THE NORTHERN MINER
The Global Mining Newspaper
SINCE 1915

Daily News
July 16, 2012

Technical analysis report: **Uranium stocks show signs of life**

By Anthony Vaccaro

Ever since the great bull run in uranium prices leading into 2008, investors have been waiting for the second leg up.

The macro story, after all, didn't change after the 2008 crisis subsided: a surge in nuclear reactor construction in places such as China, India and Russia would tax current supplies and hold uranium prices – and the stocks of those who mine it – at lofty levels.

But while gold and base metals recovered nicely after the credit crisis, uranium stocks never really found their footing. There were micro rallies, but not the sort of sustained run that many anticipated.

And then Fukushima happened. The meltdown at the Japanese power plant in March 2011 threw the entire industry into a tailspin as governments around the globe openly wondered whether they should continue with their nuclear programs.

But long-suffering uranium bulls have given signs that their favoured metal may indeed be rising from the ashes. Japan announced it has restarted its first nuclear reactor since the Fukushima disaster led to the shuttering of all 50 active reactors in the country.

And while the country broods over how big a part nuclear energy will play in its future energy mix, the Ohi reactor's reopening in western Japan signals that the government will likely include nuclear as part of its national energy policy.

The energy source's status in the country had been thrown into doubt after Fukushima. The government said it was devising a new energy strategy, and that nuclear could make up 20% to 25% of the total energy mix, 15% or zero. Up until the meltdown the country had drawn 30% of its power from reactors.

An announcement on the energy policy is expected by the fourth quarter, but with the reopening Ohi reactor, zero nuclear presence seems unlikely.

As for the uranium sector's performance so far this year, uranium stocks have been following the general market trend in the first half – up during the first few months, and reversing through the second quarter.

During the reversal, investors were concerned about a reduced number of reactors in Japan and China's slowing reactor-development program. Worries have eased somewhat with Japan's recent news, but there is still uncertainty surrounding the industry.

One interesting aspect to the current condition is that the flight to defensive blue-chip stocks is being reflected in the uranium sector as well.

The move coincides with a growing investor preference for more liquid stocks and stable earnings, which has translated into better performance for established producers.

This is the case with blue-chip uranium producer Cameco, a company that accounts for roughly 16% of the world's production from mines in Canada and the US.

Cameco's shares were the first to rally while climbing in June from the $19 range to over $23. Over this time its share price crossed above both its 50-day and 200-day moving average – which is a bullish indicator.

The rally, however, is flashing signs that it might be poised for a slight correction, with the Relative Strength Index (RSI) indicator touching the bottom of the over-bought zone. The Williams % R indicator is also flashing "overbought". The MACD indicator has been steadily rising but is showing signs of topping out. The technical indicators are pointing to a short-term correction to the recent run up, but this could be a minor correction in an overall upswing.

Uranerz Energy, which recently announced discovering a uranium trend at the Monument project in Powder River basin, Wyo., has a price chart that reads like a lag to Cameco's.

The lag may be explained by a greater severity in sell-off during the overall market pullback early this year. Uranerz's stock fell from the $3 range in early February to the $1.20 range in late May, but has come back to life, crossing its 50-day moving average recently. After a mini rally in early June its stock price has reached $1.58, and its RSI and Williams % R indicators say it hasn't reached Cameco's overbought levels, although it is approaching the marks.

Photo: Nuclear Power Plant

Denison Mines has its key projects in Saskatchewan, Zambia and Mongolia. One of the company's key assets is its 23% stake in the McClean Lake uranium mill in northern Saskatchewan, which is one of the world's largest uranium processing facilities.

Unlike Cameco and Uranerz, instead of rallying through June, Denison's stock continued to sell-off through the month before kicking in at the beginning of July. The later rally means its MACD is the most bullish of the three, with the MACD line having just crossed the signal line from below a bullish indicator. William % R has just reached overbought status and RSI is further from the overbought zone than both Cameco and Uranerz.

So while uranium stocks emerge from the doldrums – with the blue chips leading the way if Japan announces an energy policy that includes nuclear as a significant part of the mix – investors could see stocks make a sustained run that has been anticipated for nearly five years. ■