Market in Transition

Incentivizing New Production

Uranium prices continued to trend higher in 2020 as inventories were drawn down at an accelerated pace due to lower global uranium production stemming from the COVID-19 pandemic. Global uranium production fell to 123 million pounds U3O8 in 2020, its lowest level since 2008, with commercial inventory drawdown/sales and enricher underfeeding/tails re-enrichment filling much of the void between primary production and demand.

Producer and intermediary buying set a record in 2020, as these two groups accounted for 80% of spot volume, which helped push the spot price to as high as $34 in late May before re-treating to the $30 level in the second half of 2020 as production began to normalize.

In October 2020, the U.S. and Russia signed the Russian Suspension Agreement amendment, which will lower Russian export limits to U.S. utilities over time, with the EUP limit slipping significantly beyond 2021. Due to the lower export limits, U.S. utilities now must manage a new wrinkle when it comes to future term contracting.

Given cuts to primary production and inventory optimization by utilities and producers, the uranium market is expected to slowly become more production-driven, where prices more closely correlate to the marginal cost of uranium production. Additionally, Kazakh production targets for 2021 and 2022 will remain 20% below planned levels authorized under the Subsoil Use Contracts for individual projects.

To the extent that today’s uranium prices do not incent producers to increase production levels, utilities and suppliers will continue to purchase available secondary supplies, thus further reducing excess material and placing upward pressure on spot prices. This price increase could be further enhanced by traders and financial players attempting to get ahead of the next cycle of contracting activity.

Although reactor requirements are rather flat through 2025, there is significant demand growth from 2026 to 2035 that will necessitate new production as resources are exhausted at several uranium projects. In addition to transitioning to a production-driven market, a large percentage of production exists in regions of the world with high geopolitical risk, which makes the market vulnerable to future disruptions and price volatility.

The UxC Uranium Market Outlook (UMO) report is designed to examine developments and discern trends in the uranium market, including the likely future course of prices under different scenarios. The entire report is updated quarterly to provide subscribers with the latest information and analyses on which to base their decisions. Updates of leading market indicators are also provided on a monthly basis so you are never too out of touch with the market. For information or pricing, please contact Nick Carter at +1-470-689-0605 or nick.carter@uxc.com.

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