

Investors' Corner

Citiplace, Perth
for ASA, 15th February 2024
Convenor: Mark Dixon

A photograph of a fire cabinet containing a fire hose reel and a fire extinguisher. The hose is coiled on a metal reel, and the extinguisher is red and black. The cabinet is open, and the background is slightly blurred.

Citiplace - Emergency Procedure

- ▶ If smoke is detected, or fire alarm is raised, follow exit signs
- ▶ Upon evacuating the building, meet at **designated area**
- ▶ Do not use lift in an emergency
- ▶ **Designated area**
 - ▶ Turn right from the Citiplace Centre and proceed over the bridge to the pond area past the Art Gallery, if safe to do so.
 - ▶ Regroup there for head count if safe to do so.
 - ▶ If emergency personnel instruct differently then follow their directions.

Agenda

- ▶ Intro – welcome, emergency procedure, disclaimer
- ▶ Peter Scales – Macro-technical, with discussion
- ▶ Phill – ASX200 & VIX/XVI
- ▶ Mark Dixon – MINI Warrants
- ▶ David Brooke – The Uranium Bull Market Wave - catching the wave
- ▶ Other discussion material
- ▶ Next meeting – 21st March
- ▶ Close ~ noon.

Disclaimer

- ▶ The Australian Shareholders' Association (ASA) has provided the facilities for this meeting to provide general information about the ASA and to stimulate interest in financial markets.
- ▶ The ASA is not licensed to give financial advice.
- ▶ Presentations made here are not designed to provide any specific investment advice to any person present.
- ▶ The ASA does not accept any responsibility to inform you of any matter that subsequently comes to our notice that may affect any of the information discussed.
- ▶ Anyone wishing to act on any matter discussed should seek independent advice from a licensed financial adviser.

VIX / XVI

(not just Roman Numerals)

by Phill



S&P / ASX 200

VIX INDEX (XVI)

The Fear index !!!

Volatility Index Explained

- ▶ The S&P/ASX 200 VIX (XVI) is an index that calculates the amount of volatility expected in the Australian stock market over the next 30 days.
- ▶ As [Market Index](#) explains, it uses the bid/ask prices for S&P/ASX 200 put and call options—more about these below—to determine a weighted average of the implied volatility in the market.
- ▶ In the US, it is referred to as the CBOE Volatility Index—or just the VIX—and is a primary gauge of stock market volatility on the S&P 500 Index (SPX).
- ▶ The VIX volatility index works the same way the world over in that it uses a benchmark index to offer insight into how financial professionals are feeling about near-term market conditions.
- ▶ Understanding how the VIX works—whether it be in the Australian or the US markets—can help short-term traders tweak their portfolios and get a feel for where the market is headed.

What is the S&P/ASX 200 VIX INDEX

- ▶ The **S&P/ASX 200 VIX (XVI)** calculates the amount of volatility expected in the Australian stock market over the next 30 days.
- ▶ It uses the 30-day implied volatility of S&P/ASX 200 Put and Call Options.
- ▶ High readings (20+) are bearish and indicate uncertainty
- ▶ Normal readings (15 to 20) suggest a slight bullish bias
- ▶ Low readings (<15) are bullish and indicate low volatility

Cont-

- ▶ For people watching the VIX index, it's understood that the ASX 200, Australia's leading equities index, stands in for "the stock market" or "the market" as a whole.
- ▶ When the VIX index moves higher, this reflects the fact that professional investors are responding to more price volatility in the ASX 200 in particular, and markets more generally.
- ▶ When the VIX declines, investors are betting there will be smaller price moves up or down in the ASX 200, which implies calmer markets and less uncertainty.

VIX and Stock-Market Behavior

- ▶ While there are other factors at work, in most cases,
- ▶ high VIX reflects increased investor fear and a low VIX suggests complacency.
- ▶ Historically, this pattern in the relationship between the VIX and the behavior of the [stock market](#) has repeated itself in bull and bear cycles,
- ▶ During periods of market turmoil, the VIX spikes higher, largely reflecting the panic demand for OEX [puts](#) as a [hedge](#) against further declines in stock portfolios.
- ▶ During bullish periods, there is less fear and, therefore, less need for [portfolio managers](#) to purchase puts (Insurance Protection)

How Can You Invest in the VIX

- ▶ Australian investors can technically invest in the VIX index,
- ▶ which is listed on the ASX, and trade it on the futures market (S&P/ASX 200 VIX Futures)—
- ▶ if that is something your knowledgeable about and comfortable doing.
- ▶ Be aware: the futures market is complex and not for the newbie investor.

Keeping it simple

VIX=FEAR

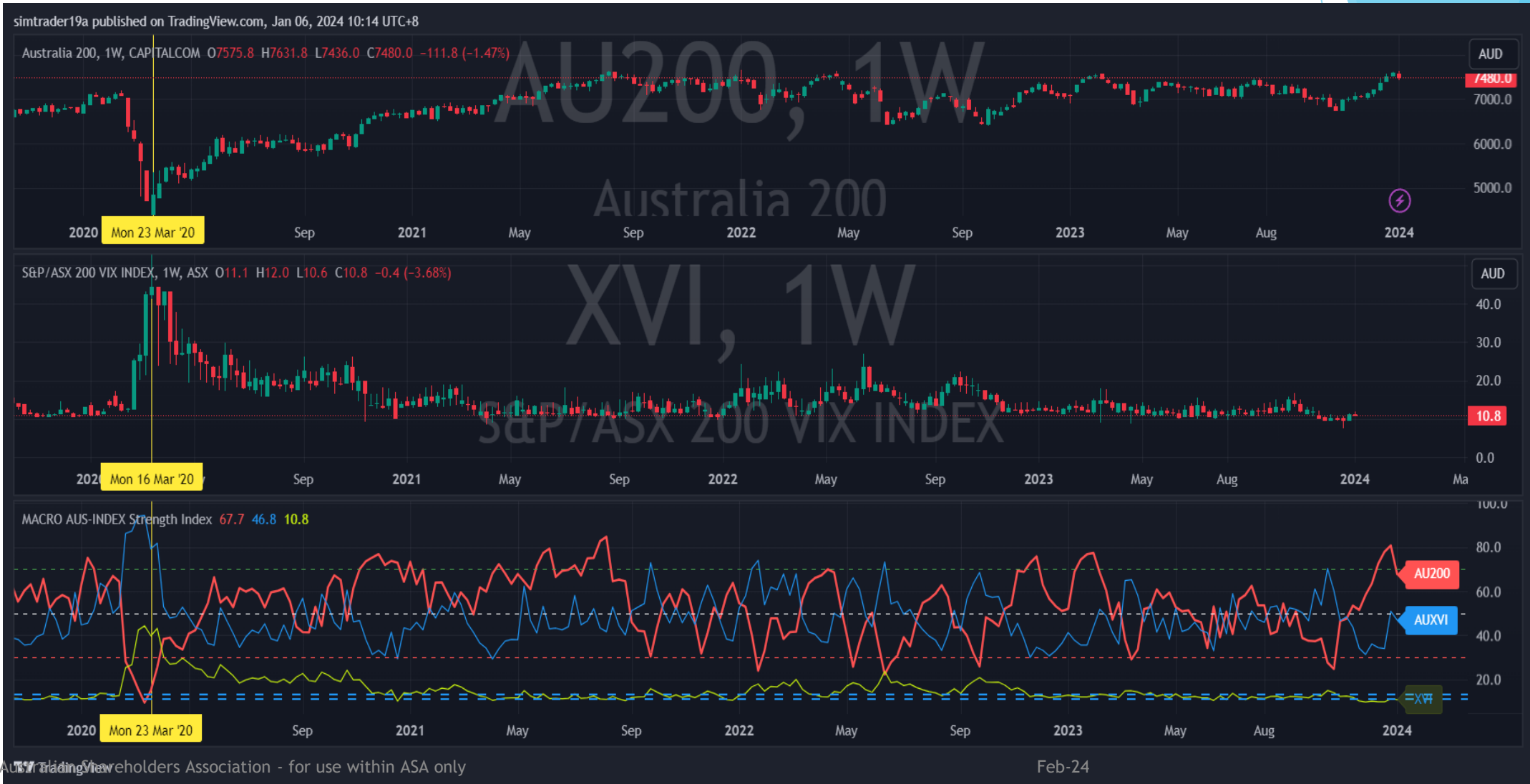
- ▶ Alignment
 - ▶ VIX Up - Index Down
 - ▶ Vix Down - Index Up
- ▶ Divergence
 - ▶ VIXUp- Index UP
 - ▶ Or
 - ▶ VIX Dn & Index Dn
- ▶ High readings (20+) are bearish and indicate uncertainty
- ▶ Normal readings (15 to 20) suggest a slight bullish bias
- ▶ Low readings (<15) are bullish and indicate low volatility

