



How Long Will it Take for Uranium Prices to Recover?

Description

On Thursday, shares of uranium producer **Cameco Corp** ([TSX:CCO](#))([NYSE:CCJ](#)) fell by over 4% after Cowen analysts downgraded the company. The analysts reassessed their market outlook for uranium and determined that a meaningful recovery will not come until 2017.

There are plenty of reason to doubt these analysts. For one, uranium prices are so low that many producers are losing money. Japan and other countries are paying dearly for shutting down its nuclear program. And growth in nuclear power from China should help uranium prices as well.

But these analysts must be taken seriously, especially since their views are shared by many others. On that note, here are the top three reasons to avoid Cameco.

1. Issues with Japan

After Japan shut down its nuclear program, it has seen its energy costs skyrocket. To illustrate, the country is the world's largest importer of liquefied natural gas, and the second biggest importer of coal. Bringing back nuclear power would help relieve that burden.

But this is proving to be a slow, painful process. Although two nuclear reactors have passed the new regulator's safety standards, polls show that 60% of the country is opposed to those plants restarting. And Prime Minister Shinzo Abe is not as popular as he once was, so he may not have the political capital required to bring back nuclear power in a big way.

Recently, the restart dates for those two plants have been pushed back to 2015. This will clearly take some time.

2. Ample supply

Incredibly, even in the face of low prices, uranium production has actually increased in the past couple of years. Why is this the case?

Put simply, one has to remember that even if a producer is losing money, that doesn't mean that the

mine will be shut down tomorrow. There are plenty of reasons to keep production going.

For one, starting and stopping mines can be expensive, especially with unionized labour. So it may be easier to ride out the downturn, especially if politics are involved. Furthermore, if the long-term outlook for uranium demand is promising, there may be incentive to keep production going. And finally, no one wants to shut down a mine only to see competitors benefit from a price increase – so the industry turns into a game of chicken.

So like the Japanese restart, this could take some time.

3. No need in the United States

Finally, while nuclear power makes sense in many parts of the world, the United States is needing it less and less. Cheap natural gas means that ample power can be generated from gas power plants, many of which come from converting existing coal plants.

Meanwhile, nuclear power continues to face immense regulatory hurdles, and obstacles remain with how to dispose of the waste effectively.

So to sum up, the long-term fundamentals for uranium remain intact. But there are plenty of obstacles in the years ahead. Cameco and its shareholders will have to ride them all out.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
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