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Commodity Economics Comment

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Uranium … a counterpoint

- A number of 'green' metals markets have been under significant pressure recently, dogged by oversupply concerns. Lithium and nickel prices have fallen, in particular, driving a shake-out in the markets for these products. Uranium offers a counterpoint. Similar energy-transition-related structural forces are at work, but the price cycle is at a very different stage. The price of uranium has doubled over the past year and hit a fresh 16-year high in recent weeks. Demand for uranium is rising as nuclear power gradually moves back into favour. In particular, nuclear power was included for the first time as a specific emissions-mitigation strategy in the COP agreement at COP28 in late 2023. Pledges were made to triple global nuclear power use by 2050. At the same time, supply of uranium has also been disrupted by various geopolitical factors. Prices are high and the market is tight.

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Many 'green' metals markets are under pressure. We covered the lithium story recently, and there are strong echoes in the nickel market (albeit the amplitude of the price cycle is smaller (see *'Lithium, no longer stratospheric', 24 January 2024*). High prices and a strong medium-term structural demand motivated a significant ramp up in investment that is now delivering oversupply, which has pushed lithium and nickel prices lower. A huge ramp up in nickel production in Indonesia has been a big contributing factor to the recent boost to the supply of nickel.

For both lithium and nickel, we see the medium-term energy-transition related demand story as strong. But a shakeout for producers is underway, as the previous exuberance in these markets settles down.

Uranium is a counterpoint. Demand for uranium is also expected to be strong, and supply is tight, which is driving a significant rise in prices (see chart below). Of the 42 commodity prices tracked in the IMF global commodities index, uranium is the strongest performer over the past year.

The price of uranium is now at its highest level since early 2008. Back then too, the demand outlook was strong and supply constraints significant. In that early cycle, a major likely driver of the significant surge in prices was the flooding of a key mine in Saskatchewan, Canada, the world's largest. The price of uranium eventually surged from USD10 a pound in 2003 to USD136 a pound by its peak in 2007 (a rise of over 1200%), before sharply correcting lower. This cycle coincided with the early stages of the broader global commodity prices 'super-cycle', prior to the Global Financial Crisis in 2007/08.

The Fukushima disaster in 2011, then markedly changed the demand outlook for uranium. Japan shut down all 54 of its nuclear power plants at the time and many other countries followed suit, including Germany. Uranium prices fell sharply and for a sustained period.

Of course, this did not occur in isolation – the appearance of alternative energy sources such as shale gas in the US and a move toward greater public subsidies of renewables also likely played a part in subduing uranium prices.

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From 2017, spot uranium prices were once again starting to trend higher. This followed reductions by uranium producers, in response to the market, US trade issues, and then the COVID-19 pandemic. The construction of new reactors in Asia and the Middle East gained momentum supporting demand.

The increased focus on the energy transition that came around the same time as COVID-19 pandemic, has seen renewed interest in uranium, as nuclear energy is increasingly viewed as a key part of the transition, particularly for providing base load power. At COP28, in late 2023, for example, nuclear energy was, for the first time, formally specified as one of the solutions for emissions mitigation in a COP agreement.

The structural, medium-term story that has driven demand for other critical minerals, is now playing a big role in price dynamics for uranium.

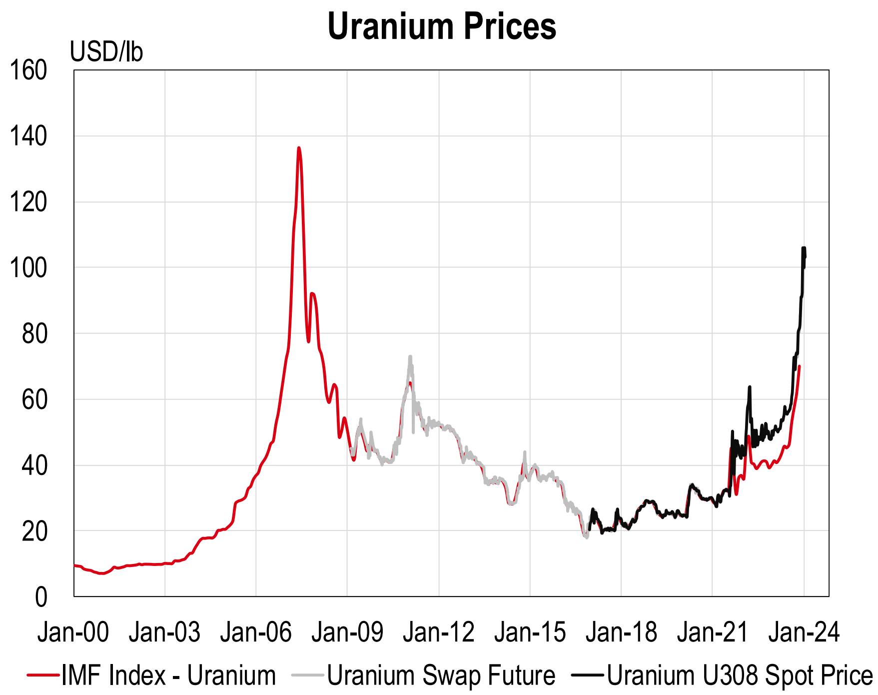
At the same time, on the supply side, prior underinvestment has seen expectations of a supply deficit grow, alongside near-term challenges including news of an expected production shortfall from the world's largest uranium supplier through 2025 (Bloomberg, 25 January 2024). This has followed ongoing supply concerns, particularly around trade with Russia, a key supplier of enriched uranium, and constrained uranium exports from Niger, following last year's military coup (Reuters, 25 January 2024).

On the supply side, the world's largest producers of uranium are Kazakhstan (43%), Canada (15%), Namibia (11%), Australia (9%) and Uzbekistan (7%). Canada's mine in Saskatchewan is the world's largest mine, at 14% of the world's supply, followed by mines in Namibia, Kazakhstan and Australia. Australia has the world's largest identified uranium reserves, accounting for 28% of the global total. These areas can expect renewed interest, given the longer term demand story.

On the demand side, the world has about 440 reactors and they provide around 10% of the world's electricity. About 60 reactors are currently under construction, according to the World Nuclear Association, with most of these in Asia (26 are in China). In addition, as a part of COP28, 22 countries combined to pledge to triple nuclear energy production by 2050.

Medium-term demand prospects for uranium are strong, which along with supply concerns, is driving another significant cyclical upswing in uranium prices.

1. The price of uranium has surged, just as lithium and nickel have had corrections



Source: Bloomberg

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