

We are heading for a uranium crisis

Well, I think my question of a month ago might have been answered. At the beginning of May I queried whether it might be the time to take one's courage in one's hands and plunge into uranium. I began with what seemed reasonable to guess might be the bottom: "The uranium company index is down 77% since Fukushima. Spot uranium dropped another \$1.75/lb this week to \$30.75? If it goes below that \$30, as well it might, what might become a "perma-gloom" will settle over yellowcake as an investment," I wrote.

Welcome to the "perma-gloom" with spot uranium now at \$28.25/lb. But it really does portend a very troubling situation. We could be on the brink of a real uranium crisis, one that could have serious ramifications down the road. This is because, on top of all the doubts about nuclear post-Fukushima and the slowness of Japan to get reactors back on line, uranium is caught up in the general malaise affecting the mining industry. As revealed in a precious metals forum in London last week, earlier this year China and India were consuming more gold than all the world's mines could produce, yet the gold price continues to tank. The West urgently needs to establish a non-China flow of rare earth supplies, yet investors are simply not interested in REE companies; we are seeing, for example, Hastings Rare Metals (ASX:HAS) – which has a West Australian deposit heavy in dysprosium and yttrium, along with niobium, hafnium and other elements – offer new shares at just A3.8c each.

We have 70 reactors in various stages of construction around the world. But the uranium price has fallen by 30% over the past year. If it keeps falling, and it well might, more and more companies will either go into hibernation mode or quit the sector all together. What then? We need exploration going

on now to provide the uranium needed after 2025 and beyond.

Also, what then for nuclear power, the one proven clean-air fuel that can deliver base load power?

A surer sign that all is not well can be evidenced from an ominous trend – exploration companies quitting the sector. Others are making cuts: Cameco closed its Cheyenne office, while BHP Billiton has deferred its expansion at the world's biggest uranium deposit, Olympic Dam in South Australia. Australia's Paladin Energy (ASX:PDN) has put one of its mines, Kayelekera in Malawi, on care and maintenance.

Back in 2007-8, after spot uranium hit \$137/lb, this was the place to be. Suddenly every mining explorer was keen to be in the uranium hunt. At one stage, more than 260 companies listed on the Australian Securities claimed to have uranium projects (many of them in what the Canadian miners call "moose pasture").

Now, it seems, those small number remaining can't wait to get out. FYI Resources (ASX:FYI), which got into uranium after quitting the eye care business (it's previous name was Freedom Eye) in 2009, is now concentrating on potash in Thailand. Uranex (ASX:UNX) is staying in Tanzania, but has put its uranium on the back-burner in order to pursue graphite.

☒ But possibly the most startling change was reported today. Junior United Uranium (ASX:UUL) which has six projects in Western Australia [and A\$3.41 million in the bank as at March 31] is getting out of uranium and into – wait for it – property development. You can't exactly blame the directors. The shares are trading at a discount to the company assets (the market capitalisation being just A\$2 million), all its projects are early-stage ones that will require considerable sums to explore and may not turn out to be viable, no one is investing in the sector, the uranium price is depressed as is the resource sector generally.

Just two weeks ago another uranium explorer working in Western Australia, Prime Minerals (ASX:PIM), signalled it was changing direction. It is merging with Cocoon Data Holdings which has data security software. The news lifted Prime's stock from A0.9c to A2.2c.

Back in 2007, announcing you were getting into uranium could see your stock price double. Now announcing you're switching focus away from uranium does the trick. This is not a good trend.