



The UX Uranium Futures Contract: Past, Present, and Future

Nearly a decade ago, UxC and the New York Mercantile Exchange (NYMEX) partnered to release the UX Uranium Futures Contract, which 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 . The contract was designed to provide market participants the ability to hedge price risk and provide increased price transparency by generating a forward price curve from the strip of prices listed on the futures market.

Obviously, the nuclear fuel market has changed considerably since we launched the UX Uranium Futures Contract back in 2007. From peak U_3O_8 prices shortly after launching the contract in 2007, to the global financial crisis that led to the exit of the banks and hedge funds two years after, to a noted market rebound in 2010, to the Fukushima Daiichi nuclear disaster in March 2011, the uranium futures market has experienced considerable fluctuation over the past nine years. In this cover, we endeavor to illustrate where the futures market has been, where it is today, and posit if there is a future for the uranium futures market going forward.

The year 2007 might seem like it happened a lifetime ago for market participants that lived through it. A series of market incidents conspired to drive the spot Ux U_3O_8 Price up to its azimuth of \$136 per pound in June 2007 including: years of inadequate production expansion due to low prices; water inflow events at Cigar Lake and Rabbit Lake; the entry of speculators and new investment funds, adding new demand to the market; and market participants holding low inventories being caught short as price increased. All-in-all, the spot price appreciated over 1,815% from January 2001 to July 2007 amid a period where nuclear fuel market participants were looking for some price certainty in an otherwise uncertain market. At that time, trading ranges for a single 250-pound contract for delivery in January 2008 were in the \$150-range, a far cry from where prices reside today.

As 2007 wore on, the prices on the futures market, and corresponding open interest for that matter, began to populate and stretch out. When the UX Futures Contract was launched, there were only three contract months with corresponding prices and open interest. But by year-end 2007, the strip had increased to 13 contract months with open interest extending well into 2009. For 2007, a total of 1,268 contracts were booked for 317,000 pounds U_3O_8 .

Into 2008, volume spiked as more market participants began adopting use of the futures market. By year-end 2008, the strip extended even further with open interest and contracts stretching into mid-2010. 2008 finished the year with an exceptional amount of volume at 13,314 contracts for 3,328,500 pounds U_3O_8 . As can be seen in the chart below, the global financial crisis in 2009 led to a decrease in volume at 5,949 contracts for 1,487,250 pounds U_3O_8 as financial entities were in the midst of turmoil and the nuclear renaissance that was the hot topic just a few years earlier was beginning to fade. As many of the banks were forced to liquidate their positions in commodity markets, the year 2010 realized a slew of new volume as financial firms were forced to unwind their positions. As a result, the year booked the market's standing all-time high watermark of 26,097 contracts for 6,524,250 pounds U_3O_8 .

Not to be outdone, 2011 also continued to experience the aftereffects of financial firms exiting their uranium futures positions. Furthermore, 2011 brought with it the Fukushima Daiichi nuclear disaster, which also served to boost year-end volumes to 22,599 contracts for 5,649,750 pounds U_3O_8 as a number of market participants unwound their positions while others continued taking new ones.

The period from 2012-2015 could be characterized by a decrescendo of activity as shown in the chart on the previous page. 2012 marked the last time that the market booked over 2 million pounds from 8,113 contracts. Furthermore, the market's low point (not factoring 2007 because it was not a full year of trading) occurred in 2014 with a paltry 3,453 contracts booked for 863,250 pounds U_3O_8 . 2015 was only slightly better at 4,548 contracts for 1,137,000 pounds U_3O_8 .

Today, the uranium futures market is showing signs of rebounding, which has certainly been aided by lower market prices and market participants shifting their positions forward. Total contract volume is up substantially over the past couple of years, as market participants seek to lock in and take advantage of today's historically low uranium prices. Through the first two-thirds of 2016, a total of 6,093 contracts (1,523,250 pounds U_3O_8) have been booked on the futures market. This total places 2016 in sixth place all-time and well within striking distance of fifth place set in 2013 from 6,515 contracts (1,628,750 pounds U_3O_8) with four months left to go. Much of the contracting activity in 2016 has taken place for the December 2016 contract month, as open interest for this month has swelled by 440% since the start of the year.

Going forward, the futures market strip extends well into 2018, and it will be only a matter of time until contracting and open interest extends into the next decade. As utilities, producers, and investors alike seek to attain future price certainty through hedging, having a well-functioning futures market will provide a way for all market participants to secure future supplies at reasonable prices. Yet, much like the greater uranium market, the next few years will dictate much of the future course of the market. The uranium market is currently flooded with inventories that are having noted price suppressive influences. Thus, the futures market may become more attractive for both utilities and suppliers to hedge and guarantee prices in the future.

Clearly, much has changed in the futures market since its inception in 2007. More price information is available today than when the UX Uranium Futures Contract was launched, and a large amount of this new price information is either directly or indirectly related to the creation of the futures contract. Yet, futures activity is again rebounding as some market participants see the benefit of locking in low prices while their counterparts are willing to assume future price risk.

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