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## The UX Uranium Futures Contract: A Prime Tool for Risk Management

The nuclear fuel cycle has experienced quite a tumultuous year thus far in 2019. From the perceived Sword of Damocles situation posed by the U.S. Department of Commerce's Section 232 investigation to a noticeable decline in spot uranium prices, among several other events, the first eight months of 2019 has shown that the nuclear fuel market is awash in risk and uncertainty. While fuel buyers and sellers have several options at their disposal to shed various sources of risk, perhaps there is no better tool available today to mitigate price risk than the UX Uranium Futures Market Contract. Given the often-turbulent and ever-changing nature of the nuclear fuel markets, coupled with a notable spike in 2019 futures volumes, we thought it wise to check in on the UX Uranium Futures Market Contract to get a better understanding of the current state of the market and examine where it might head in the future.

UxC and the New York Mercantile Exchange (NYMEX), which is now part of CME Group, partnered back in 2007 to release the UX Uranium Futures Contract. The contract provides on and off-exchange trade of futures products on Chicago Mercantile Exchange's (CME) Globex and NYMEX's ClearPort electronic trading platforms. These transactions are financially settled products based on 250-pound contract lots of  $U_3O_8$ . Ultimately, the contract was designed to provide market participants the ability to hedge price risk and increased price transparency by generating a forward price curve from the strip of prices listed on the futures market.

Clearly, we exist in a much different fuel market today than when the futures contract was launched in 2007. For one, there is considerably more price information available now than when the UX Uranium Futures Contract was launched. Yet, it should be mentioned that much of the enhanced price information we have today is either directly or indirectly correlated to the UX futures contract. Also, the launch of the UX contract included a first-of-a-kind event in the form of government regulation of uranium prices since the U.S. Commodity Futures Trading Commission (CFTC) has regulatory oversight over the futures market. As a result, the CFTC has had regulatory authority over the Ux  $U_3O_8$  Price since 2007, making UxC's weekly spot price the only regulated uranium price in the global nuclear fuel market today.

Since April 2007, the uranium futures market has cleared a grand total of 121,978 contracts equating to 30,494,500 pounds  $U_3O_8$ , which results in a yearly average of about 9,383 contracts or about 2.35 million pounds  $U_3O_8$ . It should be mentioned here that the mega-volumes posted in 2010 and 2011 were attributed to several banks and financial firms liquidating their positions in commodity markets. Furthermore, the paltry volumes posted in 2007's inaugural year can also be treated as an outlier, and thus removing the three outlier years of 2007, 2010, and 2011 yields an annual average of 7,201 contracts for approximately 1.8 million pounds  $U_3O_8$ .

Turning our attention to the futures market's more recent history, 2018 was quite active regarding bids and offers, booked volume, and open interest. The year ended at seventh all-time in total booked contract volume with 7,612 contracts for 1,790,500 pounds  $U_3O_8$ , which is in line with the annual average when adjusting for outliers. However, going into 2019, futures market activity has clearly continued to trend higher as market participants see the benefit of locking in low prices while their counterparts are willing to assume future price risk. In the first eight months of 2019, the futures market has already booked 9,384 contracts for 2,346,000 pounds  $U_3O_8$  of total volume. This current annum total places 2019 at fourth all-time in the 13 years since the UX contract's inception with over four months left in the year.

This rise in activity begs the question of what has prompted 2019's slew of futures deals. The year's volume surge can easily be attributed to a host of factors, including: greater market uncertainty posed by government and geopolitical risk, a push by fuel buyers to lock in historically low prices today and out along the forward curve, and the rolling forward of large open interest positions that existed earlier this year. But perhaps some of 2019's higher booked volume can also be attributed to CME Group's late-2018 announcement that NYMEX would increase the spot month position limits for the UX Uranium Futures Contract. Previously, the UX contract was bound by a monthly position limit of 1,000 contracts (250,000 pounds  $U_3O_8$ ). However, after December 3, 2018, CME Group raised the position limit cap to 2,000 contracts (500,000 pounds  $U_3O_8$ ) to provide market participants with the ability to take larger monthly positions.

It is hard to tell whether the stronger volumes booked through the first eight months of 2019 will persist through the rest of the year. Currently, open interest, which is the sum of all contracts that have not expired, been exercised, or delivered, is low at 2,810 contracts (702,500 pounds  $U_3O_8$ ). For comparison, at the start of the year, open interest totaled 4,108 contracts (1,027,000 pounds  $U_3O_8$ ) as many of those positions have either been closed out or rolled forward.

The good news is, however, that the futures market pricing strip and corresponding open interest extends into September 2021 as utilities, producers, intermediaries, and investors seek to shed risk while simultaneously guaranteeing future price certainty through hedging. By ensuring the price at which an entity can buy or sell uranium in the future, companies on both sides of the deal can mitigate price risk to provide some certainty in an otherwise uncertain uranium market. Thus, we anticipate that the uranium futures market will continue to provide all market participants with a haven of future uranium price security and a crucial risk mitigation tool in an otherwise turbulent and unsettled market.

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