

Uranium Bottoming as China Buys Supplies From Cameco

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China is buying unprecedented amounts of uranium, signaling that prices are poised to rebound after three years of declines.

The nation may purchase about 5,000 metric tons this year, more than twice as much as it consumes, building stockpiles for new reactors, according to Thomas Neff, a physicist and uranium- industry analyst at the Massachusetts Institute of Technology in Cambridge. Prices will jump by about 32 percent next year, the most since 2006, RBC Capital Markets said. India and China are leading the biggest atomic expansion since the decade after the 1970s oil crisis to cut pollution and power economies growing more than twice as fast as Europe and North America. The boom, combined with slowing supply growth, may benefit Cameco Corp., a co-owner of the world's largest uranium mine, and Areva SA, the largest builder of reactors.

"China's demand is insatiable," said Dave Dai, an analyst at the Daiwa Institute of Research in Hong Kong. "They will have to take almost whatever is available."

Uranium will climb to an average \$55 a pound next year as demand erodes supplies, according to Adam Schatzker, a metals analyst at RBC in Toronto. Max Layton, at Macquarie Bank Ltd. in London, forecasts it will climb to \$56.25 next year and \$60 in five years.

Uranium for immediate delivery was at \$41.75 a pound on July 5, according to the Ux Consulting Co. weekly price assessment. Spot trades of uranium oxide totaled 20.9 million pounds this year, about \$873 million in today's prices, Roswell, Georgia-based Ux Consulting said.

Price Slump

Uranium has tumbled 69 percent since peaking at \$136 a pound in July 2007 as companies boosted production, according to the firm's data. At least 27 mines in nine countries began operating in the past 10 years, adding as much as 65 million pounds a year to global output, according to Saskatoon, Saskatchewan-based Cameco, part owner of McArthur River mine in Canada, the world's largest deposit of high-grade uranium. Six mines are scheduled to start in 2010.

"The uranium bull market of 2006 and 2007 stimulated the development of new supply, but we do not think it is enough," Schatzker wrote in a report. "The prevailing uranium price is too low to stimulate sufficient supply to cover future reactor requirements."

The cost of mining one pound of uranium is about \$31, up from \$26 in 2007, according to Edward Sterck, an analyst at BMO Capital Markets in London.

'Stockpiling Like Crazy'

China's demand for uranium may rise to 20,000 tons a year by 2020, more than a third of the 50,572 tons mined globally last year, as it boosts output to 85 gigawatts, nine times its current capacity, according to the World Nuclear Association. The nation agreed on June 24 to buy more than 10,000 tons over 10 years from Cameco.

India's needs will grow 10-fold to 8,000 tons as it quadruples capacity to 20 gigawatts, according to Jagdeep Ghai, finance director at state-owned Nuclear Power Corp. "They are essentially stockpiling in anticipation of new reactor build," Neff, who is an independent director of GoviEx Uranium Inc., a privately held exploration company with interests in Niger, said in a July 6 telephone interview. "They are stockpiling like crazy." China plans at least 60 new reactors by 2020, Xu Yuming, executive director of the China Nuclear Energy Association, said in Beijing on July 6. The average 1,000-megawatt reactor costs about \$3 billion, according to the World Nuclear Association. Loading a new reactor requires about 400 tons of uranium to start, Neff said.

Areva, Cameco, Paladin

China's economy may grow 10.1 percent this year, while India's expands 8.6 percent, according to analysts' forecasts compiled by Bloomberg. U.S. gross domestic product will increase 3.1 percent and Europe's will grow 1.1 percent.

Companies that build reactors may be among the biggest beneficiaries. Areva's shares have tumbled 53 percent in the past three years. Miners including such as Cameco, whose stock has fallen 60 percent since then, Paladin Energy Ltd., which has lost 63 percent, and Darwin-based Energy Resources of Australia Ltd., which is down 25 percent, may also benefit.

Cameco advanced 3.9 percent as of 12.40 p.m. in Toronto. Energy Resources jumped 3.4 percent in Sydney, while Perth, Australia-based Paladin gained 2.2 percent. Areva slid 1.9 percent in Paris.

"Longer-term it does look as though there's going to be a shortfall of uranium and ERA and Paladin should benefit from higher prices if that plays out," said Lyndon Fagan, a Royal Bank of Scotland Group Plc analyst in Sydney.

Cutting Pollution

Chinese Premier Wen Jiabao aims to cut pollution by reducing energy consumption 20 percent in the five years through 2010. The country pumped 6.5 billion tons of carbon dioxide into the atmosphere last year, U.S. Department of Energy data show, more than any other nation. Atomic plants produce virtually no greenhouse gases, though spent fuel remains radioactive for thousands of years and requires re-processing and storage. China National Nuclear Corp., the nation's first operator of reactors, said on June 28 it's exploring for the fuel in Niger, Namibia, Zimbabwe and Mongolia.

"We're just beginning to see the initial stages of China going abroad to buy stakes in uranium mines, but this is a trend we're going to see more and more in the future," said Stephen Kidd, head of strategy and research at the World Nuclear Association in London. Growing uranium use may create a shortfall by the second half of this decade because not enough new production is planned, according to Friedel Aul, director of fuel services at Nukem GmbH, an Alzenau, Germany-based uranium trader and broker.

Slowing Production

"Current production is based on mines that have been in operation for a long, long time," he said. "With startup costs, certainly to bring a mine on line today is much more expensive than it was 10, 15 years ago."

Production growth, including supplies recycled from Russian warheads under an agreement

ending in 2013, may slow to 4.8 percent this year and 3.4 percent in 2011, according to RBC. It increased almost 12 percent last year.

The last time this many reactors were planned was in the 1980s, after the 1973 and 1979 oil shocks prompted the Organization of Petroleum Exporting Countries to boost prices for crude. By 2015, a new reactor may start every five days, compared with an average of one every 17 days during the 1980s, according to the World Nuclear Association.

‘Speculative Interest’

Commissioning new plants is a “game-changer” for uranium, said Mark Pervan, head of commodity research at Australia and New Zealand Banking Group Ltd. in Melbourne. Though many won’t come on line for as long as two years, “speculative interest” may drive prices to the “\$60 to \$80 range pretty quickly.”

Prices may recover as demand improves, said Dustin Garrow, a Denver-based executive general manager of marketing for Paladin, the world’s ninth-largest uranium producer. “We see demand picking up noticeably and it is not just the Chinese, there are other utility consumers that are now showing interest,” Garrow said in a July 6 interview. “We could start to see fairly substantial price increases in the spot market later this year.”

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