XVI- Market Index

ASX 200 VIX Chart



AU200 & XVI



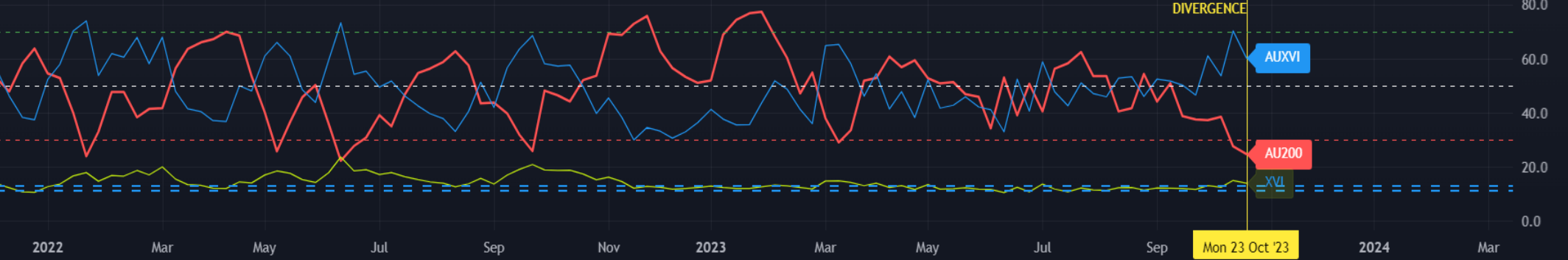
Divergence Setup

simtrader19a published on TradingView.com, Jan 06, 2024 10:18 UTC+8

Australia 200, 1W, CAPITALCOM O6847.8 H6860.8 L6791.0 C6825.0 -6.0 (-0.09%)



MACRO AUS-INDEXT Strength Index 24.7 60.3 14.0



TradingView

simtrader19a published on TradingView.com, Feb 15, 2024 09:43 UTC+8

Australia 200, 1W, CAPITALCOM O7637.8 H7655.0 L7474.0 C7599.8 -43.2 (-0.57%)



simtrader19a published on TradingView.com, Feb 15, 2024 09:43 UTC+8

S&P/ASX 200 VIX INDEX, 1W, ASX O11.3 H12.3 L11.1 C11.4 +0.0 (+0.41%)

AUD



TradingView

Cont-



Result

simtrader19a published on TradingView.com, Jan 06, 2024 10:29 UTC+8

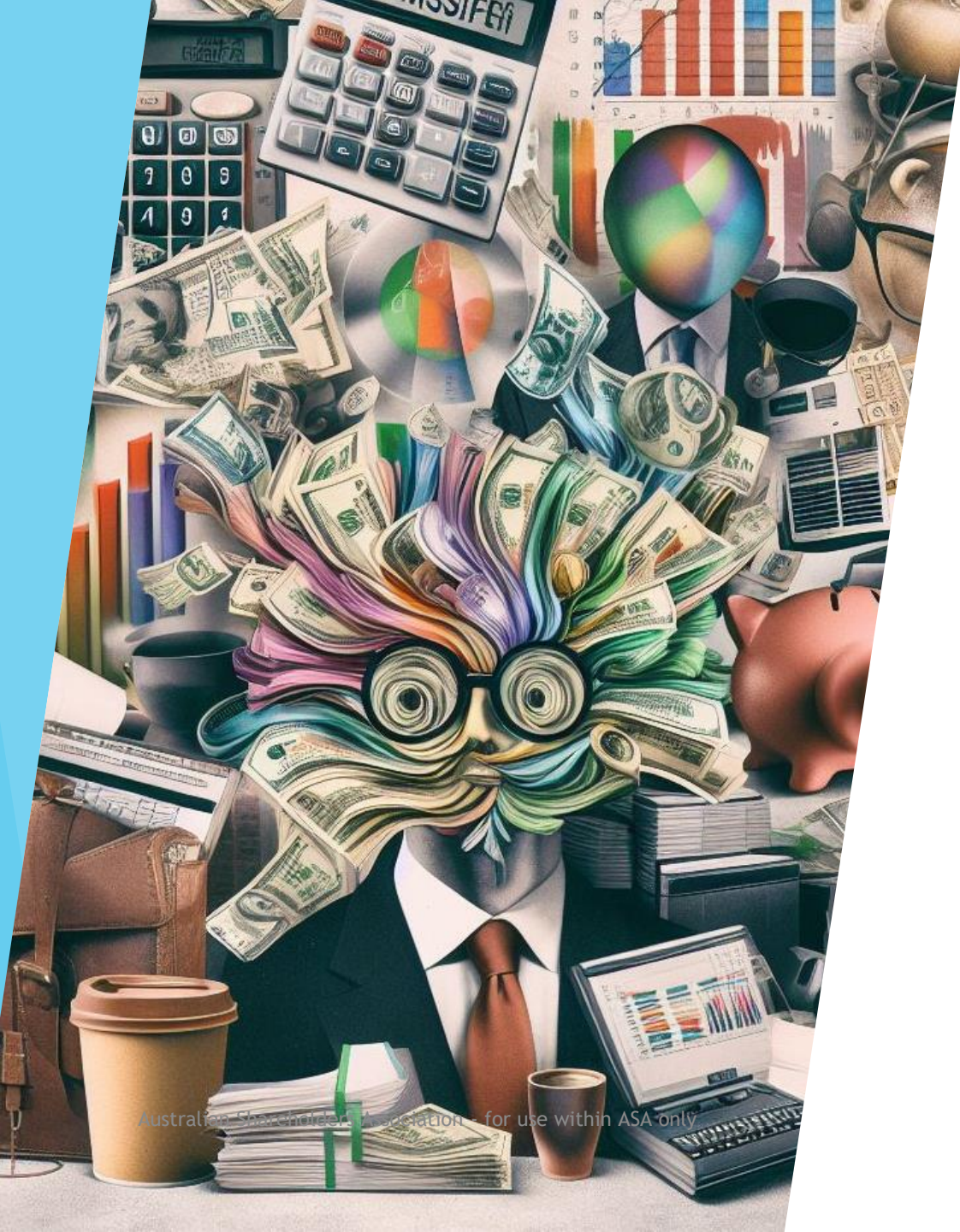




QUESTIONS

References:

- ▶ <https://www.forbes.com/advisor/au/investing/vix-volatility-index/>
- ▶ <https://www.investopedia.com/articles/optioninvestor/03/091003.asp>
- ▶ <https://www.marketindex.com.au/asx/xvi>



MINI Warrants

Mark Dixon

*Observations from
some short tests*

Warrants

- ▶ Trade like companies on ASX & CBOE - many brokers support, some do not.
- ▶ There are many types of warrant - See: <https://www.asx.com.au/documents/resources/UnderstandingWarrants.pdf>
- ▶ **Today I am talking about MINI warrants**, which leverage their underlying security (company or Index).
- ▶ Most examples I use are MINIs on indices, issued by CitiFirst part of CitiGroup Australia.
- ▶ Details of these are at <https://au.citifirst.com/minis/> which include pricing, charts, PDS, ... etc.



