



All You Need to Know About Uranium Stocks in 2022

Description

Uranium stocks have been buzzing hot since the Russia-Ukraine war broke out. They were rising even before the war as uranium prices surged in August 2021. What caused this surge? Should you buy uranium stocks at their high?

How to trade in commodity stocks?

Uranium is a commodity. Its price is determined by demand and supply forces. The price is around \$50, a level last seen in 2012. This is the second straight year of price surges for this commodity.

When there is an under-supply, commodity prices start rising. But there comes a point when the price surges to a level where the producer gets an incentive to boost output to meet demand. At that point, the commodity price witnesses a correction and the price stabilizes. Hence, commodities are cyclical and are sensitive to demand and supply.

With uranium, there are several other complexities attached. Utilities are a major consumer of U3O8. But they have not yet entered into long-term supply contracts with miners. Moreover, uranium is highly radioactive and cannot be stored in bulk. It needs specialized inventory management. Hence, miners don't increase production unless they have adequate storage. Therefore, uranium faces a constrained supply.

What is driving uranium prices in 2022?

At present, 445 nuclear reactors are operational globally, and 52 are under construction. The U.S. is the largest consumer of U3O8, spending more than US\$2 billion on uranium imports. Russia is a key supplier, accounting for about 16% of the U.S.'s uranium imports.

But the Russia-Ukraine war has created a twist in the supply chain. The U.S. and other western countries imposed sanctions on Russian imports, including oil and natural gas. However, the U.S. kept uranium as an [exception](#), given its dependence on Russia. But now, there are media reports that

Russia is considering a ban on uranium exports.

This uncertainty around supply has boosted uranium prices. This comes when Europe is considering accelerating investment in nuclear, wind, and solar to reduce dependence on Russian natural gas. If there are sanctions, uranium prices could surge significantly. But if there is a nuclear disaster like the 2011 Fukushima nuclear disaster, uranium prices could crash. Before the disaster, U3O8 prices peaked at US\$70 before falling to 2016's low of US\$17.95.

Uranium experts expect the price to surge significantly in 2022 as the supply is unlikely to rise anytime soon. But be prepared for volatility. You could invest a small portion (less than 5%) of your portfolio in uranium stocks. There are two ways to gain exposure to commodity prices, stocks of mining companies and uranium [ETFs](#).

Three Canadian uranium stocks to buy in 2022

Canada is the [fourth-largest](#) producer of uranium from mines, accounting for 8% of the world's uranium production in 2020. **Cameco** ([TSX:CCO](#))([NYSE:CCJ](#)) is the world's second-largest uranium producer, accounting for 18% of the world's production. As these miners do not have long-term supply contracts with utilities, they do not give good dividends. Hence, buying uranium stocks is equivalent to getting exposure to the commodity's price volatility.

Since August 2021, uranium prices surged 51.5%, but Cameco stock surged 80%. One reason for Cameco's outperformance is investors are pricing in expectations of Russian uranium supply. The U.S. has to find an [alternative](#) to Russian uranium, and Cameco is a good option. The U.S. and Canada have good trade relations and proximity. If the two countries sign a uranium supply contract, Cameco would be a beneficiary.

Cameco stock is currently trading near its 2011 high. Buying a cyclical stock at a high price reduces your returns. In a normal scenario, I wouldn't recommend buying a commodity stock at its high. But the war situation has created an opportunity for the unprecedented rally in the short term. The war has completed a month, and Cameco stock surged 38%.

There are no signs of negotiations in the war. And even if the war eases, Russian sanctions won't go away for a long time. Hence, there is more upside for Cameco in 2022. **Denison Mines** and **NexGen Energy** are other uranium stocks.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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