

Is now the time to take courage in both hands and plunge into uranium?

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.

Yet the commodity has its cheerleaders. This week *The Financial Times* of London published a piece quoting Joe Huber who runs mutual funds out of New York. His funds are heavy into Hewlett Packard, Bank of America, Herbalife – none of them exactly investor darlings at the moment, according to the newspaper – and several (unnamed) uranium miners. Damned by association, you might say, except that Huber doesn't see it that way. He told the *FT* he likes the uranium space what with India, China and Vietnam investing the new nuclear capacity. He expects uranium demand to increase by 50% in the next decade.

That uranium is going to have to come from somewhere. One of most experienced resources and commodities analysts in Australia, Warwick Grigor of Canaccord Genuity, was very positive in this week's Friday client note.

Grigor watches as the uranium price continues to drift and is knocking on the \$30 door. Japan's indications it will bring back some reactors was very positive news but that has not had any reaction in price terms. “Those buying straw hats in winter are having their patience tested,” says he.

But you can always rely on Roger Bade at London's Whitman Howard to present the glass-is-half-empty side of the story. In his note out from London early Friday morning he writes: “Last week's fall ... to \$30.75/lb is disastrous and questions

whether our \$30/lb target is too high. \$25/lb here we come?”.

Last year the world's uranium mines turned out about 70,000 tonnes of uranium for a market that consumed 78,000 tonnes. But the availability of 23,000 tonnes from secondary markets produced a surplus of 15,800 tonnes, or 20% greater than demand. But this year the surplus is expected to shrink to somewhere between 3,000 and 5,000 tonnes, the major factor in this being the “megatons to megawatts” program ceasing, meaning no more weapons grade uranium being recycled into power generation.

Grigor says the most important swing factor to be watched is the time it takes to switch the Japanese reactors back on. Another indicator that the Japanese government is serious about nuclear came this week from London with the visit there by Prime Minister Shinzo Abe. A statement said nuclear energy had been highlighted as a key area of increased co-operation between the United Kingdom and Japan aimed at tackling climate change and energy security. The joint statement with the UK Department of Energy and Climate Change underlined that both Britain and Japan saw nuclear energy as a consistent and affordable source of energy.

However, to Japan's south, Taiwan has halted work on its fourth nuclear power station due to pressure brought by anti-nuclear groups. The government in Taipei, however, was at pains to make the point that work was being halted but the partly completed plant was not being pulled down – something the anti-nuclear groups had been demanding.

On the supply side, there have been interesting developments in recent weeks. Australia has found a new uranium market by clearing the export to the United Arab Emirates for its new nuclear plants. And news came out of Sofia that Bulgaria wants to get back into the uranium mining business. An item from a Bulgarian news agency notes that the first Soviet nuclear bomb was made with Bulgarian uranium – perhaps something not to be

all that proud about (but a report published in Moscow in 1979 said that the first uranium also came from East Germany and Czechoslovakia, and anyway the Bulgarian uranium was of poor quality). Nevertheless, Bulgaria became Europe's fourth largest producer but the business collapsed after the disintegration of the USSR. Sofia now has plans to re-open mines to supply European reactors.

Grigor raises, in light of the Ukrainian situation, the fact that another ex-Soviet republic, Kazakhstan, is now the world's largest producer. Yet 25% of that country's population is made up of ethnic Russians. He doesn't go further down that thought path, but clearly if Russia was to control Kazakh uranium – either through force or by persuasion, as the Kazakhs have already signed up to be part of Putin's economic co-operation pact – this could have some impact of availability of its uranium.

He also makes the point that France is nervous about dependence on Niger for so much of its uranium, especially with terrorists making incursions in that country.

He is puzzled why, with all these threats to existing areas of supply, along with continuing Chinese nuclear expansion, the spot price is so low. But of the longer term trend, he is in no doubt. "The speculators are not playing the uranium market yet but, when they come back, the price will move only in one direction – much higher. The turning point will be some time in 2014 but the exact time is up for debate," he writes.