Example 1 – XJOKOO – ASX-200 long

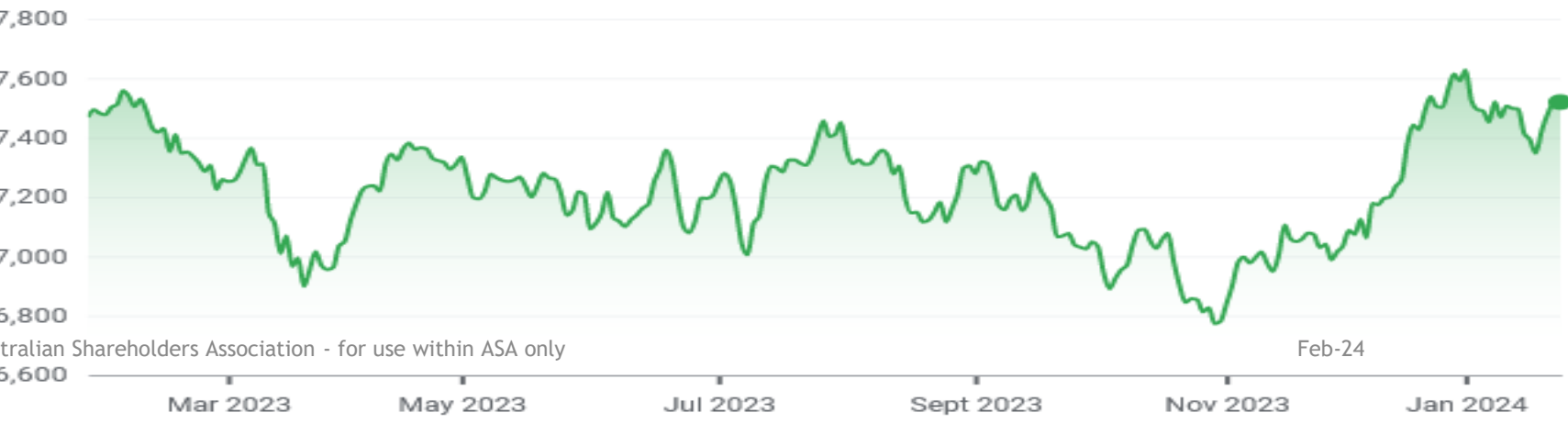
- Bought \$990 (48) Long MINIs on the ASX200
- 40 days later sold all of them
- Price had changed from \$20.64 to \$23.34 each
- Profit \$129 (\$2.70 gain per unit), i.e. 13.1% gain
- Over 40 days this is equivalent to 119% per annum
- ASX20 (XJO) only rose 4% over that period.

| XJOKOO @ CommSEC | | 48 units | Compare to XJO |
|------------------|--------|----------|----------------|
| 3-Nov-23 | bought | \$20.64 | 6,978 |
| 13-Dec-23 | sold | \$23.34 | 7,257 |
| 40 | Days | Δ | 279 |
| +119.4% p.a. | | +13.1% | 4.0% |
| Gain: | | \$129.60 | |



Feb-24

XJOKOO compared to ASX200 (XJO)



Example 2 – NDXKOO – NASDAQ-100 long

- (Warrant trading already active)
- Bought \$9,545 (180) Long MINIs on the NASDAQ-100
- 40 days later sold all of them
- Price had changed from \$53.03 to \$66.14 each
- Profit \$2,360 (\$13.11 gain per unit), i.e. 24.7% gain
- Over 40 days this is equivalent to 225% per annum
- NASDAQ 100 (NDX) only rose 6% over that period.

| NDXKOO @ CommSEC | | 180 units | NDX |
|---------------------|--------|------------|--------|
| 15-Dec-23 | bought | \$53.03 | 16,587 |
| 24-Jan-24 | sold | \$66.14 | 17,581 |
| 40 days | Δ | +\$13.11 | 994 |
| +225.6% p.a. | | +24.7% | 6.0% |
| Gain: | | \$2,359.80 | |



NDXK00 compared to NASDAQ-100 (NDX)



NDXK00 compared to NASDAQ-100 (NDX)



Example 3 – XJOKOB – ASX-200 long – a lucky punt

- Very quick + small amount, only one day in market
- Chose the MINI with the highest gearing avail – a 3.6% swing in the wrong direction would have bombed!
- Bought \$1,930 (294) Long MINIs on the ASX-200 index
- Sold all of them the following day
- Price had changed from \$6.17 to \$6.60 each
- Profit \$126.42 (\$0.43 gain per unit), a 7% gain
- Over 40 days this is equivalent to 2,544% per annum
- ASX 200 (XJO) only rose 1.2% over that period.

| XJOKOB @ CommSEC | | 294 units | XJO |
|------------------|----------|-----------|-------|
| 1-Feb-24 | bought | \$6.17 | 7,588 |
| 2-Feb-24 | sold | \$6.60 | 7,676 |
| 1 | days - Δ | \$0.43 | 88 |
| 2543.8% p.a. | | 7.0% | 1.2% |
| Gain: | | \$126.42 | |



A cautionary tale!

- ▶ **Domino's Pizza (DMP) issued a Trading Update on 24-Jan-24, which included:** “Domino's H1 preliminary NPBT is expected to be between \$87-90m. This is below H1 23 (\$104.8m), but higher than the preceding Half (H2 23, \$74.4m).”
- ▶ **DMP share price dropped from \$57 to \$39 within minutes, i.e. a drop of 32% but might recover over time.**
- ▶ **DMP long warrants went into Stop Loss, e.g. DMPKOA went from \$16.12 to \$4.81, i.e 235% loss. At Stop-Loss, a MINI cannot be traded, only cashed out for the stop-loss value.**
- ▶ **This is one reason why I personally prefer MINI's on Indices instead of on individual companies - bad news is not likely to impact an index so much so fast.**



DOMINO'S PIZZA ANZ MINI Long DMPKOA

When would be a good time to Call or Put with a MINI?

From MarketIndex, 14th Jan 2024 email – Markets followed seasonality trends to a tee last year.

- The seasonally solid month of January lived up to expectations
- The market tends to experience downward pressure in Feb and March
- Listening to the old adage of ‘Sell in May and go away’ would’ve paid off
- September is historically the worst performing month of the year and 2023 was no different
- October is often known as the bear market killer and the ASX bottomed in late October
- Markets kicked on from November and December

Don't trust seasonality data in isolation – but, it can be a useful guide.

