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Kazakhstan’s Political Unrest: Implications for the Uranium Market

Only a few days into the new year, and the uranium market was taken by surprise when news spread of the worst unrest in Kazakhstan’s three decades of post-Soviet independence. The situation continues to rapidly unfold as this issue of the *Ux Weekly* goes to press. However, while there are still many unanswered questions, given the huge importance that Kazakhstan plays in the uranium market, it is critical to discuss these latest events and examine the ramifications for the nuclear fuel industry going forward.

Importantly, as we consider the potential implications for the uranium industry, let us not forget that these developments directly impact our friends and partners in Kazakhstan. Our heart at UxC goes out to them. Having seen their efforts to reassure and support their clients in this rapidly developing situation and very limited ability to communicate is a testament to their dedication to not only Kazatomprom, but the industry at large. We are grateful to Kazatomprom’s Chief Commercial Officer (CCO), Askar Batyrbayev, and Kazatomprom’s team both in Kazakhstan and the U.S. for updates on various aspects of their operations during these trying times, which we share below. We can only hope that these dark days will be behind everyone in Kazakhstan very soon.

What is the background to the unrest? – The first signs of trouble surfaced immediately after the New Year in the western part of Kazakhstan, in the oil hub Zhanaozen. The economic protests were triggered by a rapid price increase of liquified propane gas (LPG) following a market reform that resulted in the removal of price caps. The protests, which at first appeared to be local in nature, quickly widened, spreading to the other oil towns in the region before erupting in earnest in the country’s largest city, Almaty. The protests were economic in nature, happening amidst a background of high inflation, the ongoing COVID-19 pandemic, and a general sense among many in the population of the loss of economic stability and certainty. With this background, LPG, which is used by many in the region to fuel vehicles, served as the spark for protests in the western region. While LPG is not as important for many other regions, the protests elsewhere were part of a chain reaction that began in Zhanaozen and are reflective of the broader economic squeeze in Kazakhstan.

The situation developed rapidly and unpredictably. Kazakhstan’s President Kassym-Jomart Tokaev responded by lowering LPG prices, but only for the Mangistau region. This

Ux Price Indicators Click for Market Page					
Weekly Ux U ₃ O ₈ Prices (1/10/22)					
Ux U ₃ O ₈ Price [®]	\$45.75	(+\$3.75)	CMC [Cameco]	\$45.75	
Ux U ₃ O ₈ 3-Yr Price	\$46.25	(+\$2.75)	CVD [ConverDyn]	\$45.75	
Ux U ₃ O ₈ 5-Yr Price	\$47.25	(+\$2.25)	ORO [Orano]	\$45.75	
Month-End Ux Prices (12/27/21)					
U ₃ O ₈	Ux U ₃ O ₈ Price [®]	\$42.10	Conversion	NA Spot	\$16.00
	CMC	\$42.10		NA Term	\$18.00
	CVD	\$42.10		EU Spot	\$16.00
	ORO	\$42.10	EU Term	\$18.00	
	Spot MAP*	\$43.21	U ₃ F ₆ Spot	NA Price	\$126.00
	3-Yr Forward	\$43.75		NA Value*	\$126.00
5-Yr Forward	\$44.75	EU Value*		\$126.00	
SWU	Long-Term	\$40.50	EUP	NA Spot*	\$1,637
	Spot	\$56.00		NA Term*	\$1,645
	Long-Term	\$61.00			*Calculated values

Top Stories

- Given the events in Kazakhstan and financial market reactions, the spot U₃O₈ price jumped last week on the back of significant new spot buying (see page 13).
- EDF Energy shut down the Hunterston B-2 reactor while announcing that it is planning to close its Heysham 2 plant two years earlier in 2028 (see pages 4 & 5).
- The U.S. NRC has rejected Oklo’s application for its Aurora microreactor project in Idaho (see page 7).
- An EU Commissioner said Europe’s nuclear sector needs €500 billion in investments by 2050 (see page 7).

action failed to placate the protesters, and the nature of protests in the meantime changed as various groups with differing agendas joined protestors, widening and complicating the nature of the protests. As some of the previously peaceful protests, especially those in Almaty, turned violent, President Tokaev declared a two-week state of emergency and nighttime curfew on January 5. Furthermore, President Tokaev took a series of decisive political steps, including dismissing the government and removing the former long-time President Nursultan Nazarbayev from all positions of power and influence, including most importantly as the head of the Security Council. Furthermore, President Tokaev described the protests as a terrorist threat that was “undermining the integrity of the state” and appealed to the Collective Security Treaty Organization (CSTO), the Russian-led security alliance, to assist Kazakhstan in addressing the situation by send-

ing the peacemaking contingent. Importantly, all of these developments took place in an information vacuum as the government enacted a near-total internet and communications blackout.

