

MZConsulting New Year's Message 2017



2016 was another tumultuous year for nuclear power. Decisions to close units in the USA early due to economic pressures in deregulated markets and the slow pace of restarting nuclear units in Japan continue to negatively impact the uranium market. However, the tide has now turned as the benefits to the environment and system reliability are being more broadly accepted with both New York and Illinois having taken decisions to keep marginal plants running.

The spot price of uranium continued to fall throughout 2016 going as low as \$18/lb in November before ending the year at \$20.25/lb. Has the price finally hit bottom? Probably yes. The long-term price, only at around \$30/lb, is finally in a place where even the low-cost producers are slowing production as they focus on cost cutting to remain viable. While more positive trends for the longer term continue, prices are likely to stay soft in the short to medium term until demand recovers.

	Price CDN\$	YTD (%)	1yr(%)	1yr(%)	1yr (%)	1yr (%)
Company	Dec 30/16	2016	2015	2014	2013	2012
Cameco CCO-T	14.04	-17.8	-10.4	-13.6	+12.5	+6.4
Denison DML-T	0.70	0	-38.1	-12.4	-2.3	-3.1
Forsys FYS-T	0.11	+37.5	-52.9	-59.5	-47.5	+9.6
Mega MGA-T	0.14	+100	-44.0	+38.9	-25	-40
Toro TOE-AX	0.041	-37.9	-17.5	+9.4	-40.8	+10
Paladin PDN-T	0.085	-66	-25.4	-24.7	-59.5	-22.5
Energy Fuels EFRT	2.21	-46	-32.7			
Ur Part U-T	3.80	-25.9	-4.0	-8.8	+4.6	-3.9
UEX UEX-T	0.245	+63.3	-47.4	-27.8	-33	-10.6
Ur Energy URE-T	0.71	-20.2	-10.1	-31.3	+73.5	-4.6
Fission FCU-T	0.64	-22	-4.7	-19.6		

Uranium producers continue to struggle due to low prices

The stock prices of Cameco in Canada, Energy Fuels and Ur-Energy in the US and Paladin in Namibia, along with uranium holder Uranium Participation are once again in negative territory in 2016. That is symptomatic of a current supply-and-demand imbalance. However, some Juniors such as Forsys, Mega and UEX, with highly prospective properties not in production, have done better in 2016. This is perhaps indicative that, while the immediate problem is falling uranium prices, the market recognized that new supply will be required in the longer term.

Production in 2015 shows that of 19 producing countries, Kazakhstan (39%) is by far the largest uranium producer followed by Canada (22%) and Australia (9%). These three countries produce over two-thirds of the world's uranium. Cameco's McArthur River (12%) and Cigar Lake (7%) in Saskatchewan are the two largest uranium mines in the world, supplying some 19% of world production while eleven companies marketed 89% of the world's uranium production with Cameco ranking second behind KazAtomProm.

Crisis creates clarity in the role of nuclear power

Economic pressures in dysfunctional US electricity markets as a result of very low gas prices and subsidized renewables, have put some 15 to 20 nuclear plants at risk of early closure. This has forced reluctant law makers to address the issue with many coming out in support of maintaining the nuclear fleet as an essential part of the mix based on nuclear's low carbon footprint and its contribution to system reliability.

The result was an agreement in New York and in Illinois to keep struggling nuclear plants afloat. That being said, there is still more work to be done to solve the larger problem of markets that need reform. It was a pivotal year in the US, as the country's first new nuclear plant in more than two decades, Watts Bar 2, came into service. Four more units are under construction, and NuScale has recently submitted the first application for design certification for an SMR. While support for nuclear is expected to continue, uncertainty remains as the new administration shows little interest in climate change and embraces fossil fuel development.

In Switzerland, the early closure for their nuclear plants was strongly rejected in a referendum while in Britain, there was a final commitment to the Hinkley Point C project with more new units to follow.

On the other hand, as another plant closed in Germany its carbon emissions continued to rise in 2016 as this plant was replaced with a combination of coal and gas. This was in spite of another 10% increase in new wind capacity and 2.5% of new solar capacity; and shows that trying to manage carbon while removing nuclear from the mix is extremely challenging.

Supply is finally responding to prices

One of the biggest issues facing the uranium market actually stems from the 2011 tsunami that resulted in the Fukushima reactor meltdown in Japan. That event caused Japan to shut all of its nuclear power plants and led Germany to accelerate its plan to shift away from the nuclear option. The swift shutdown of so many units pushed supply and demand way out of balance.

While it remains Japan's intention to restart many of its shuttered nuclear facilities, progress continues to be very slow so that demand will be impacted for some time to come.

As a result, major producers like Cameco have been directing their efforts to cost-cutting and refocusing around its best mines. For example, the company reduced its capital spending projections for 2016 by around 10% and plans to cut operating costs further in 2017. Despite the downturn, it has continued to invest in its Cigar Lake mine because it's relatively low cost to operate. The recent opening of that mine helped to cut Cameco's cash costs of producing uranium by more than 20% through the first nine months of 2016.

Kazakhstan, the world's largest producer, has been continuing to increase production year over year but now has announced it will cut production by 10% in 2017.

However, China will be entering the big leagues in uranium supply this year as the Husab mine in Namibia ramps up production. This elephant is expected to add about 15 million lbs to the market each year once it reaches full production. With mining costs above the current uranium prices and the world in oversupply, it will be interesting to see how China chooses to move forward.

Nuclear sector growth

In spite of all this apparent gloom and doom, the nuclear industry remains strong. 10 new units were completed in 2016, while three were closed. Of interest, only half of these completions were in China with the other half coming from Korea, India, Pakistan, Russia and the USA. With 60 reactors under construction world-wide; led by China, this is the largest nuclear new build construction in more than a quarter century. As China continues to meet their stated objective of 58GW by 2020, this period of weak uranium prices presents an opportunity to further build strong inventories for the future.

About MZConsulting

MZConsulting advises governments, utilities and others interested in new build nuclear and investment in uranium companies.