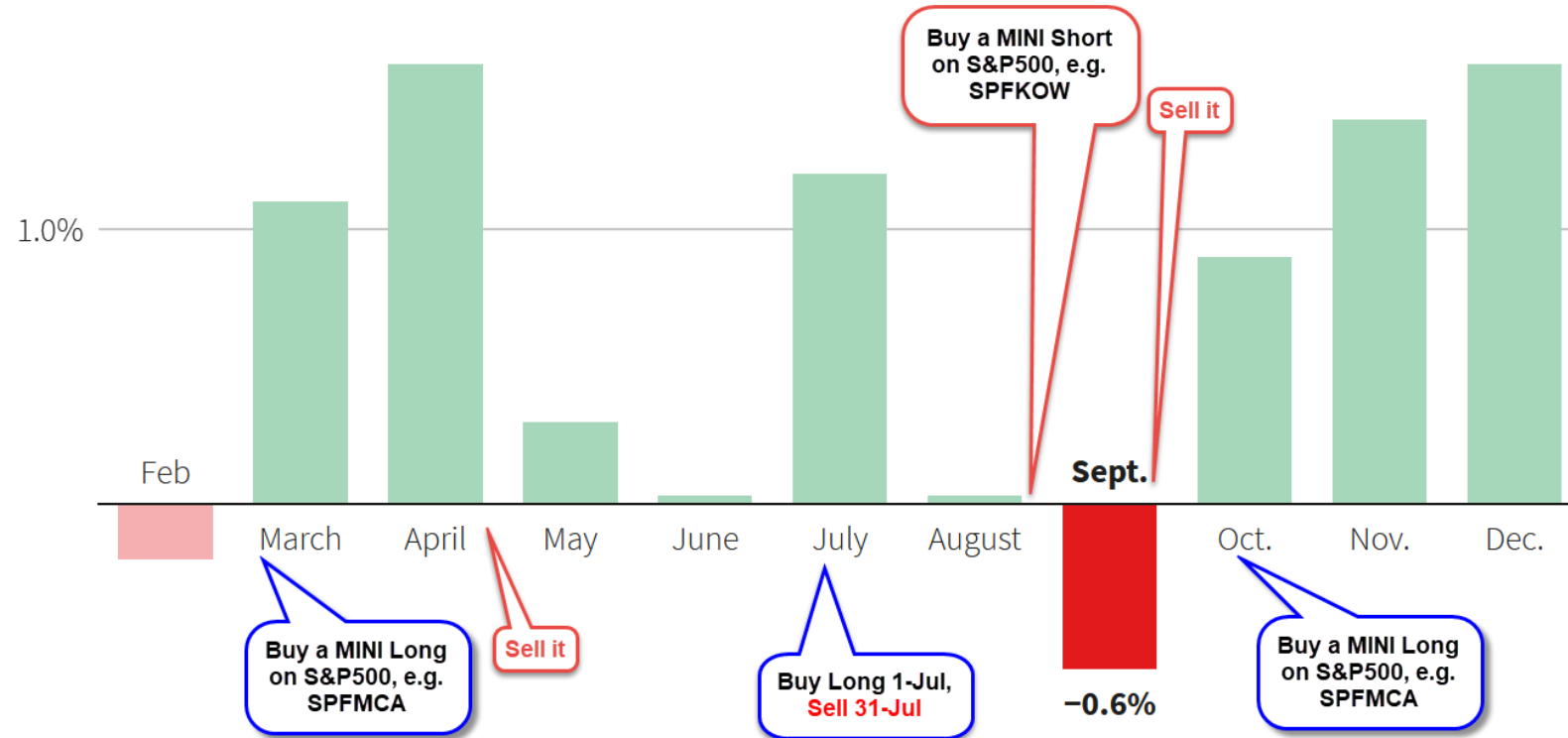


ASX 200 performance
between June 1992 and
March 2023.
– MarketIndex

How about MINIs on the S&P 500 index?

Average S&P 500 Performance by Month

The S&P 500 has fallen by an average of 0.6% in September since 1945, the worst performance of any month, according to CFRA data. Yet April, November and December are among the best-performing months of the year.



What is a MINI worth?

MINIs on ASX companies: **Long** = Share Price - Strike Price; **Short** = Strike Price - Share Price

MINIs on ASX index: **Long** = (level of *Index Futures* - Strike Price) / Multiplier

ASX Index MINI **Short** = (strike price - Level of Index Futures) / Multiplier

The multiplier for index MINIs is usually* 100 (This multiplier converts the value of the index value of the MINI into dollar terms)

Minis on an International index:

Long = (underlying [future] price - Strike price) x Multiplier

Short = (Strike Price - Underlying Price) x Multiplier

The multiplier for international index MINIs is usually* 100



Image
by
DALL-E

Where do you find MINIs?

- ▶ CitiFirst provides an active list:
<https://au.citifirst.com/minis/>
- ▶ Daily pricing sheets available by email, subscribe at:
<https://au.citifirst.com/service/citifirst-market-overview/>
- ▶ Prices are volatile, look to your broker for pricing on any specific MINI during the day.
- ▶ Product Disclosure Statements (PDS):
<https://au.citifirst.com/ProductDisclosureStatements/>

Observations

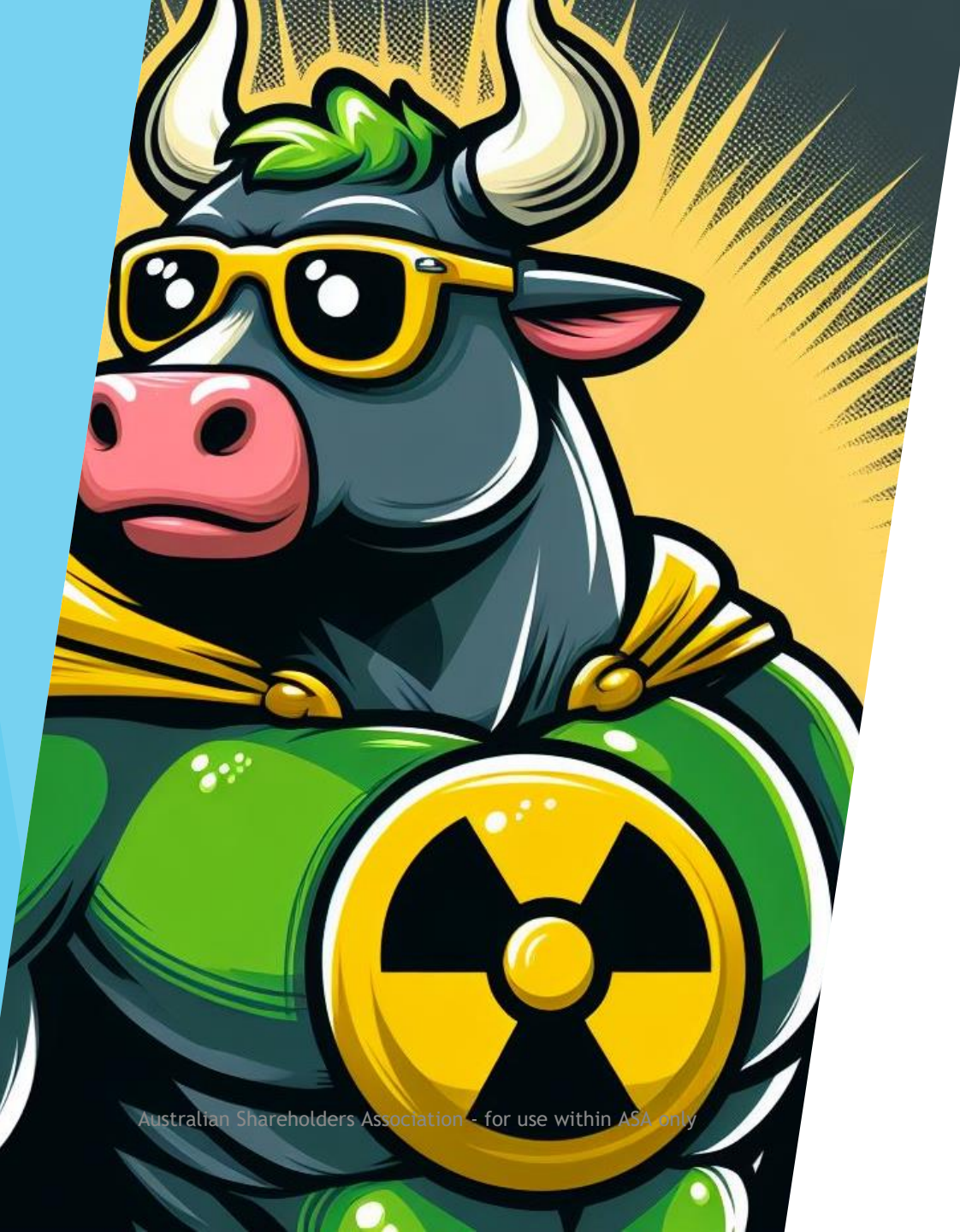
- ▶ MINI Warrants greatly exaggerate ups and downs in their underlying index
- ▶ They usually track the underlying index, but not always.
- ▶ MINI Longs go up as index goes up; MINI Shorts go up as index goes down.
- ▶ You can buy/sell MINIs on companies too, e.g. BHPKOE



More Observations

- ▶ The higher the leverage, the higher the risk, *and* the cheaper the warrant is per unit
- ▶ If you do not select Long / Short very carefully, *or perhaps with a lot of luck*, you can rapidly lose money 😱 But, they have a built-in stop-loss to moderate that
- ▶ Warrants are short-term investments – funding costs are applied to the Strike Price daily
- ▶ To trade Warrants you have to apply to your broker *and* pass a test 😱





