



Will Uranium Prices Continue to Surge?

Description

Over the past few weeks, without anyone seeming to notice, uranium prices have crept up by \$3.50 per pound. How has this happened? Is this just the beginning of a major uptick? And how should you react?

Security of supply

As it stands, the world is well supplied with uranium. Production has managed to increase in the last couple of years, and demand has fallen in the wake of Japan's Fukushima disaster. But that could soon change.

One of the issues concerns security of supply — over half of the world's supply comes from Russia, Kazakhstan, Uzbekistan, and Niger. And sanctions against Russia are making uranium buyers very nervous. So they are ordering more of the physical material before it's too late.

There have been other supply issues recently. Some producers have been shutting down production recently due to low prices. **Cameco Corporation** ([TSX: CCO](#))([NYSE: CCJ](#)) has had to endure a worker strike at its MacArthur and Key Lake mines.

Long-term fundamentals remain intact

Better yet, there are plenty of drivers for uranium on the demand side. For one, China hopes to be a world leader in nuclear power by 2020, despite having only 15 nuclear power-generating units today. The country hopes to speed up construction for 29 plants currently being built, and also has ambitions for an additional 200 plants. Even after 2020, China hopes to add 10 nuclear plants per year.

Japan is another potential catalyst. The country has had to pay through the roof for energy since canceling its nuclear program, and restoring nuclear power would relieve much of that burden. Just last week, the Nuclear Regulation Authority said that a two-reactor nuclear power station in Sendai had met safety requirements required for a restart. This means the plant could restart by early 2015. And that could be just the beginning.

Cameco: the best way to play this trend

The nuclear fallout from the Fukushima disaster have not been kind to Cameco nor its shareholders; since March 2011, the company's shares have fallen by about half.

But remember, Cameco has access to the world's highest-grade uranium reserves, and does not face the same geopolitical risk as some of its rivals. The stock has also been held back by the strike, but a tentative deal has now been reached with the union.

To sum up, this company has done everything it can to weather the low uranium price. And these kinds of experiences can often be good for a company, forcing them to be more efficient. So if the uranium price does recover, like it should eventually, then Cameco shares could benefit.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)

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