

The Reformed SSA Trader: “Be aware of”-ideas of March

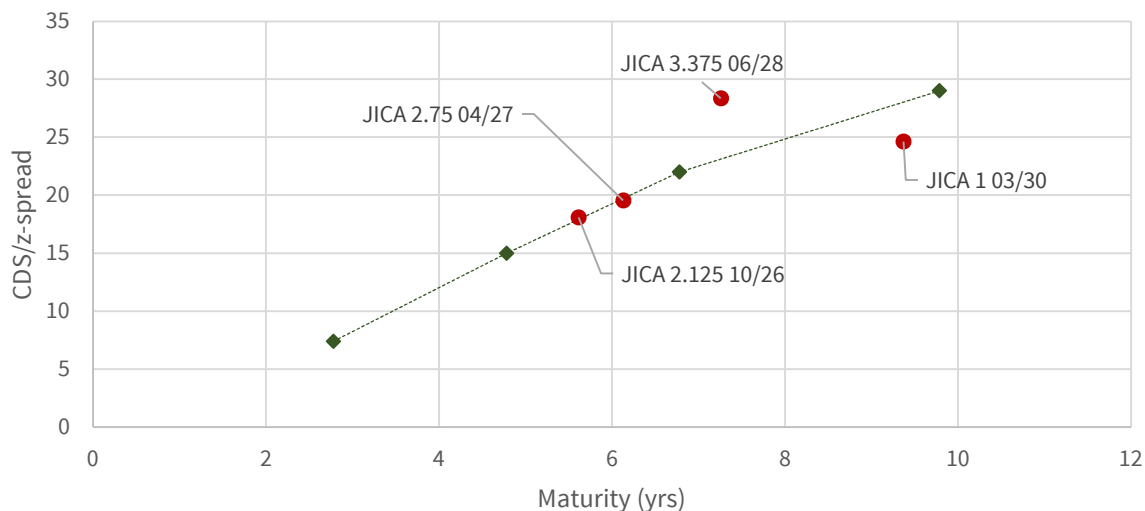
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- Add Japan International Cooperation Agency (JICA, A1/A+) to the SSA exclusion list:
 - › Sell old JICA bonds and replace risk by selling protection on Japan sovereign CDS, to reduce coal plant funding exposure at approximately zero cost.
- Retain JBIC 1.25 01/31 and JBIC 0.375 07/26 on the exclusion list and others on watch list.

We add the Japan International Cooperation Agency (JICA) to the SSA exclusion list¹ (Table 2 at the end) as the expectation is that JICA will support gigawatt-sized coal projects in Bangladesh (Matarbi) and Indonesia (Indarmayu) that – beyond being obviously non-Paris aligned – also are associated with other ecological and social issues.² As a contrast, China’s Belt and Road Initiative has recently rejected potential coal funding in Bangladesh.³

We illustrate in Figure 1 how the JICA USD bond curve trades quite close to Japan sovereign CDS in credit spread terms. As the Japan sovereign is a guarantor of JICA, it really does not make sense to expose an SSA portfolio to JICA if one can achieve the same return profile directly on the sovereign. but without being tainted by JICA on-lending of cash bond proceeds to coal.

Figure 1. JICA USD bond curve (z-spreads, bps) and Japan sovereign CDS (spreads, bps). Source: Bloomberg.



¹ Original exclusion list in “[The Reformed SSA Trader: New Year’s Exclusions](#), AFII, 6 Jan 2021. The article explains the SSA sector as well as the AFII exclusion/divestment methodology.

² Subjective on JICA coal: “[JICA funding dirty coal in Bangladesh and Indonesia](#),” No Coal Japan, Fall 2020.

³ “[China turns its back on Bangladesh BRI coal projects](#),” Financial Times, 12 mar 2021.

JICA bond curve

JICA has roughly 8.4bn USD of outstanding bonds, with 4 benchmark USD issues (Table 1).

