THE RIO CLUB

02 April 2012

URANIUM IS A BUY

The RIO Professional Investors Fund added Uranium to its asset class some time ago, not as a trade but as a long term investment for the Fund. I positioned a trade in this commodity for the Fund predicting that the price of Uranium would rise as emerging markets set out to build more nuclear reactors. My research has shown that China has stipulated that it intends to construct 200 new reactors, India is contemplating 60 reactors and Russia is thinking of building around 50. These new reactors will significantly increase the demand for Uranium, thereby greatly increasing demand.

As postulated this asset is moving further into positive territory producing the desired results already. Again my predictions are being shown to be accurate, with a recent deal now sealed between China and Canada to ease exports of Canadian Uranium to China. This in turn will benefit the world's largest Uranium producer a Canadian based company Cameco. Today the world has 440 working nuclear reactors; China alone intends to increase its use of nuclear power by 7 percent by 2020.

Interestingly also, Australia has just lifted a curb on Uranium mining that has held for the past 26 years.

In this case, for clarity, RIO Professional Investors Fund’s position is as an investment not a trade, and altogether a longer term but potentially very profitable return is anticipated from this position.

The price of Uranium fell by about one third to a low of $49/pound last year when I added further to the Funds holdings in this commodity. The reason why prices fell are obvious, i.e. the fallout from the Japanese earthquake/tsunami, which led to one of the worst nuclear disasters in history. After this event, widespread media coverage put a highly negative spin on use of nuclear energy, and many experts thought that some nations would abandon nuclear energy permanently after the disaster. A few have taken that stand, certainly in the meantime, but the huge demand for energy across the world for many years ahead will underwrite nuclear’s position in the energy mix.

Today the Funds holding in this commodity have done well, since the price of Uranium has recovered to $52/ pound. Uranium stocks have also been profitable this year,and the industry is looking up, according to many reports that specialise in the energy field.

Members should note that investors typically hold commodities to protect themselves against inflation. However, Uranium values depend more on demand, i.e. the prospects for nuclear energy rather than inflationary expectations.

What about Gold, the Fund’s most traded commodity?

I continue to trade successfully in this metal for the Fund and hold firm that Gold will likely re visit previous highs. Many scenarios favour this position and below is yet another.

Germany is another country contemplating repatriation of its Gold currently held at the New York Fed. German lawmakers are to review Bundesbank controls and management of Germany’s Gold reserves. Parliament’s Budget Committee will assess how the Central Bank manages its inventory of

Germany’s Gold bullion bars that are believed to be stored not only in Frankfurt, but at locations outside Germany, according to German newspaper Bild.

What is most interesting about this is that Germany may follow a similar path to Hugo Chavez’s and repatriate their holdings in Gold so as to have direct possession and ownership of these reserves, perhaps in order to be better prepared for a systemic or monetary crisis. This is really the only way to protect a Central Bank's gold ownership, since by going in and asking the Fed to show them one’s Gold holdings means little nowadays; the Fed can take in Chinese officials, for instance, and show them the exact same pile of Gold and tell them that that is theirs! Distrust of the US as keeper of reserves is suggesting that self-possession is the only sure protection.

Members should note that this is no small issue; Germany’s Gold reserves are large, 3,396.3 tonnes to be precise,which is equivalent to 73.7% of Germany’s national foreign exchange reserves. It is believed that some 60% of Germany’s Gold is stored outside Germany with most of this in the Federal Reserve Bank of New York.

Other countries could consider following suit so it will be interesting if not intriguing to see what kind of pressure the US will put on Germany to prevent this repatriation.

The bankers clearly have German Chancellor Merkel in their pocket, but this is unlikely to influence what is deep within the psyche of German political leaders. Thus, a run on Gold, started by Germany, is not an impossibility which would just add further to the positive upside for this commodity.

Those invested in RIO Professional Investors Fund should note that this could spark a real run on Gold should the above scenario come in to play. A spike in Gold is likely as Bernanke prints more dollars for open market purchases of the commodity to fill demand for delivery by various central banks.

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