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Uranium to Recover as China's Nuclear Plans Offset Fukushima (1)
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(Updates with Korean nuclear capacity in 11th paragraph.)

By Moming Zhou, Dinakar Sethuraman and Lars Paulsson

May 23 (Bloomberg) -- The biggest drop in prices of uranium in two years may be ending as China and India plan atomic power developments that will more than double global production even after Japan's nuclear disaster.

The radioactive metal has slumped 8.7 percent this year, the most since 2009, after tumbling as much as 27 percent as governments reviewed nuclear plants following the Japanese crisis in March, according to prices from MF Global Holdings Inc. China and India will lead a 46 percent increase in consumption by the world's five biggest atomic-power developers by 2020, according to data compiled by Bloomberg.

Soaring energy demand from the world's fastest-growing economies is buoying uranium and prospects of miners from Cameco Corp. to Paladin Energy Inc. even after radiation leaks from Japan's 40-year-old Fukushima Dai-Ichi plant sparked the worst nuclear disaster since Chernobyl in 1986. China's Nuclear Energy Association said May 12 it will boost atomic capacity as much as eight times by 2020. A day later, India's Atomic Energy Commission said it will increase production 13-fold by 2030.

"The question is whether what happened in Japan with older-generation reactors justifies not building newer, safer reactors, and to me the answer is no," Spencer Abraham, a former U.S. energy secretary who is now non-executive chairman of Areva SA, the largest nuclear-equipment producer, said in a May 17 telephone interview from Washington. "China recognizes they can't satisfy the growth in electricity demand in a single dimension and they really need a diverse group of sources."

Expanding Capacity

A gigawatt, enough to power about 1 million U.S. homes, requires 200 tons of uranium a year at full operating rates, according to the World Nuclear Association. China, India and South Korea expect to use 262 gigawatts by 2030, more than what the U.S., Japan, Germany and France produce together, according to Bloomberg data.

Nuclear energy was being held out by nations from the U.S. to France and the U.K. as a potential solution to challenges posed by rising oil prices, which reached a record \$147 a barrel in July 2008. Unlike fossil fuels, atomic power produces virtually no greenhouse gas emissions, as governments around the world try to cut down on pollution.

Those considerations became secondary after the Japanese disaster showed construction flaws at the Fukushima plant. Tokyo Electric Power Co., the operator of the plant, posted a full-year loss of 1.25 trillion yen (\$15 billion) on May 20.

Power Needs

None of that reduces the power requirements of the world's fastest-growing economies. China's economy will probably expand 9.5 percent this year, according to the median of 11 forecasts compiled by Bloomberg. India's gross domestic product may grow as much as 8.5 percent in the current fiscal year, Chakravarthy Rangarajan, chairman of the Prime Minister's Economic Advisory Council, said on May 3.

"Fukushima has made us pause and rethink some of our projects," Xu Yuming, vice secretary general of the Nuclear Energy Association, said in a May 12 interview in Beijing. "Of course, the overall plan won't be changed. China faces power shortages and we need to change our energy mix. To resolve these issues, we must develop nuclear."

Even if Japan develops half of its proposed 19 gigawatts of nuclear power this decade, the country, together with China, India, Russia and South Korea, will add a combined 160 gigawatts by 2020, according to Bloomberg data based on figures from the World Nuclear Association, Sanford C. Bernstein & Co., the Federation of Electric Power Companies of Japan and South Korea's economy ministry.

South Korea

South Korea may almost double its nuclear-fired capacity to about 36 gigawatts by 2024, accounting for 48.5 percent of the nation's power generation up from 31.4 percent today, according to the Ministry of Knowledge Economy. The country may add 10 reactors by 2020 totaling 12.8 gigawatts.

That will require an extra 32,000 metric tons of uranium a year, according to calculations based on data from the World Nuclear Association. Global use will be about 69,000 tons in 2011.

Uranium, which trades outside organized exchanges directly between buyers and sellers, fell as low as \$49.99 per pound of U308, the tradable form of the metal, in the three trading days after the March 11 earthquake as Germany and Japan announced reviews of nuclear plants. It settled at \$57.99 on May 20, according to prices tracked by MF Global.