Since the initial unrest, Kazakh security forces, which have been reinforced by CSTO forces, appear to have calmed the situation, although reports of significant bloodshed have emerged. While the situation remains very fluid at this time, it appears that the security situation throughout Kazakhstan is now much more stable than at the height of the unrest in the middle of last week, but there are also signs of an ongoing reshuffling of the political establishment.

Current state of uranium mining operations: What do we know? – The first key question for the uranium industry is of course related to the ongoing uranium mining operations. Speaking about the current state of uranium mining operations, Kazatomprom CCO Batyrbayev has assured UxC that Kazatomprom’s uranium producing facilities are operating normally at this time. “Even though these have been very trying several days, we are leaning on the experience and the hard-earned lessons of the early COVID 19 pandemic, which help us run our mines uninterrupted during turbulent situations. We also cannot say enough about our world class employees that truly shined during this difficult time, steering our production facilities under limited communication environment,” read a Kazatomprom statement provided to UxC.

Looking at the various specific production aspects, one issue to consider is the challenge of getting staff to and from the remote uranium production sites. In this regard, Mr. Batyrbayev noted that, “given the exceptional circumstances and the resulting temporary unavailability of COVID- 19 testing facilities in Almaty as well as the growing spread of the Omicron variant, our employees, currently located on site, have agreed to extend their shifts until the situation improves. Kazatomprom ensures prompt delivery of fuel, perishable and nonperishable supplies to our mines, to make certain that every need of our workers has been addressed.”

Ensuring that the associated supply chain continues to operate without interruptions also remains key for sustaining uranium production. Answering UxC’s question regarding uranium supply chain, Mr. Batyrbayev stated that “as far as the challenges directly resulting from the events of last week, KAP is seeing minor and manageable delays related to the enforced curfew restrictions as temporarily all shipping operations must occur during daytime. Supply chain challenges persisted even before the tragic and unfortunate events of last week. The effects of continuous pandemic have been putting a significant strain on our supply chains already testing our ability to respond to global supply related challenges. Now with these additional factors, the risks of getting critical operating materials to our 14 operations no doubt persist and we will be addressing them as the 2022 unfolds.”

Finally, transportation in Kazakhstan has also been impacted as rail service was halted for a period of time. In this

Statement by Kazatomprom’s CCO, Askar Batyrbayev

This is a difficult time for our nation, the wounds of which will remain forever in the history of Kazakhstan.

It is important to remember that Kazatomprom has not been alone through this uncertainty; Kazakhstan is home to uranium mining operations where we are in joint ventures with the top international producers. In an unprecedented fashion over the past three decades our nation has opened its doors to many mining partners, and we have been honing our production technologies together, working side by side to set the highest standards of health and safety exchanging our success and failures, learning from each other, and perfecting our business processes. Our call to our partners is to stand united in the face of this challenge, set aside near-term ambitions, and reflect on the remarkable progress we have made together in making Kazakhstan the top supplier of fuel for the nuclear industry.

This is truly a diverse, robust, and secure place to do business. Kazakhstan will come out of this tragic challenge a stronger nation, and Kazatomprom will come out a stronger partner.

We are grateful and appreciative of the world nuclear community’s support and warm wishes we received during these several days. In addition, we thank the uranium market participants for their patience and top-tier business ethics many have demonstrated over the course of this challenging week.

Kazatomprom remains strong, united, and committed to staying the course of being the confident and responsible partner of choice for our friends in the global nuclear family.

regard, Mr. Batyrbayev stated that “Kazakh National Rail Company reported January 7 that it was resuming its passenger and freight operations nationwide in full. We were pleased to see such swift response and hope that with further de-escalation we will see the volumes of rail delivery services bounce back to normal quickly.”

Uncertain near-term impact on production – The key uncertainty is truly connected to the duration of the unrest as well as the associated measures and developments, including – as discussed above – the state of emergency and curfew, ability to staff production sites, and smooth operation of the supply chain. Other risk factors include restricted operations of the financial sector as well as stifled ability to communicate.