The uranium bull market - catching the wave

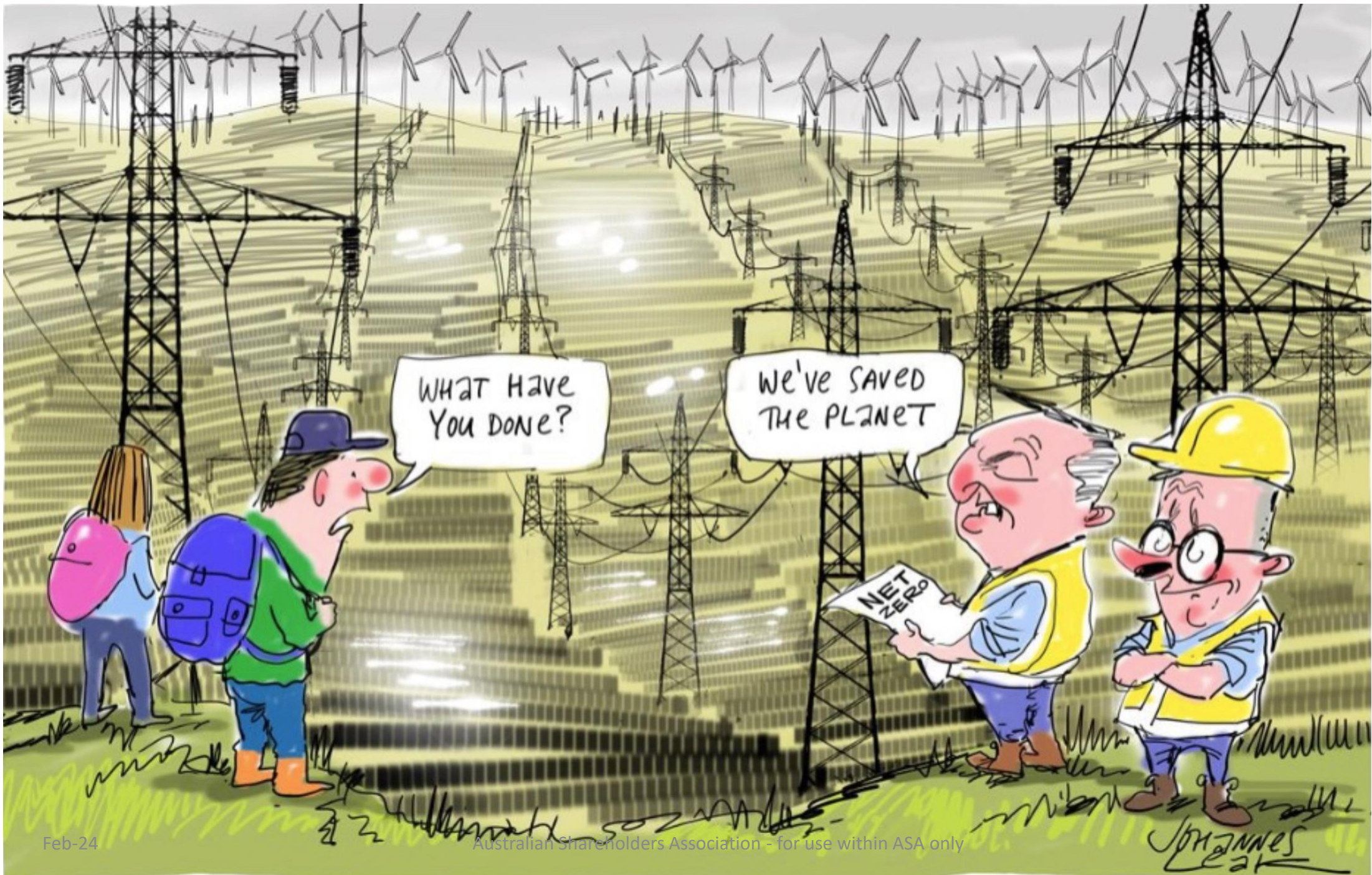
-- David Brooke

ARMAGEDDON..

The Uranium Bull Market – Catching the wave - David Brooke

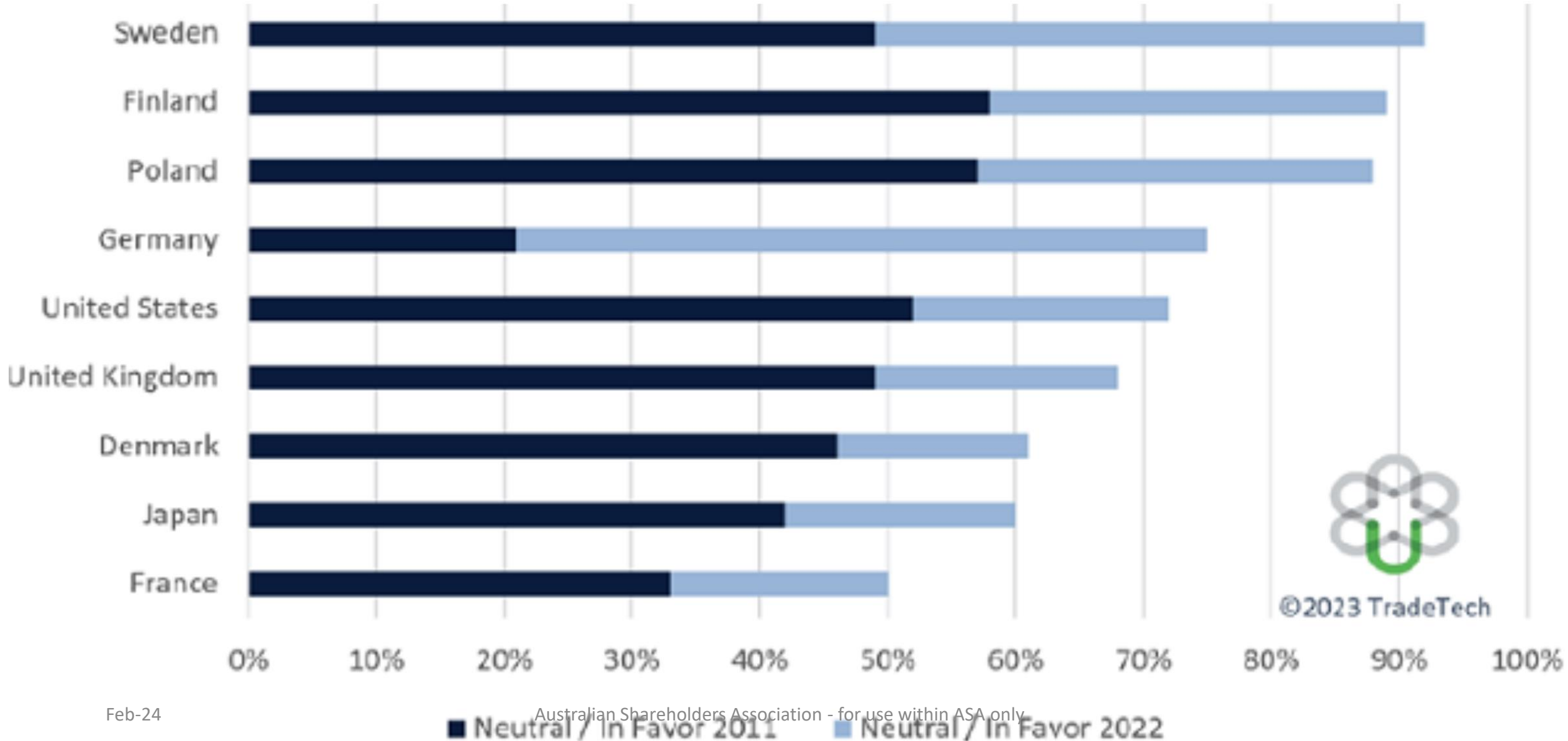


ASA Cityplace
Group Presentation
– 15th Feb 2024



JOHANNES
LEAK

Sentiment to Nuclear Power changed – this message hasn't penetrated the “dogma” of Australian politicians – the're still on “*ban the bomb*” rallies

