Sprott Asset Management

Sprott's aggressive uranium buying will not corner market, chief says

Fund's 'contrarian' bet comes as some flag supply issues for the radioactive metal

The price of raw uranium, known as yellowcake, has risen almost 60 per cent to a nine-year high above $50 a pound since Sprott launched a physical uranium trust in August © BLOOMBERG NEWS

Neil Hume SEPTEMBER 20 2021

The head of Sprott Asset Management has hit back at suggestions that its aggressive buying of uranium could corner the market for the nuclear fuel and spark regulatory interest.

In an interview with the Financial Times, Sprott chief executive John Ciampaglia said the physical uranium trust that Sprott launched in August would help rebalance the 180m-lb-a-year uranium market — driving prices to a level that spurred greater production of the radioactive material.

The price of raw uranium, known as yellowcake, has risen almost 60 per cent to a nine-year high above $50 a pound since the trust's launch.

The Canadian asset manager has amassed more than 10m lb of uranium in the ensuing months. It plans to buy even more after increasing the firepower of the trust, which trades on the Toronto stock exchange, from an initial $300m to $1.3bn.

Yet Sprott's stockpiling has raised concerns that the trust may come to dominate the physical uranium market. Such a scenario could in turn draw regulatory scrutiny in the US and Europe because of the strategic importance of uranium to the military and to electricity generation.

Added to uranium acquired from a predecessor fund, Sprott now holds more than 28m lb of uranium — enough metal to power France's nuclear industry for a year. France is one of the nations most reliant on nuclear energy, with over 70 per cent of electricity coming from the sector.

"Sprott could single-handedly remove all supply, thereby preventing it from reaching the hands of nuclear utilities," said Nick Lawson, chief executive of Ocean Wall, a London-based advisory firm.

Ciampaglia said he did not think it possible for the trust to monopolise the market. He pointed to an abundance of mothballed uranium mines, including Cameco's McArthur River, which were likely to be revived with higher prices.

"The question is what's the price that gets it out of the ground," Ciampaglia said. Industry experts say a price of about $60 a pound will be required to stimulate supply and meet long-term demand for uranium.

"It needs to remain at that price or higher for quite some time," said Harris Kupperman, founder of hedge fund Praetorian Capital. "You need utilities willing to contract for years before a bank is willing to finance a mine coming back on line."

Ciampaglia believes that the run-up in uranium prices should be welcomed by the nuclear power industry. "It's in the best interests of utilities . . . for this to happen. If the price doesn't reset to a level that incentivises miners to pull uranium out of the ground, how are they going to have security of supply in five or ten years from now?" he said.

The uranium market has been moribund since the 2011 Fukushima nuclear disaster, which disrupted demand projections for the fuel as Japan and other countries including Germany closed operations or cancelled new projects.

As prices tumbled from $70 a pound to just $18 in 2017, mines were closed and financing for new uranium projects dried up. Canaccord, a brokerage, estimates that mine capacity has been reduced by 45m lb over the past five years.

Utility companies currently consume about 180m lb of uranium every year, mainly through long-term supply agreements with miners. However, only 125m lb are actually being mined. This means that secondary supplies such as military warheads and stockpiles, which are being whittled down, must fill the gap.

Uranium bulls say this "structural deficit" is set to increase with 46 reactors under construction globally and a further 99 planned, including 37 in China. Sprott estimates that global electricity demand will rise 49 per cent between 2019 and 2040. By that time, the World Nuclear Association forecasts demand for uranium will hit 292m lb.

"When we started working on uranium it was absolutely in the toilet and no one cared about it," said Ciampaglia, "which is why our interest was piqued because we do like to be contrarian at times".

Ciampaglia said the trust had attracted broad interest from institutions, hedge funds, family offices and individual investors.

He added that Sprott was surprised to find that uranium was now part of the "discussion" around environmental, social and governance investing and also the energy transition. Nuclear energy produces less carbon dioxide than wind, solar or hydropower.

Sprott's buying spree has also boosted shares in leading uranium miners, with retail investors piling into Cameco, Denison Mines and Kazatomprom — the Saudi Aramco of the uranium market. Cameco was the eighth most discussed stock on Reddit forum WallStreetBets in the past seven days, according to Quiver Quantitative. Mentions of the stock are up 212 per cent this week.

Asked if Sprott would seek to sell any of its uranium hoard, Ciampaglia said that this was impossible due to the structure of the trust.

"We buy uranium and we store it and the trust operates in perpetuity. We don't make any market calls," he said. "We don't say 'oh my gosh the price of uranium has doubled so we are going to sell it and make a big profit and give everybody their money back'."

Additional reporting by Joshua Oliver