Uranium: 10/17/23

“We believe that the outlook for uranium prices and the nuclear sector in general is the best it has been in more than 15 years. Governments around the world and across the political spectrum are realizing that nuclear power will play a central role in a low carbon, stable electrical grid, and are reviewing and updating nuclear power policies to support the nuclear power sector. In addition, the supply buffers from surplus inventories and secondary feeds that have balanced the market for the past 10+ years are significantly diminished resulting in increasing demand on primary uranium supplies.” - TD Cowan - Industry Note: October 3, 2023

Summary: In today’s economic and peak cheap energy environment, I believe investing in Uranium to be the absolute best risk/reward opportunity available. I’d go as far as to say, volatility aside, the idea that the spot price of U308 has to go up is a low risk proposition.

Background: Ten years ago, our industry started selling us on the supply/demand imbalance in the nuclear power (uranium space). Like many stories in this business, timing is everything. I think 2022 - 2023 is that time.

Three years ago, I spoke to the manager of the MMCAP Canadian fund for over an hour where he laid out the case that these imbalances I’d been hearing about for the past eight years, were becoming real over the next year or so. As an aside, his fund is up over 2.5 X since then.

This month FNArena (Financial News, Analysis and Data) Uranium week offered more commentary on the uranium market. TradeTech data shows that the shortage is real and there is nothing on the horizon that changes that.

"Quite simply, [Nuclear fuel] demand is outstripping supply, and there is no change to that imbalance on the horizon in the near term. For the first time in history, uranium has slipped into a persistent and widening deficit."

Everything I see, hear and read points to the case that utilities are going to have to buy uranium aggressively over the next few years. As a small cost input to the production of nuclear power, the price doesn't matter as much as the fact that they actually have some. This is key today as the comments below will discuss.

Scott Melbye, vice president at Uranium Energy Corp. recently put it this way.

"The market is "definitely in a structural deficit as demand is growing at a 5% annual rate and the current (2023) gap between global production and consumption remains at over 50 million pounds."

More on that below.

Supply/Demand data:

The gap between the amount of uranium miners produce and what reactors need continues to widen rapidly.

In 2022, coverage hit another record low. Only 74% of uranium demand was actually produced.
The cumulative uranium supply/demand gap from the last decade just hit 100,000 tonnes (220 million pounds).

That's 150% of yearly demand, and it's growing larger, faster every year. *

And now Sprott Physical Trust (and other investors) are taking uranium off the market, making it unavailable for use.

For years, "secondary supply" has been used as a stopgap measure. The secondary supply is miscellaneous uranium inventory held by utilities, fuel cycle companies, and governments.

But as the gap has widened, secondary supply has dropped precipitously. It's down to 10,000 tonnes a year—enough to cover about 60% of the current gap.

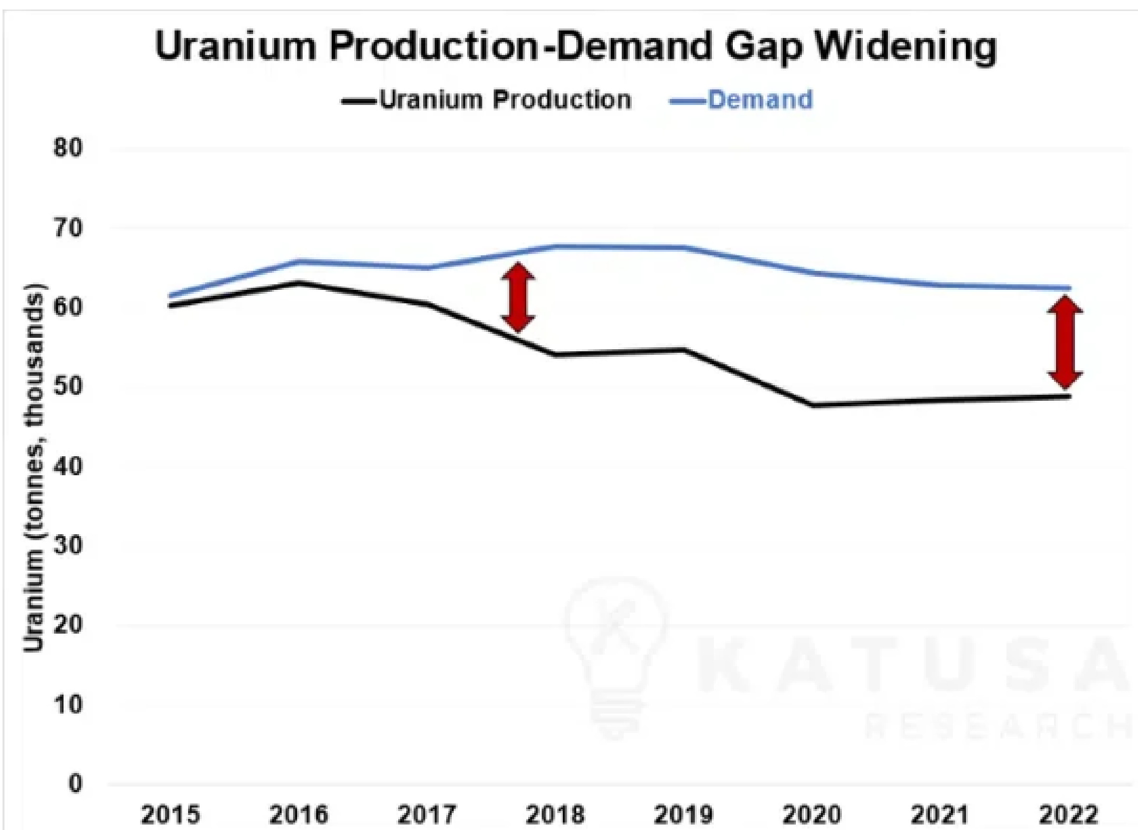
In a later section below, Anderson Kupperman, CIO of Praetorian Capital discusses this condition.