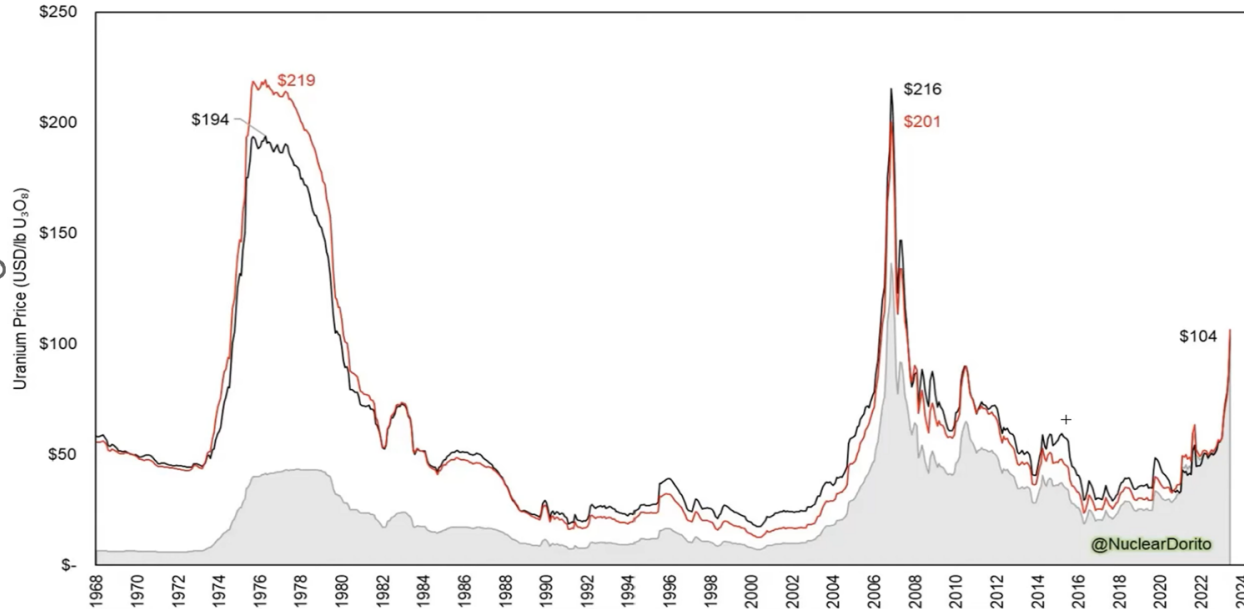


A Market with rising Demand but uncertain Supply

- Increased Global commitment for greenhouse gas emissions reduction; clean energy, net zero
- China's nuclear capacity rapidly expanding
- Japan restarting nuclear power stations
- World's increased focus on energy security as demand increases
- SMR development advancing

Inflation-Adjusted U₃O₈ Spot Price

■ Nominal Price (US\$/lb U₃O₈) — Real Price (PPI) — Real Price (CPI)



Feb-24

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...but uncertain supply

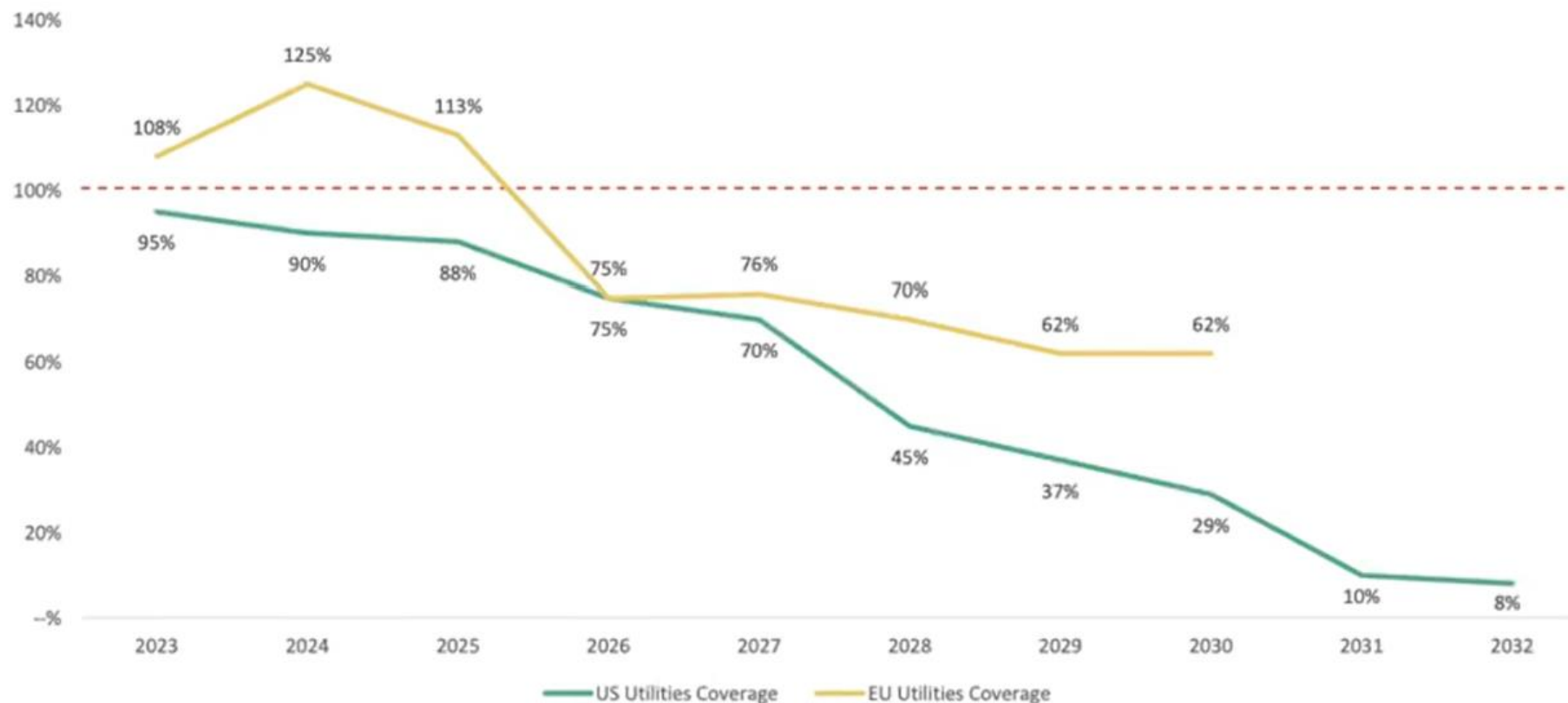
- Underinvestment in current and new capacity
- **Long lead times for new production**
- Geopolitical and trade risk
- Decreasing secondary supplies
- Competition with financial institutions
- New projects need higher prices
- **Diversification benefits African producers**

Long-term contracts are being replaced



Increased term contracting activity during 2022 was one factor leading to the spot price rise

Future contracted coverage rates of US and European utilities^(1,2)



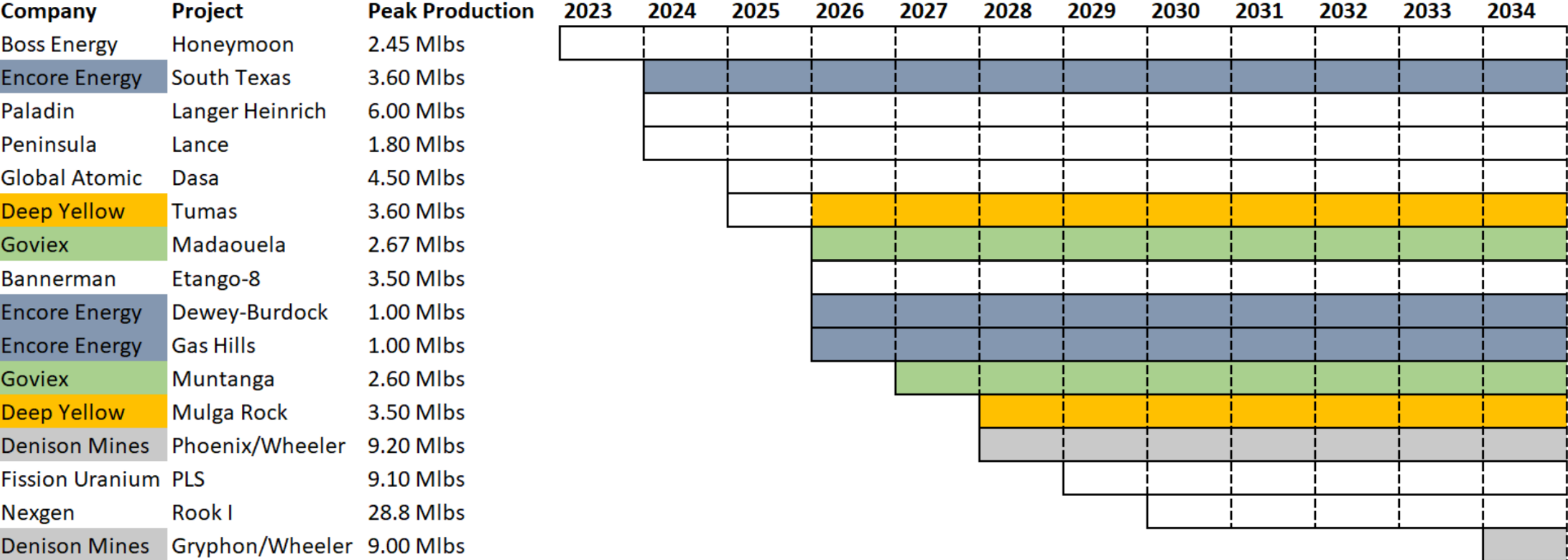
Source:

