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## Uranium spot price hits \$100/lb; Kazatomprom warns of production shortfall

**Yesterday afternoon, the uranium spot price hit US\$100/lb U<sub>3</sub>O<sub>8</sub>, a +\$6.00/lb one-day move and its highest level in 16 years (Figure 1).**

**We remain constructive on uranium prices:** Despite the 100% increase in spot U<sub>3</sub>O<sub>8</sub> prices over the last 12 months (and the +300% price rise since we started covering the sector), we remain constructive on the outlook for uranium prices. As demonstrated in Figure 2, we continue to believe that the market remains in a structural deficit and expect tight conditions to persist. Demand is durable, yet supply is as fragile as ever, and any further supply disruptions could lead to panic buying by utilities, in our view, with both US and European utilities already at low inventory levels.

**Overnight, the world's largest producer, Kazatomprom, warns of production shortfall:** Kazatomprom (KAP-LON | Not Rated) now expects 2024 production to be adjusted downwards due to challenges related to the availability of sulphuric acid, as well as delays in completing construction works at some of its newly developed deposits (i.e., Budenovskye). The company was previously expecting to shift production up to 90% of its Subsoil Use Agreements, a rise from 80% in 2023. This creates a potential problem for KAP, as its previous 2024 guidance was underpinned by long-term contracts — which it is contractually obligated to deliver into. Per the announcement, KAP “remains committed to its 2024 delivery obligations.” In a scenario where KAP is short production, it may need to be an incremental spot purchaser, putting further upward pressure on prices.

Based on current sulphuric acid availability, these issues may persist into 2025. KAP acknowledged that its plan to return to 100% of subsoil use levels in 2025 (approx. +15mlbs vs. 2024) is also at risk. Exact production guidance is expected to be provided with the company's Q4 Trading Update on February 1.

**New supply is entering the market, but not enough:** Success in LT contracting and higher prices have supported near-term growth in primary mine supply, with a number of restart projects scheduled to come online in 2024 (EFR, EU, PDN, BOE, etc.). In our view, these are the “easy pounds” given they are projects with existing infrastructure and minimal investment required to get to production, and while encouraging, we do not believe that these projects alone will be sufficient to rebalance the market. “Hard pounds” will need to get developed, and prices need to stay at high levels to incentivize the development of these more capital intensive greenfield projects.

**Inventory levels have been declining; utility term and spot purchases increase in 2023:** As highlighted in our [Uranium | H2 2023 update](#), data suggests that the era of inventory overhang is over. Commercial inventories held by US and European utilities have been on the decline since their peaks in 2016 and 2013, respectively. Against a backdrop of increasing uncovered demand, we've seen utilities more active in both term and spot. In 2023, term volumes exceeded 160mlbs U<sub>3</sub>O<sub>8</sub>, the highest level since 2012. We also saw nearly 42M kgU of conversion term contracting (the second highest annual volume in the past decade), and nearly 50 million SWU of enrichment contracting (highest since 2009). In 2023, utility spot purchases were also up relative to 2022, reflecting scarcity of supply.

**Russian uranium sanctions could lead to further panic buying:** Recall that in mid-December, the US House passed a bill to ban uranium imports from Russia. This bill still needs to pass the Senate and be signed by President Biden before becoming law. Based on discussions we had with industry participants, the Senate is more likely to pass a bill if it contains specific funding to support new fuel cycle development in the US (e.g., expanded enrichment and conversion capabilities) to alleviate bottlenecks downstream. Also, who is to say that Russia doesn't immediately retaliate and ban exports to the US, leading to more panic buying.



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