Today, thirty countries are considering starting a new nuclear energy program.

Consequently, a nuclear renaissance is unfolding globally:

Canada is set to construct the world's largest nuclear plant.
Sweden aims for 100% nuclear energy with 10 new reactors.
Japan is reviving its nuclear program post-Fukushima.

Other nations, including India, France, the UK, and Russia, have ambitious nuclear expansion plans. **India** is planning 9 new reactors, **France** up to 14, the **UK** 24, and **Russia** 29. The list goes on. Today, more nuclear reactors are being built than any year since 1992.



In a recent Real Vision Podcast, Anderson Kupperman, CIO of Praetorian Capital discussed this sector with Louis Vincent-Gave, co-founder GaveKal Research.

When asked how to invest in the sector:
[Note: We are already long at this point.]

Harris Kupperman: "[My view] is Sprott physical uranium trust or yellow cake which also owns physical uranium. [I don't like the miners but] I can't have my whole fund only own the Sprott Physical. You know the history of Commodities is that they tend to overshoot dramatically and they don't usually stay at extremes for long periods of time so I want to own the physical commodity.

During the period of it overshooting, the history of producers is that they tend to price in you know a baseline level of the price and earnings and you know they don't really get much multiple expansion and so you have a uranium stock that's worth three or four times earnings based on [say] $80 is the marginal cost. So I just think you own physical uranium because it can go to an insane number.

I was just at a uranium conference and all the utilities are short, all the traders are short, a lot of the producers are short, a lot of the intermediaries, the fabricators; everyone's short and everyone's lent material and they can't get it back and everyone's about to declare force majeure on each other and they can't get material from one location to another. [Secondary Supply]

The whole ecosystem of trading this stuff broke down. It reminds me of subprime where in the fall of 2007 it looked like the the wheels were coming off the thing and then everyone's just like "don't worry about it"

You remember Michael Burry banging his head against the wall because "why are my CDs Cubes at 101 when everyone's defaulting, I have the data they're all defaulting and it's still trading at 101? It's costing me a million dollars a week to hold this position and he's just banging his head against the wall.

That's how uranium feels right now because in a normal market, and this is I think what's messing with people, in a normal physical market if I like oil, I buy oil Futures and if other people agree with me, they buy oil futures. Well then the price of oil goes up, and it's very immediate.

But if I looked at a world like uranium where the demand is 210 next year and the supply is 160 and the deficit is 50 million, call it 25% for round numbers. I mean if the oil Market was a 20-25 percent a day deficit oil would be like a thousand right now.

Everyone would be freaking out, but instead there's no way for me to go out there and buy physical uranium; you have to get licensed, you have to store it, you know it takes two years to get all the certification. So there's no capital markets, there's no traders. Or hedge funds. There's no one there to do the price discovery that takes the price up to incentivize mines to turn back on so you know when that all, happens and it's going to happen, it's going to overshoot in a very dramatic way and then ...and then it takes five years for the mines to come on.

It could really overshoot because unlike oil where there's like you know you have switching ...you can use less oil if the price goes up, there's all these things you can do. You can use other products, you can...take the train you know, When it comes to uranium, you build a mine and you operate the thing. You just need the uranium. So we already know that the demand number is going to be into the future for maybe five years, maybe even ten years with pretty good certainty and we know the supply number isn't there.

We know the best outcome for supply, but mines break, mines have trouble, stuff goes wrong; it can only get worse from here, I mean the deficits can only get worse from here. It's not like they are going to say, Wow our mine did 130% of name plate. That just doesn't happen so I just think it's going to overshoot and it's going to do something huge."

Louis Vincent-Gave - "One thing I would add perhaps is that there has been a real change in the zeitgeist regarding nuclear in that two or three years ago, nuclear was a dirty word. Nobody wanted to even consider building new nuclear, unless you were China and India; that was basically it. And I think Russia's invasion of Ukraine shifted a lot of people's mindset where they realized ...hold on nuclear actually gives me energy Independence you know with just a few pounds of of uranium I can produce electricity for a year...but it's all of a sudden dramatically, dramatically shifted the zeitgeist where instead of worrying about an accident that might kill one or two people, all of a sudden Geostrategic Independence and when you think in geostrategic Independence term there really is nothing better than nuclear, because you can you can buy and store a lot of uranium in not so much space, so you can be fully energy independent."

Harris Kupperman - "As far as the Geo Strategic Energy Independence aspect to this. I mean if we had invented nuclear last week that's all we'd be talking about we wouldn't be talking about AI. We'd be talking about how you have this carbon free clean energy that's the lowest cost energy, that is safe, that is super reliable and you can store literally all the energy a country like France needs, in like a shipping container. If you set up a couple of these things, you would have maybe ten years supply of energy and you're good to go.

You wouldn't have to worry about all this nonsense, like Putin. He can't just bully you because you have a ten year stock pile of energy. China's not stupid, they're building reactors nonstop."

Technically Speaking

OnThursday, it began to look like the pullback was nearing completion.

On Monday, U.UN fell to $21.68. On Tuesday, it rallied back, recaptured the 20 EMA and put in a Bullish Engulfing candle which increases odds of a direction change.

Bottom Line:

Markets are driven by liquidity. Today, broad equity market breadth remains poor, so my view on the stock market is cautious.

The Uranium market is extremely tight over the next 12 to 24 months as demand continues to rise, while new supplies are taking more time to materialize, and inventories keep getting drawn down.

I think the spot price of Uranium could/will move higher no matter what happens in the economy or stock market, and therefore the position should be pressed.

*Katsua Research