We note that Barclays has been a frequent lead with JICA over the years and kindly ask the bank to fully inform prospective investors of the coal association with JICA, as well as consider whether JICA bonds held as part of a potential syndication mandate are aligned with banks' own coal funding policies. Please refer to "[HSBC, Barclays challenged over bond linked to Vietnamese coal project,](#)" Reuters, 24 Jan 2021.

Table 1. JICA bond curve in USD.

Bond	ISIN	Maturity	Issued	Amount USDmn	Yield	z spd	Leads
JICA 2.125 10/26	US47109LAA26	2026-10-20	2016-10-20	500	1.24	18	BARC, BAC, Daiwa
JICA 2.75 04/27	US47109LAB09	2027-04-27	2017-04-27	500	1.32	20	BNP, ML/BAC, Mizuho
JICA 3.375 06/28	US47109LAC81	2028-06-12	2018-06-12	500	1.61	28	BARC, Citi, Daiwa, HSBC
JICA 1 03/30	US47109LAD64	2030-07-22	2020-07-22	500	1.85	25	BARC, Citi, JPM, Nomura

Please reach out to the AFII team for further discussions on replacing coal bonds with CDS in less coal exposed but related issuers. This is especially interesting in the case of government guarantees, as is the case for JBIC and JICA.

JBIC update

Japan Bank of International Co-operation (JBIC) recently announced an exit from coal funding ("[JBIC backs away from funding coal-fired plants,](#)" NHK World-Japan, 3 Mar 2021). We take this positively with some caveats: similar statements have been given before ("[JBIC muddies comments from chief on ending coal finance](#)", Reuters, 1 May 2020), and JBIC it made it clear that that the Vung Ang II expansion in Vietnam would proceed. With the latter in mind, and noting that Vung Ang II financing was announced on 29 Dec, it makes it extremely probable that the recent bonds JBIC \$1.25% 01/31 (US471048CL00) and JBIC £0.375 07/26 (XS2293888512) at least partially will be contributing proceed to funding for Vung Ang II. Consequently, we retain those two JBIC bonds on the exclusion list and will reevaluate the issuer in time for next bond issuances – potentially splitting between old and new bonds.

Table 2. AFII Reformed SSA Trader climate exclusion list as of March 12, 2021. (*) indicates a subset of bonds, as discussed in the text). The issuers/bonds on the list are assigned ECOBAR scores⁴ of 9, and scores of 1 for short positions.

Issuer	Ticker	Sample ISIN	Rating	EUR/USD outstanding	Reason	References
Government of Queensland (AUS)	QTC	QTC A\$1.25% 03/31 AU3SG0002371	AA+	USD0.8bn	Coal infrastructure greenwashing.	Dalrymple of Queensland and the Mighty Greenwash and Reef Credits
Province of Alberta (CAN)	ALTA	ALTA €0.5% 04/25 XS2156776309	AA-	USD20.5bn	Oil sand financing	The ECB and Alberta's oil production tax holiday.
Export Development of Canada	EDC	EDC \$1.375 10/21 US30216BGK26	AAA	USD20.8bn	Oil sand financing, (greenwashing).	The Reformed SSA Trader: New Year's Exclusions
Japan Bank for Int. Cooperation (*)	JBIC	JBIC \$1.25% 01/31 US471048CL00	A+	USD4.6bn	Coal plant financing.	The Reformed SSA Trader: New Year's Exclusions , this note.
Japan International Cooperation Agency	JICA	JICA \$2.215 10/26 US47109LAA26	A+	USD2bn	Coal plan financing.	This note.
Export-Import Bank of Korea	EIBKOR	EIBKOR €0.829 04/25 XS2158820477	AA	USD34.3bn	Coal plant financing, greenwashing.	The Reformed SSA Trader: New Year's Exclusions

⁴ ECOBAR is a trading focused carbon risk model, see "[Credit alpha and CO2 reduction: A portfolio manager approach](#)", 19 Jun 2017, SSRN working paper, and "[Low carbon credit performance: A 2020Q3 update](#)", 13 Oct 2020, Anthropocene Fixed Income Institute.

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