Twitter Thread by Jeff Geringer

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A coda to my tweets this week on #uranium contracting and the carry trade:

We care about how uranium has been bought and sold over the last decade - not just the sale price - because it informs us as to how a period of rapid price increase could develop over the next few years.

Reminder: the carry trade provides three main services.

1. Time shifting - matches supply today w/ demand tomorrow
2. Price formation - provides fixed forward prices in a market not always willing to provide them
3. Risk mitigation - decouples forward supply from mine operations

At some point in the forward price curve, newly mined supply (tied to inflation) is less expensive than financed spot supply (tied to spot price + interest).

At a constant financing rate, a spot price increase brings forward the time at which these two price curves intersect.

This is not controversial - at the locus of increased utility purchasing and decreased supply availability, uranium price goes up and the carry trade becomes less attractive. For lack of a better term, let’s call this a transition from a carry-driven to production-driven market.

A production-driven market might be:

...in contango, with a forward curve driven by mining cost inflation (input costs, depletion).

...in backwardation, with a supply squeeze in the short term but competitive sellers offering cheaper prices in the forward market.

It’s taken me a few tweets to get here, which is where I say “future price development is path-dependent.”

In other words, a production-driven market in gentle contango or backwardation will develop in ways dependent on how it got there.

At some point, physical #uranium held within carry trades for future delivery has greater value than does a future produced pound delivered at the same future date. So while carried pounds are spoken for, they can re-enter the market before their appointed time.

I'll add two caveats here:

1. Swapping physical inventory for forward supply increases risk, so there needs to be a big incentive.
2. We're a ways off, price-wise, from the gentle contango or backwardation necessary to really motivate these transactions.

The inventory situation is not one of mountains of secret inventory waiting to be sold at some arbitrary higher price, but rather a market structure set up to (partially) suppress rapid upward spikes. "Supply mobility" is not completely binary, and this is somewhere in the grey.

I don't want to rule out the fireworks in the middle of the decade, but the nature of uranium - high density, ease of storage, single end use - allows for the carry phenomenon, & the carry phenomenon may in turn suppress volatility on the way up and prevent extreme backwardation.

P.S. if you think this tweet is bearish, think about what needs to happen to uranium price for my hypothetical scenario to play out.