'Still an Option'

The metal may rise as high as \$65 a pound this year and advance to \$75 in 2012, Fletcher Newton, a vice president at Uranium One Inc., a Vancouver-based mining company, said in a May 13 interview. Morgan Stanley forecast it will climb to \$64 in 2011 and \$65 in 2012.

"Whether we like it or not, nuclear is still an option that's reliable, low cost and emission free," said Amir Adnani, chief executive officer of Corpus Christi, Texas-based Uranium Energy Corp., a mining and processing company that is stockpiling the metal in anticipation of higher prices in the second half of the year. "In the next 20 years, the world's nuclear capacity is going to double."

A revival in demand may lead to a recovery in stocks of Saskatoon, Saskatchewan-based Cameco, a co-owner of the world's largest uranium mine, to Subiaco, Australia-based Paladin, according to analysts.

Cameco

Shares of Cameco may rise to C\$37.40 in the next 12 months, said Raymond Goldie, an analyst at Salman Partners Inc. in Toronto whose recommendations on the 13 companies he covers returned 33 percent. The shares closed at C\$26.36 on the Toronto Stock Exchange on May 20, down 35 percent this year.

Paladin may climb to A\$3.50 in the coming year, after dropping 34 percent this year, according to Martin Stulpner, a Perth, Australia-based analyst at Macquarie Group Ltd. The stock closed at A\$3.23 on the Australian Stock Exchange on May 20.

Uranium prices still aren't high enough to make it sufficiently profitable to extract, Rio Tinto Uranium Ltd.

Managing Director Clark Beyer said at a conference in Beijing on May 13. The metal is at least \$10 below the level required to encourage companies to increase production, he said.

Price gains may be held in check as Germany and Japan assess development plans.

German Halt

Germany, which relies on atomic energy for 23 percent of its supplies, may phase out plants as early as 2022, Georg Nuesslein, a lawmaker for Bavaria's Christian Social Union party, said in a phone interview on May 4. Chancellor Angela Merkel ordered a halt to the country's seven oldest reactors on March 15, removing more than 25 percent of its 20,700 megawatts of capacity, equivalent to the power needed to supply almost 21 million U.S. households.

Japan, the third-biggest nuclear-power producer after the U.S. and France, is reconsidering plans to increase the share of atomic energy to 50 percent from 30 percent, Prime Minister Naoto Kan said on May 10. About 13 gigawatts of capacity is currently closed in Japan due to the earthquake, according to Societe Generale SA. No decision has been made on whether to restart the plants.

"Unless we see a supply shock, it's difficult to see a situation where we'll see a dramatic increase in the uranium price, and that's really the only catalyst that would bring investors back rapidly into the uranium space," Edward Sterck, a London-based analyst at Bank of Montreal, said in a May 19 telephone interview. The metal will be little changed at \$60 a pound this year and in 2012, he said.

China Safety Review

Global electricity consumption will rise 75 percent to 35,300 terawatt-hours by 2035 from 2008's 20,183 terawatt-hours, according to the International Energy Agency.

China's safety review of its atomic power plants will have little impact on expansion, according to Xu at the Nuclear Energy Association.

India's capacity will increase to 60 gigawatts by 2030 from 4.8 gigawatts, according to the country's Planning Commission. South Korea aims to generate 60 percent of its energy from atomic plants by 2030, compared with about 35 percent now, Deputy Minister for Energy and Resource Policy Kim Jungwan said in an interview in Kuwait on April 18.

"Countries seek diversified sources of energy and security of supply at a time when energy demand is growing rapidly and is essential to an improved standard of living," Cameco, part owner of McArthur River mine in Canada, the world's largest deposit of high-grade uranium, said in a filing on May 6.

The U.S. Nuclear Regulatory Commission on April 21 renewed the operating licenses for the Palo Verde Nuclear Generating Station in Arizona, the country's biggest atomic plant, for an additional 20 years. The U.S., which produces about 27 percent of the world's nuclear power, had said it will scrutinize license renewals for utilities following the Japanese crisis.

"The right solution is to go forward and build safer, new-generation reactors," Abraham said. "It will help diversify the fuel mix and contribute to energy independence. Overtime, cooler heads will prevail."

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