GRANT'S
INTEREST RATE OBSERVER®
Vol. 38, No. 8b 233 Broadway, New York, New York 10279 • www.grantspub.com APRIL 17, 2020

Not so radioactive

Burgeoning gluts of most everything the world over suggest that Covid-19 is crushing demand even faster than it's disrupting supply. Happily, one commodity, at least, is an exception to the rule.

Uranium is the subject at hand, plus crude oil, which appears in a brief, supporting role. In preview, *Grant's* sticks to its bullish line on the silver-gray metal and on the uranium equity plays Cameco Corp. (CCJ in New York, CCO in Toronto) and the Uranium Participation Corp. (U on Toronto)—for background, especially on Cameco, see the issue dated March 6.

After an Easter Sunday prod by President Donald Trump, Russia and the Organization of the Petroleum Exporting Countries agreed to a 9.7-million-barrel-per-day cut in production beginning on May 1. Unfortunately, oil demand is down by 25 mbpd, according to IHS Markit, a quarterly decline seven times larger than the worst three-month period in the perhaps milder world-financial crisis of a dozen years ago.

On Monday, West Texas Intermediate crude responded to the OPEC-plus gambit by slipping 1.5%, to $22.41. "Historic yet insufficient," Goldman Sachs Group, Inc. styled it.

Uranium mines, too, are closing down, but not on orders from any international cartel. The Namibian mines in Husab and Rössing, which together can produce around 16 million pounds of uranium, shuttered on Feb. 28 and March 28, respectively. Cameco Corp. closed its mega-mine in Cigar Lake, which boasts a capacity of 18 million pounds a year, on March 23. And NAC Kazatomprom, the world's largest uranium miner, last week pledged to reduce the number of staff at its Kazakhstan mines to "minimum possible levels" for at least three months. Projected result: a decline in annual production of around 10 million pounds from previous estimates of 59 million pounds.

Producers are shutting down to stop the spread of the coronavirus. "For Cigar Lake in Northern Saskatchewan, there's no hospital site right there," Arthur Hyde, partner and co-portfolio manager of Segra Capital Management, LLC, tells colleague Evan Lorenz. "And so, rather than having these miners potentially exposed to the virus in close conditions and with no real hospital treatment facility close, they're likely to actually just shut supply."

In contrast to crude, demand for uranium is relatively inelastic; what nuclear-power plants generate is vital, baseload electricity. According to the consulting group UxC, LLC, worldwide uranium demand will fall by 3.3% year-over-year in 2020 to 183.1 million pounds. Even before the mass quarantines, the market for fissible material was expected to be in deficit. The reductions announced so far will hardly narrow the shortfall. Year to date, uranium oxide has rallied by 19.5%.

The question before the house is, of course: When do these mines come back online? In the case of Cigar Lake, it could be some time. "So, what's baked into the market is pretty much what Cameco put in their press release when they announced the shutdown, which is that it was a four-week shutdown, followed by a future decision," says Adam Rodman, Hyde's partner at Segra. "And what we think the spot market is reflecting is that in three weeks' time, we will get an announcement outlining how Cigar comes back online."

On Monday, Cameco announced that it would keep Cigar Lake closed for "an indeterminate period of time." Cameco has a history of turning out the lights to balance supply and demand. In 2017, the McArthur River and Key Lake mines in Saskatchewan went dark for what was supposed to be 10 months. The mines remain shut today as management awaits higher uranium prices. "[W]e believe the risk to uranium supply is greater than the risk to uranium demand, creating a renewed focus on ensuring availability of long-term supply," CEO Tim Gitzel noted in the accompanying press release. "Over time, we expect this renewed focus on security of supply will provide the market signals producers need, and will help offset any near-term costs we may incur as a result of the current disruptions to our business."

Some may embrace the bull case in uranium but want no part of the operating exposure to uranium mining. If so, there's the Uranium Participation Corp., which invests in the radioactive metal itself. As of March 31, UPC held 15.7 pounds of uranium oxide (U_3O_8) and 600,000 kilograms of elemental uranium's worth of uranium hexafluoride. At press time, UPC was trading at a 7.2% discount to its holdings versus a 4% discount on Dec. 31.

In uranium bull markets, UPC can trade at a premium to its net asset value. "The reason that it trades at a premium to NAV in bull markets is generally because it's just an odd market to try to trade," Hyde tells Lorenz. "You can't easily set up an account to go buy and hold the physical. . . . So that's what's so unique here, is that it just hasn't reacted the same way."

Note to Larry Fink, CEO of BlackRock, in his capacity as the conscience of world climate: The non-fossil uranium bull market appears to be leaving the station.

•