1) US Energy Information Administration: Maximum anticipated uranium market requirements of owners and operators of U.S. civilian nuclear power reactors, 2023-2032, at end of 2022 (June 2023)

2) Euratom Supply Agency Annual Report 2021 (2022)

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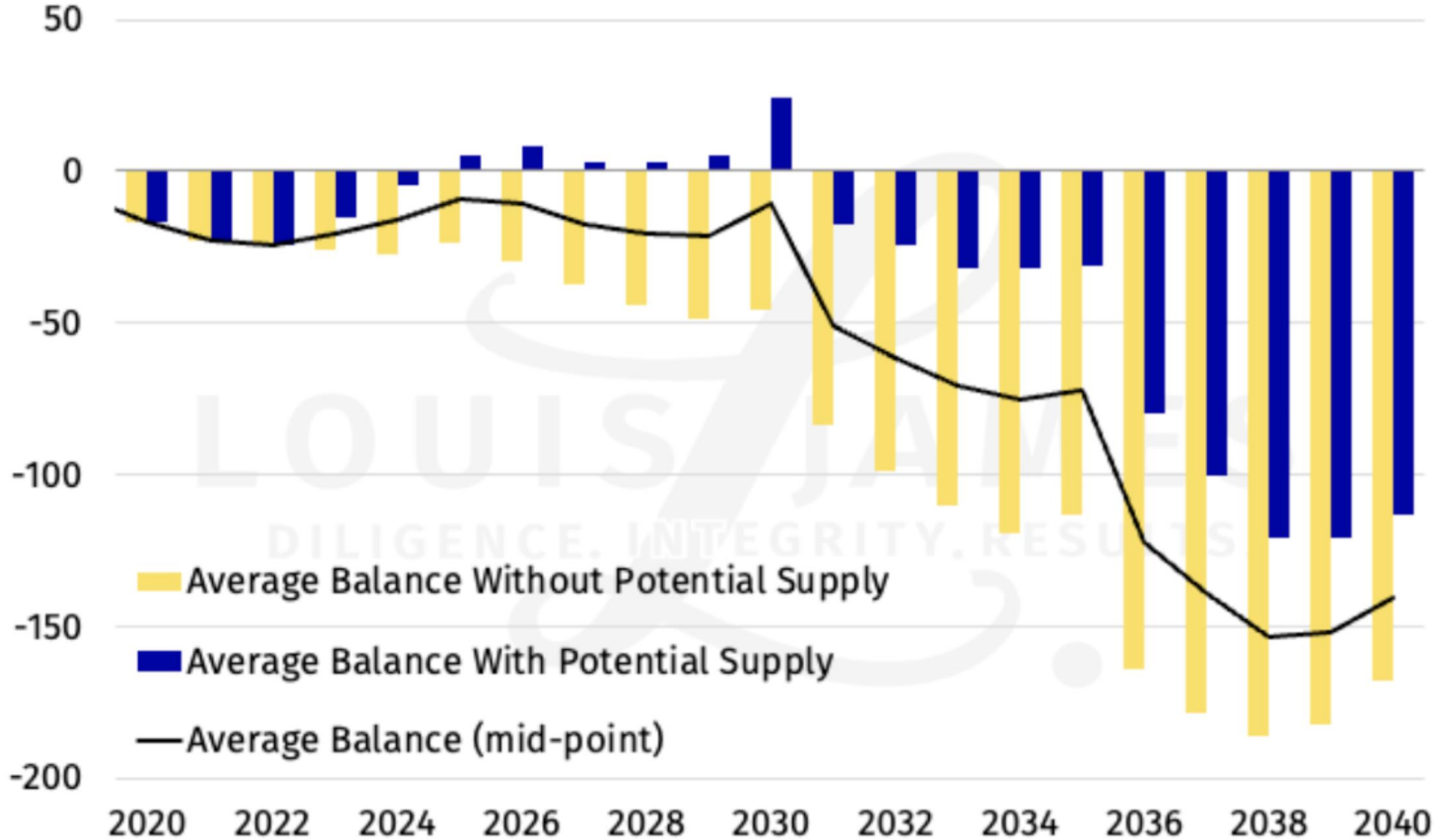
Expected Production Roadmap for Key Uranium Projects



@mineralstocks

Uranium Market Balance

U3O8, Million Pounds



SWOT (Strength, Weakness, Opportunities & Threats) Analysis

It's Term Price that matters **NOT** spot price (15% of market)

Catalysts – last 2 yrs

- Net Zero (realization that ~30% - 40% “firming” is essential - emissions free) – the nuclear renaissance
- Ukraine Invasion – loss of Russian production, Enrichment & conversion); US uranium ban likely to pass (2027)
- CY/23 world demand ~190Mlbs – re-filling inventories, reactor restarts & life extensions, about 140mlbs/yr supply
- Minimal secondary supplies (i.e tails re-enrichment, Megatons to Megawatts etc); next big mine (nexgen 29mlbs/yr – 2028/30?)

Current Threats

- Niger Coup (Orano – halts production – reagent embargo)
- Production shortfall by both Cameco (@ Cigar Lake/McArthur river) & Kazatomprom (9.3mlbs)
- Bifurcation of Kazah production (Russia & China focus) – trans Caucasian route?
- Kazatomprom produces ~34% followed by Cameco (17%) of global uranium production

