Nuclear Illusion - Risks and False Myths

by Sergio Zabot & Carlo Monguzzi

2. Uranium too is a commodity

The uranium market is similar to other commodities markets and is at present characterized by a limited offer, because of the long periods of time necessary to make new mines operation-ready, burdened by delays and increases of projects costs, besides manpower scarcity due to the highly risky sanitary conditions in which workers must work. What's more, uranium mines exploitation has to do with more and more rigorous environmental restrictions. Therefore the market remains limited.

The Credit Suisse bank warns on its forum given up to raw materials: ”Uranium is at present consumed especially in Western Europe and in the US. China weighs upon this for 2% only of the whole world consumption. But the Chinese demand growth rate is going to reach two or three times this figure in the next years: China is going to push upwards the global demand for uranium, followed by India and maybe by Russia and Brazil as well. It is obvious that the uranium market shall go through a booming phase for at least the next decade, if not longer”.

Uranium prices are determined by the annual negotiations between a restricted number of buyers and sellers. Considering the limited number of participants in that market, it is unlikely for uranium to become, in the short period, a freely negotiated commodity. This doesn't mean, though, that an actual increase in demand, or at least the hope for an increase, won't trigger a price rise.

Says Mike Gimignani, of the Investment Uranium Research Team ([1]), that since uranium is scarcer than oil, then, on the basis of the law of demand and offer, it shall become more lucrative than oil and will allow investors in this commodity to earn lots of money. But uranium producers, at least for the while being, can't easily act on the quantities they produce as oil producers can, by simply turning on or off the tap. At

([1]) http://www.investmentu.com/research/uranium-investing.html present, uranium producers introduce in the market only 75% of the nuclear combustible consumed in reactors and the reason for it lies in the end of the cold war and not in the discovery of new uranium fields. With the end of the "doctrine of deterrence", huge amounts of enriched uranium designed for atomic bombs have become available, especially on the part of the former URSS. At a first stage, i.e. in the first years of the Nineties, this has determined a slump in the price of uranium and a very scarce cost-effectiveness to invest in new mining technologies. But later on the trend has partially changed and with half a world announcing that it wants to re-launch nuclear power production, the price of uranium is on the rise again.

But the problem of scarcity stays with us: "Actually, differently from oil, - Gimignani writes – there are not many places *where you can go around looking for uranium... The World Nuclear Association estimates that at least eight years are needed to start a new uranium mine and to set that in production, assuming that one finds enough of it to justify production. This produces "extra-bonuses" for the bigger and more efficient mines that have extra mining capacity*".

Notwithstanding these difficulties, the market seems to bet on the re-launch of the nuclear sector. As reported in "www.all-wall-street.com", the long wave of nuclear countercharge is hard to contain and this is demonstrated by a 850% price increase in the last four years and by a mining industry looking towards a rosy future: "*In a well-diversified portfolio of stock investments* – concludes the leading article – *there should be room even for uranium mining companies*".

However there is no lack, either, of invitations to proceed with caution. Jim Jubak, senior market editor of "MSN Money", Microsoft's on-line review read by tens of thousands of readers ([2]), warns investors in uranium that we find ourselves in the midst of a full speculative storm and when "*When speculative bulls collide with speculative bears, investors stand a good chance of getting crushed*", where "*speculative bulls*" are the traders that bet on the rise of uranium quotations due to new nuclear fashion wave of nuclear re-launch, while the "*speculative bears*" are the traders that bet instead on a quotations drop. Jubak, at the end of 2007, remarks how a big uranium stock such as Cameco soared 38% from Dec. 29 to June 15, and a more-speculative uranium miner such as First Uranium, rocketed ahead by 81% from Jan. 10, its first day of trading, to

([2]) http://articles.moneycentral.msn.com/Investing/JubaksJournal/InvestInUraniumNotYet.aspx

May 22. But recently, the bears have counterattacked. As of Aug. 15, Cameco had fallen 33% from its high, and First Uranium had fallen 34%.

At the end of a long 6-page article (on line) in which existing energy problems are summarized , from oil shortage to chinese development, and after passing in review the financial disaster that is looming over Olkiluoto reactor in Finland, Jim Jubak recommends to wait at least until the end of 2008 before deciding if and how to invest in uranium.

Actually, the financial world is pretty much interested to the uranium market and is prepared to launch the assault to what we could call “the last of the commodities”. There are many ones openly talking of a “speculative bubble ” and the fact that Nymex has started to quote a “future” on uranium, is welcomed as a help towards a more transparent uranium market. In financial circles, long term prospects regarding uranium are deemed as excellent and the onset of a derivatives market is interpreted as the surest way to invest in this sector, which is very much speculative already on its own, difficult to analyze and thus to foresee.

Yet these are mainly the opinions of traders, who make a living playing the stock-market, mostly on behalf of their investors, but often on their own. The transparency they wish for, is nothing but the possibility of speculating on uranium and to get rich while well-sheltered from risks induced by internal or external maneuvers that may alter the “course” of the commodity, limiting risks only to their ability of being more sly and cunning than others.

Uranium too, as all energy sources, is scarce, and it's right this aspect that makes this mineral so desirable to the financial market. This means that the quotations of uranium are not, and won't be, exempted from the extreme volatility that oil products are undergoing. To hope that the price of uranium will stay low, so as to allow us to have at our service dirt-cheap electric energy, is either a very naïve thing to believe or ... a charlatan's pretense. The only way to reduce pressure on electricity bills is to consume less energy and to consume it better, but this we shall see in later chapters.

From “Illusione Nucleare” – Melampo Editore 2008
Translated by Brown Onion & Revised by Tazio Borges