Importantly, these developments are only compounding the ongoing impacts of the COVID-19 pandemic on uranium production. The full impact of the pandemic remains difficult to assess. One may recall that Kazatomprom announced at the end of 2021 that Kazakh ISR production will be just shy of 57 million pounds U_3O_8 , which is 2 million pounds lower than its initial production target due to delays in exploration and well-field development stemming from the pandemic. The company also indicated at the time that pandemic-related supply

chain issues were impacting its production schedule. As such, any potential impacts from Kazakhstan's political unrest will only add to the already existing pandemic-related pressures.

Mr. Batyrbayev highlighted to UxC that “traditionally winter months see the lowest activity in wellfield development and as such, any potential impact by the current situation on the production cycle could be estimated as minimal. Additionally, KAP's Q1 sales commitments had been logistically addressed in Q4 of 2021.” Mr. Batyrbayev also pointed to the fact that Kazatomprom is operating with a 6-7 month inventory, “which allows the company to address any near term deliveries promptly, while allowing the ongoing production to focus on the pressing objectives at hand.”

How has this impacted the market so far? – The market quickly began reacting to the news in Kazakhstan with market participants heavily engaged starting as soon as the morning of last Wednesday. The initial rapid rise in spot market activity was mainly centered around traders, producers, and financials as various players looked to get ahead of what they thought may be a new supply shock. As the market was forced to quickly wake up after a sleepy holiday season, trading picked up in the middle of last week, and predictably this activity took place at higher price levels. On January 5th, the Ux U₃O₈ Price jumped \$3.25 in a single day, which was followed by smaller price increases for the rest of the week. However, while spot volume and prices jumped during the latter half of last week, some of this activity could certainly be described as “speculative,” as there were no reports of actual production impacts or supply interruptions coming from Kazakhstan last week.

The Kazakh story naturally attracted huge attention in the media and within the investment community. As a result, SPUT successfully raised notable amounts of cash over the past week – slightly over \$100 million according to UxC's analysis. This cash influx led to SPUT's return as an active uranium spot buyer after a period of nearly zero activity since mid-November. Beyond SPUT, many of the publicly-traded uranium companies also saw their share prices jump last week, although other broader financial trends have since affected them to the negative side. At the same time, Kazatomprom's share price, which trades in London, saw a pretty big initial hit, although the company's stock has since stabilized.

Overall, the initial impact of the Kazakh unrest on the uranium market has been relatively mild, although the activity so far appears to reflect the belief by some that unrest in Kazakhstan is bullish in the short term. One factor to watch for is Kazatomprom's participation in the uranium market once the company's ability to conduct business is resumed. The company's management has previously expressed its openness to augment or replenish Kazatomprom's inventory through the spot market.

How could this impact the market longer term? – It would be naïve to assume that such a major political upheaval in the world's largest uranium producing country would bear

no impact on the uranium market longer-term. Broadly, the developments in Kazakhstan highlight the importance of country risk and particularly of its political component. There is no doubt that these will be considered with renewed attention both by uranium buyers as well as suppliers.

Most likely, Kazatomprom will bear the brunt of the impacts associated with the increased perceived political risks. However, it is important to recall that most primary uranium producers are producing in Kazakhstan and rely to a varying degree on this production. For example, Cameco's sole uranium producing asset outside of its Cigar Lake mine in Canada at this time is in Kazakhstan. In its own recent statement following the Kazakh unrest, Cameco highlighted its strategy of maintaining a diversified portfolio of supply sources in multiple uranium-producing jurisdictions. The company noted it had five North American uranium operations where production could resume given the proper economic incentives.

Another issue to consider is whether a near-term impact on uranium production could prompt Kazatomprom to reconsider its production plans for 2023. The company has recently committed to maintaining its production at recent reduced annual levels through the end of next year. However, depending on the extent of any impacts in 2022, a revision of future production goals and broader strategy may become warranted.

Finally, as we offer our initial thoughts on the current and potential impacts of Kazakhstan's political unrest on the uranium market, we want to caution that the situation continues to unfold and remains fluid and unpredictable. As such, we will continue to monitor the dynamics of the various developments in Kazakhstan, and it would be foolhardy to make definitive predictions at this early stage. In the meantime, we are happy to provide our partners in Kazatomprom with a platform to share various operational updates. We hope our Kazakh partners stay safe and pray for the earliest possible peaceful normalization of the situation in the country. In the end, the people in Kazakhstan matter much more than uranium.