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HD **CHINA STOCKPILES CHEAP URANIUM**

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A severe world shortage is tipped for later this decade

CHINA imported historically high quantities of uranium last year, apparently pre-purchasing at low prices before the commissioning of new nuclear plants.

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The spot price rose just US25c a pound last week, to $US35.75/lb, insufficient to encourage a uranium explorer to get out of bed in the morning, let alone contemplate starting a new mine. Yet it was reported that this slight upward movement was triggered by news that an ``institutional investor'' was in the market for one million pounds of the stuff.

So it seems stockpiles are quietly being worked on, especially by people who have read the graphs showing a severe world shortage later this decade. The rest of the world, meanwhile, continues to sleepwalk towards that impending crisis.

The Chinese imports are contained in the latest China Resources Quarterly from Westpac and the Bureau of Resources and Energy Economics. Last year, China imported $US2.39 billion worth of uranium.

The Chinese figures for nuclear power are a little misleading, it seems. As the report says, investment in new plants fell by 23 per cent (year on year) in the December quarter due to a delay in commissioning new plants in 2012 (presumably the stand-still period when China was reassessing its plans in light of Fukushima).

But then look at what lies ahead. Somewhere north of 37,000 megawatts of nuclear capacity is under construction, but projects now on the drawing board exceed a further 60,000MW.

No wonder Chinese buyers are quietly buying up while yellowcake is available at clearance-sale prices.

Christopher Ecclestone, mining strategist at London's Hallgarten & Co, says Argentina is also an interesting country to watch. It is building a third power reactor. The country is also in the forefront of developing new technologies, having designed a small modular reactor to be used in Saudi Arabia to power desalination plants.

Ecclestone's argument is that Argentina has no uranium production, so there's a certain logic in looking to fill that gap.

The one Australian company there is Tony Sage's Cauldron Energy (CXU), which has four projects, including ground containing the Los Colorados uranium mine, which operated from 1992-96.

Ecclestone seems curious as to why the company is not doing more work there.

Perhaps because its hands are full here. As reported by this newspaper on Saturday, the mining warden expressed doubts that Cauldron had the financial capability to explore for uranium on pastoral ground owned by Andrew Forrest, who fought the application. The junior is now asking WA Mining Minister Bill Marmion not to accept the warden's recommendation.

Meanwhile, Mike Young has moved into the MD's office at Energy & Minerals Australia (EMA), which has the very large Mulga Rock uranium project northeast of Kalgoorlie, discovered by the Japanese in 1979 but relinquished when uranium prices collapsed a few years later.

EMA will no doubt be looking for Young to repeat his company-building success, which saw BC Iron (BCI) get into iron ore production. The company is targeting 1400 tonnes a year of uranium production.

Young has uranium experience, having worked at the Beaverlodge uranium mine in Saskatchewan and was part of the exploration team that discovered the McArthur River mine in that province, the world's largest high-grade uranium deposit, now mined by Canada's Cameco.

Life in rare earths

THERE'S still a bit of life in rare-earth speculation, it seems. Zinc miner Terramin Australia (TZN) received a 12.1 per cent share boost with the news it had discovered rare earths at the historic Kapunda copper mine in South Australia. The company reported the presence of heavy rare earths, along with neodymium (used in magnets, and technically a light rare earth) and europium (provides the colour red in screens, classed as a medium rare earth).

There is also scandium, which can be used in aluminium alloys to provide strength for such things as golf clubs and aircraft wings.

It's a real case of old dogs learning new tricks -- Kapunda, that is, not so much Terramin. Kapunda was Australia's first copper mine, opening in 1842 and closing in 1877 due to water inflows. Now it may be back at the sharp end again, containing as it does several rare-earth elements classed by the US as ``critical metals''.

Making a mint

A READER poses this question: the Perth Mint is working three shifts weekdays and two on Saturdays to meet demand for gold and silver coins, so does this make it Australia's most successful manufacturing business?

Even the gold bears at ANZ Research are having second thoughts about the yellow one, their Friday note saying their bias is for a continued push higher in the near term.

``Technically, the $US1308 an ounce level is a key hurdle,'' the note says. ``Beyond this, the market will look to target a broader recovery to $US1365/oz.''

And there went gold, closing on Friday at $US1319/oz, well and truly through that $US1308 technical level. ANZ says speculators have covered short positions, pushing net longs on Comex to a three-month high.

We believe our ``we told you so'' moment looms.

However, that doesn't mean the gold sector will not have to adjust. Last week, three of the world's majors (Barrick Gold, Kinross Gold and Goldcorp) reported annual losses totalling $US16 billion ($17.8bn), due mainly to writedowns on reserves still in the ground. Canada's SNL Metals Economics Group expects most of the gold producers to lower their reserves values to about $US1100/oz. Barrick in 2012 valued its reserves at $US1500/oz and the other majors were not much less.

On the local scene, Southern Gold (SAU) has been sharpening its pencil in league with its mining and transport contractors, and looking at refining costs. Its C1 cash costs at the Cannon project in Western Australia are now down to $964/oz. The company forecasts a $12.4m free surplus cashflow at a $1400/oz spot price; on Thursday, when SAU did its calculation, the spot was at $1429/oz.

And 3D Resources (DDD) is out of the gold business, banking $1m on Thursday after accepting an offer from Hanking Gold Mining to buy out 3D's 15 per cent share of profits from the mothballed Southern Cross goldmine, bought by the Chinese from St Barbara (SBM). The junior feels reopening the mine is not justified at present gold prices, and that $1m will come in handy for work at its coal project on New Zealand's North Island. Hanking, presumably, is happy to sit on the gold in the meantime.

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The writer implies no investment recommendation. This report contains material speculative in nature. Investors should seek professional investment advice. The writer does not own shares in any **company** mentioned.

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