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Game Changers Revisited

About this time last year, we wrote a cover entitled “Game Changers and Their Impact on the Uranium Market.” In that cover, we identified events or developments that have had huge impacts on the uranium market. Now that a year has passed and some of the effects are clearer, we update these observations and consider implications for the market’s future.

Briefly, the game changers identified in our previous cover were the rise of China, the rise of Kazakhstan, the HEU deal, reaction to the Fukushima accident, the U.S. Government’s decision to liquidate inventories, and technology. Each of these either has had large impacts on supply or demand and was generally unexpected, or could have such an impact in the future. For instance, the HEU deal brought large stocks of former military material into the market. The expansion of nuclear power in China not only added to demand on the part of the Chinese, but it prompted speculators to enter the market to capitalize on the China “bet.” The expansion of Kazakh production had a similar effect on uranium supply.

Fukushima has proven to be the biggest game changer of them all from the standpoint of the magnitude of the development and its unexpected nature. It took down what were at that time the world’s third and fifth largest nuclear power programs and set back or extinguished the expansion plans of others. Comparing our base case forecast right before the accident with the one now, requirements have dropped by almost 900 million pounds U_3O_8 over the 2011-2030 period. The effect was so great it has brought our current base case forecast to below our low case forecast before the accident, for the period up to 2025.

Fukushima also impacted the other game changers. China’s new build was forestalled because of the Fukushima accident and DOE had to sell more inventories to generate a requisite amount of revenue. It also drove the Paducah GDP out sooner and perhaps is paving the way for GLE-SILEX to come online sooner as DOE is looking for an economical way to process the tails at Paducah.

What happened over the past year, showed how much of a game changer the Fukushima accident has been from a market standpoint. The HEU deal ended and China resumed its nuclear build, but uranium prices still declined significantly.

Given the dominance of the Fukushima effect on the market, a key question is how the “unwinding” of Fukushima takes place and what its impact on the market might be. This is the same type of question that has been asked about the end of the HEU deal. So far, the deal’s end has not had much of an impact, although one could argue that it’s too early to make this determination. However, the market has had plenty of time to react to the HEU deal’s end because it was no secret.

While Fukushima has a very clear start date, how it unwinds is not clear. We all suspect that some of the reactors are supposed to come back online at some point, but when this did not occur as many expected last year, uranium prices sank to their lowest levels in eight years. More production cutbacks and delays were announced, but with little to no effect on prices in the short term.

The truth is that there are a number of unanswered questions about Fukushima’s unwinding. How many reactors will restart and when? How will other countries with nuclear power programs react? How will producers and consumers react, and, perhaps most importantly, how will investors and speculators react?

Normally, there is not an unexpected upward spike in uranium consumption because it takes time for reactors to be built and these builds and their likely operating dates are known. In the case of Japan, there is an inventory of existing reactors waiting to come back online in relatively short order. Behind this is demand that may be held off the market until the Japanese situation clarifies, and behind this (or in front of it) is investor demand looking to capitalize on a reversal of prices.

Of course, there is the reaction of supply as well. With the HEU deal now over, Kazakhstan already accomplishing the herculean task of expanding production dramatically, and DOE drawing down its inventory supplies, there do not appear to be any big new sources of low-cost uranium on the horizon. There is the prospect of lasers enriching tails material to create more uranium feed, but this will take time. Ultimately, laser enrichment may be a game changer, but likely not in the next cycle for uranium.

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