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More Lessons from the Oil Market

The oil market is getting plenty of press coverage as price pushes relentlessly upward, flirting with the $50 a barrel level recently. Although it has only been two weeks since we recounted some of the lessons that the oil market has for uranium, it is instructive to further examine some of these parallels, as they could give a clue of what is in store for uranium prices.

One story that addressed the rise in oil prices appeared on the front page of The Wall Street Journal in last Friday's edition. The thrust of the story was that the current oil price increase could be fundamentally different than past increases in that it was driven more by demand pressures than supply disruptions. From this standpoint, the article noted that the price rise might not be as acute as in earlier periods, but it could last longer. (While one might note that the oil price has never reached these heights before, the Journal points out that the peak price, in inflation-adjusted dollars, was $73 per barrel in 1981, which is almost 50% above its recent high.)

The article also cites the large increases in demand that are coming from China and India, with China's crude oil imports rising 40% over last year and India's expected to rise 11% in its most recent business year. U.S. demand for the second quarter was up over same quarter a year earlier, although the article notes that speculation might be driving some of this demand.

Speculation is one area that oil differs from uranium, and another front-page article in the Journal today (Monday) examines this aspect of the oil market, noting that one analyst believes that oil prices would be in the low-$40s today without this speculative component. While there is some speculation that While much focus has been placed on uranium supply disruptions, demand is a major factor in the uranium market as well. A little over a year ago, we wrote a cover that proclaimed this was the "Decade of Demand" (*The Ux Weekly*, July 7, 2003, p. 1). Written after the McArthur River flood, and following our earlier observations about how the market was changing ("A New Decade, A New Market," *The Ux Weekly*, December 3, 2001, p. 1-2), it was clear to us that demand was a key story. While supply disruptions have certainly been a factor, increasing demand has enabled the market to consume inventories at a faster rate and places more pressure on production going forward.

As is the case with oil, the price of uranium is nowhere near its all-time high, expressed in either current or constant dollars. Figure 1 below shows that in terms of today's dollars, the uranium price topped $100 in the mid 1970s. During this period, which corresponded with the first oil crisis, it was demand, and not supply, that was the primary force driving price. Western production actually exceeded requirements, as Figure 2 below shows, but the problem was that demand was artificially inflated in that period, a product of the U.S. government's monopoly position in enrichment. The 1970's price spike was relatively short-lived, in uranium market terms, and was truncated when the U.S. government granted contract relief which allowed utilities to adjust their demand closer to their real needs.

Like the case with oil, increasing demand on the part of China and India promise to be a factor in the uranium market. Barely a day goes by without seeing some story on China's booming nuclear power program, and India's growing program is also mentioned frequently. Of course, the problem in the uranium market today is that goes on in the uranium market, it is not nearly the magnitude of what is occurring in the oil market, although more speculation in uranium would not necessarily be a bad thing, especially if it spurred more production and exploration.

production is already far below requirements, and current requirements, unlike those in the 1970s, are not artificially inflated. And, as discussed last week, while substituting enrichment for uranium can provide some relief for uranium demand, this is only possible to the extent that there is economic enrichment capacity available.

Returning to the oil situation, if this analysis is correct and oil prices remain high for a period of time, nuclear power will likely benefit. High oil prices certainly helped fuel the initial nuclear power boom, and perhaps can fuel a renaissance as well. The clearest indication of the effect that higher oil prices is having on nuclear power today is the fact that China and India, two countries that have greatly increased their consumption of oil, are also rapidly expanding their nuclear power programs.

Figure 1. Uranium Prices: Constant vs Current Dollars ($)

Figure 2. Western World Supply vs. Demand