New York Mercantile Exchange (NYMEX), which was later acquired by CME Group, worked in concert to develop and release the UX Uranium Futures Contract to provide an on and off-exchange platform to trade financially-settled contracts that capture the expected future movements in the uranium market. The UX Uranium Futures Contract itself is based on 250-pound lots of U_3O_8 . We launched the contract on May 7, 2007, and on that day the Ux U_3O_8 Price was \$120 and still had room to run up to its peak of \$136 later that summer. Prices on the strip at that time ranged from \$132.50-\$155.00 as the Nuclear Renaissance was in full swing. On the first day of its existence, the UX Contract booked 26 contracts (6,500 pounds U_3O_8) in total volume. By the end of the first week, 186 contracts (46,500 pounds U_3O_8) had been booked with volume and open interest extending well into 2008. Trading during the first year of the contract went about as well as could be expected as 2007 ended with 1,268 contracts (317,000 pounds U_3O_8).

As financial markets around the world started to weaken significantly as 2008 began, the UX Uranium Futures Contract continued to be an island of activity as 13,314 contracts (3,328,500 pounds U_3O_8) were booked by year-end. However, while the aftereffects of the Global Financial Crisis were taking hold, the uranium futures market too started to show signs of weakening as volume in 2009 dropped 55% to 5,949 contracts (1,487,250 pounds U_3O_8).

Taken on its face, one might look at the large volumes booked for 2010 (26,097 contracts for 6,524,250 pounds U_3O_8) and 2011 (22,599 contracts for 5,649,750 pounds U_3O_8) as a sign of the futures market's rebound. Yet, this was not actually the case as many of the world's largest financial firms were forced by new government legislation to unload their substantial uranium holdings and many of these big banks looked to the futures market to lock in some future price security as they were forced to liquidate their uranium holdings. It should also be noted that the Fukushima disaster in 2011 also served to increase that year's precipitously high annual transaction volume as well.

Over the next few years, the UX Uranium Futures Contract slid from its highpoint of 26,097 contracts (6,524,250 pounds U_3O_8) in 2010 to its all-time year-end low of 3,453 (863,250 pounds U_3O_8) in 2014 as all segments of the uranium market became radioactive. The Contract realized a solid year in 2016 at 7,183 contracts (1,795,750 pounds U_3O_8). As for where we are today,

2017 has already eclipsed 2014's low volume record total with 4,109 contracts booked for just over 1.0 million pounds U_3O_8 in total volume with a little over five months left in the year. Furthermore, open interest currently extends out into March 2020 with 4,528 contracts (1,132,000 pounds U_3O_8).

So, what does the future hold for the UX Uranium Futures Contract? With the greater uranium market currently characterized by persistent oversupply amid declining demand, it might not be surprising to see more market participants from both the buy and sell sides look to the futures market to provide some price security in future contracts. Also, with spot and term uranium prices at or near record lows in terms of real costs, the market may currently be near a bottom. Therefore, the futures market can provide buyers a hedge to protect against higher market-related prices when the market does turn around. Finally, with recent tectonic shifts recent in the global geopolitical landscape (Brexit, global rise of populism, etc.), other avenues in the futures market may aid market participants in shedding counterparty risk in instances such as currency hedging for future uranium purchases, in addition to simply hedging the commodity itself.

The past decade has been quite a wild ride for the global nuclear fuel market, the UX Uranium Futures Contract too has survived the many drastic shifts in the market – albeit at a much smaller scale. Going forward, we anticipate that the futures market will continue to provide a safe haven of future uranium price security; hopefully for decades to come.

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