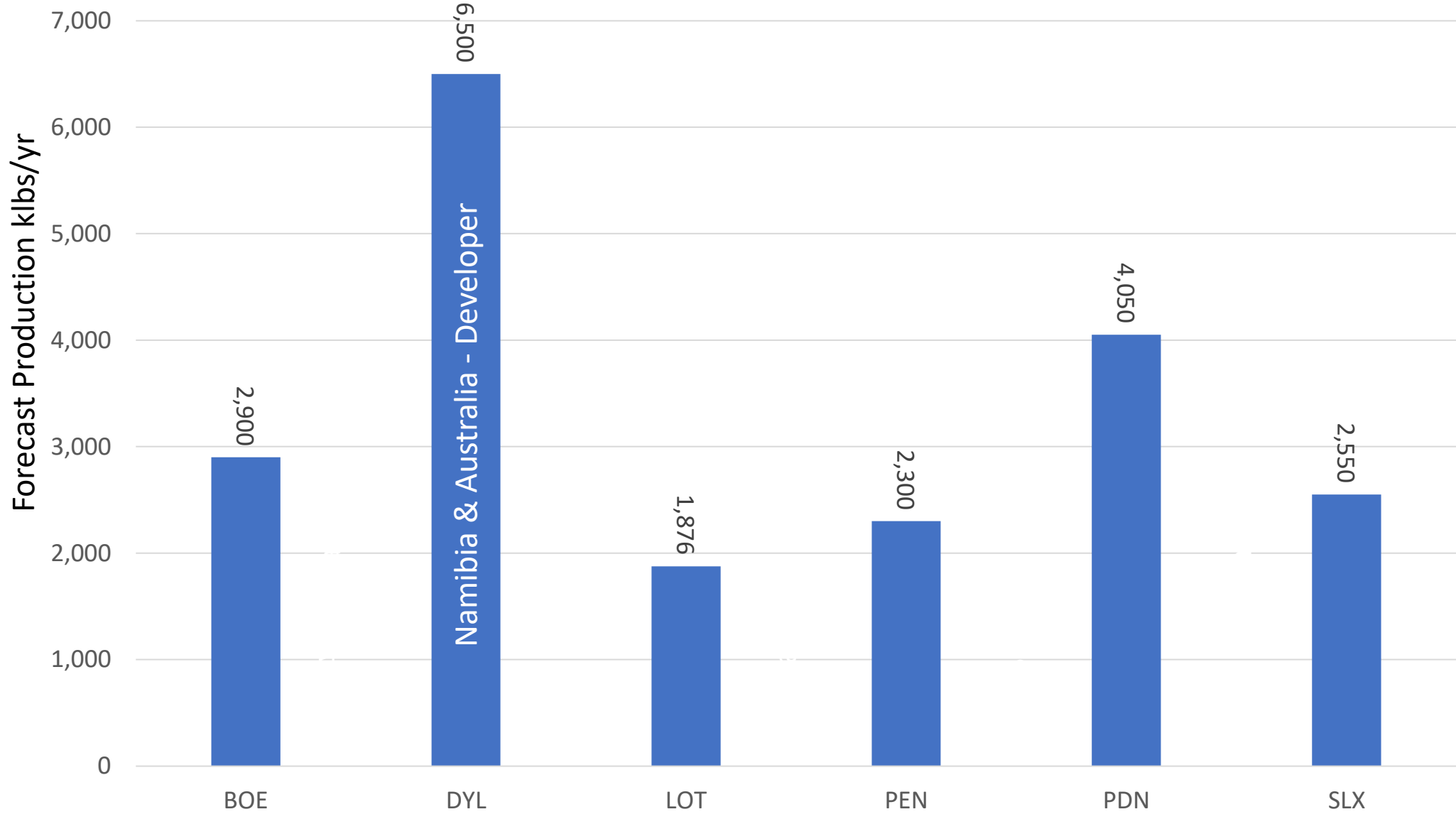
Potential Threats

- A nuclear accident/sabotage (Zaporizhzhia) would hit the market
- We become friends again with Russia – all is forgotten (e.g Trump)
- Only enough skilled teams for about 15 companies – don't back explorers?
- Kazatomprom increases prodⁿ from 44mlbs/yr (CY/23) to 68Mlbs/yr (CY/25) with “homes” – however just announced FY24 shortfall of 9.3mlbs (“sulphuric Acid”)
- Cameco (28Mlbs/yr run rate)/Orano ramp up prodⁿ – with contracts (CJJ - 18mlbs to 25Mlbs? Key lakes & CY/24 is 18Mlbs each for Cigar lakes & Mc Arthur river) tier 2's possible but now having to fill orders (at high cost) from spot market
- Sprott holds 61,845,847 pounds in their uranium trust & now has US\$68m cash+ other have much more (~US\$125m + asking for more – US\$500m) – government could order them to sell
- China has about 500mlbs in inventory – will they sell?
- Cameco or Kazatomprom decides to sell into spot market rather than term contracts (but both buying now & have Long Term contracts) – unlikely?

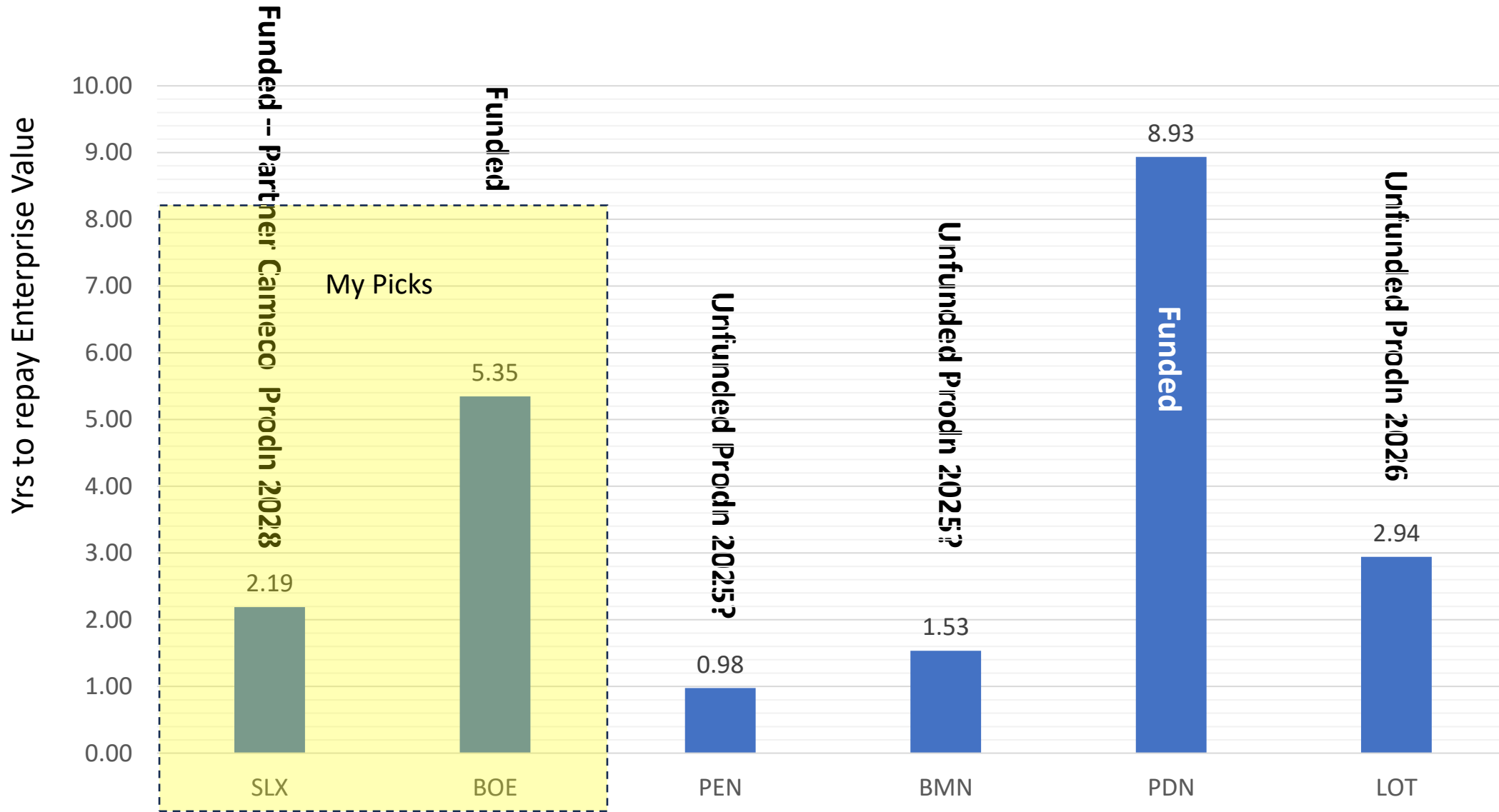
URNM ASX Chart



Production (lbs/yr)



Enterprise Value (EV) payback period (@US#104/lbs) Payback Period (Yrs)



BOE 12-month Price Chart



Feb-24

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Jul 11 '23



SLX ASX Chart



Additional Material for the group



ASX Sharemarket Game

- ▶ Registrations are now open for the new ASX sharemarket game.
 - ▶ Trading opens: 7 March. Runs till: 5 September 2024
 - ▶ ASX offers prizes
 - ▶ I have set up the “ASA Perth City Group” for those interested in participating.
 - ▶ Information on how-to at:
<http://mark-dixon.com/ASA/SharemarketGameleague.pdf>
 - ▶ Plus, I am once again offering a bottle of quality¹ wine to the winner² of our league.
-
- ▶ ¹ “quality” is at the subjective judgement of the convenor
 - ▶ ² it is possible that convenor might get the highest score, in which case he *might* share the bottle 😊



Close

- ▶ **Our next meeting:** Thursday, 21st March 2024, 10 am, Citiplace.
- ▶ **Other ASA groups:**
 - ▶ 20th Feb – Stirling Discussion Group (Tuart Hill)
 - ▶ 22nd Feb – Nedlands Group
 - ▶ 28th Feb – Busselton Discussion
 - ▶ 5th Mar – WA Members Meeting and Investors Forum

<https://www.australianshareholders.com.au/learn-connect/local-meeting-groups/>