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Uranium Narratives

By Jeff Combs

Robert Shiller recently published a new book entitled Narrative Economics – How Stories Go Viral & Drive Major Economic Events. Shiller is a well-known economist, winner of the Nobel Prize in Economics and co-creator of the Case-Shiller Index for home prices. In his book, Shiller explains the importance of popular stories in helping to understand decisions and economic behavior, both from an individual and collective standpoint, in what he calls narrative economics.

Popular narratives include the notions that tech stocks can only increase, and housing prices will not fall; both had a strong influence on economic behavior but did not last. Such narratives get replaced by others that often get encapsulated in phrases such as “irrational exuberance” and “too big to fail.” In this day and age, narratives can “go viral,” and thus have a more immediate impact.

Narratives can be distorted or turn out to be based on a false premise. A classic example of this relates to the “too cheap to meter” mantra for nuclear energy. That phrase is actually thought to originally have been used to describe fusion power but became associated with fission power, and thus created a metric that conventional nuclear energy could never meet. The nuclear industry is currently attempting to fashion new narratives that stress the environmental and economic advantages of nuclear energy in keeping with the larger narratives (e.g., climate change) which have taken hold.

This leads me to think of the importance of narratives when it comes to the uranium market and how they can have an important, even dominating impact, even if they are wrong. For example, one narrative at the beginning of the decade of the 2000s was that uranium was plentiful and cheap. This narrative was so powerful that producers cut back production significantly and utilities were not as concerned with obtaining supply coverage, and thus their forward requirements were left largely unfilled.

We began to question this narrative in the 2002/2003 period and forged our own narrative, expressing our concern that the market had failed to a certain degree since it did not adequately reflect the future scarcity of supply at that time. However, this narrative did not catch on, except perhaps with investors who entered the market during that period. Instead, both utilities and producers held on to the plentiful supply/low price narrative and continued to take actions commensurate with this view.

When we began to report higher prices in 2004, we received a lot of pushback and questioning because rising prices did not fit with the prevailing narrative of plentiful and inexpensive supplies. In addition, when I gave a presentation at the WNA Symposium that same year, the thrust of my paper was counter to the supply is everywhere and price is going to stay low forever narrative at the time. Even though I was confident in my analysis, narratives can be so powerful that it makes you question your own beliefs.

Another popular narrative in uranium that has existed from time to time is the supply gap. This more appropriately should be called a production gap since there always have been enough supplies to meet demand, and inventories have always represented a large share of the supply picture, at least since 1990. Even when price rose dramatically in 2004-2007, there were sufficient supplies; however, prices had to be bid up dramatically to pry inventories away from those holding them as the demand for these inventories increased notably to compensate for stagnant production in the face of growing demand.

Following the Fukushima accident, the supply gap narrative disappeared for a while as demand retreated and along with it the need for expansion of uranium production. After price fell significantly during the first part of the last decade, the supply gap narrative reappeared in some circles based on the premise that price was too low to support production needed in the future. We expended considerable effort in debunking this view, pointing out the need for production to be cut back further to balance supply and demand so as to allow for excess inventories to be worked off. In fact, for most of the past decade, it would have been more appropriate to talk about a “demand gap,” as reactor growth and demand fell after Fukushima, but production was slow to follow suit.

One particularly useful narrative that surfaced during this time was “SWU for U,” coined by URENCO. The narrative captured the fact that excess SWU capacity created by the downturn in nuclear fuel requirements was either used to reduce the demand for uranium (underfeeding) or to create uranium supplies via enriching tails material. In turn, this narrative helped explain why a supply gap in uranium did not materialize despite low prices and stagnant production.

Recently, talk of a supply gap has resurfaced once again due to the extensive production cutbacks that have now taken place. And, it is evident that the gap between future demand and production has grown. In this regard, our uranium market analysis now shows a larger separation of forecasted production and requirements. Associated with this is an increase in projected inventory utilization and an increase in our price forecast.

However, it appears that the market is not buying the supply gap narrative as the spot price has remained quite weak over the past half year. It may be the case that the supply gap narrative is running headlong into what may be termed the “post-Fukushima demand doldrums” narrative. In recent years, that has proven to be a very powerful narrative, bolstered recently by the report last year that more reactors were shut down than started up around the world.

Shiller’s work points out that it is important to recognize the influence of narratives on economic behavior. This observation suggests market analysis should not be based solely on supply and demand fundamentals, but also consider market perceptions and beliefs that drive activity. As we now find ourselves starting a new year, we can ask what narrative will take dominate and influence future market activity in the months and years ahead.

Jeff Combs is Chairman and Owner of UxC, LLC. Occasionally he contributes a cover story to the Ux Weekly. He also writes articles that appear on www.atompeace.org and other venues.