

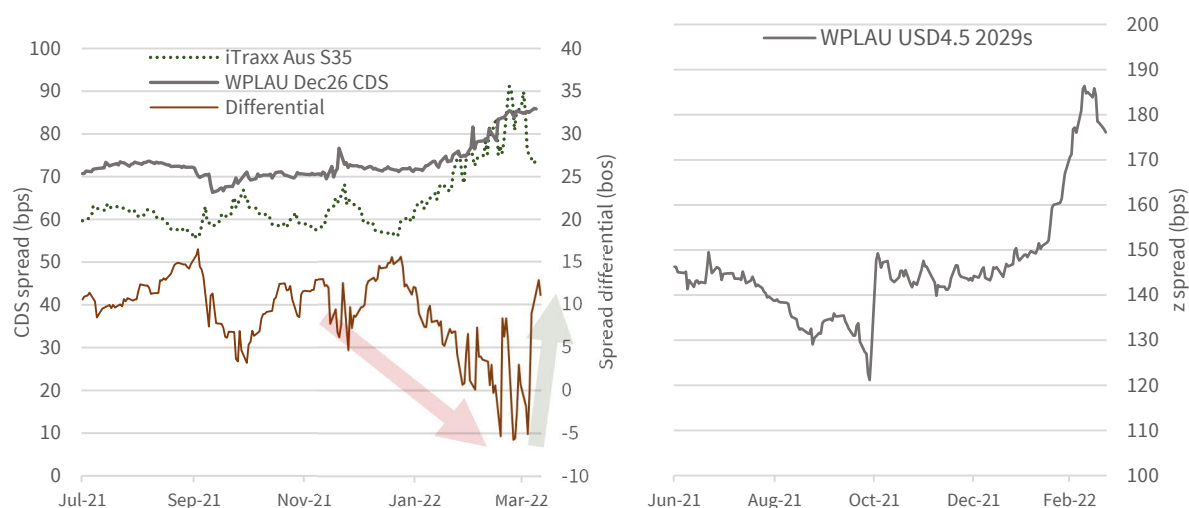
Woodside/CSIRO and general Australia climate fixed income comments

Ulf Erlandsson (*)

In August of last year, we suggested¹ that investors take a look at the relative spread of Woodside Petroleum vs the iTraxx Australia index, as we perceived that WPLAU had underperformed in equities but remained relatively flat in credit. This equity-credit dislocation has corrected since then, but with WPLAU equity outperforming (see Figure 2 overleaf) in 2022Q1 rather than credit underperforming. In terms of relative credit spreads, the differential between WPLAU and the index (red line in Figure 1) was rangebound through most of last year but compressed heavily in 22Q1 in line with WPLAU stocks rallying. Conversely, the long (risk) iTraxx vs short WPLAU combination underperformed.

However, there has been a quite recent reversal of this dynamic (green arrow in Figure 1), hypothetically based on investor concerns that Woodside has appeared to have reduced the significance of government reports claiming gas field expansions are not climate positive. For recent developments on this story, see “[Really worrying: \\$65 trillion climate group to probe Woodside’s CSIRO report](#)”, The Sydney Morning Herald, 23 Mar 2022. Note that WPLAU cash bonds have generally been widening (right panel of Figure 1).

Figure 1. (Left) WPLAU CDS Dec26 contract vs iTraxx Australia S35 CDS index. (Right) z-spread of WPLAU 4.5 2029 USD, USQ98229AN94, cash bonds. Source: AFII, Bloomberg.



¹ “[Woodside Petroleum vs iTraxx Australia](#)”, AFII, 18 Aug 2021.

In other climate exposure related Australia news, we note the UN secretary general’s recent statements on Australia,² as well as the statement by senior defense figures in the country, that “climate change is the greatest threat to the country’s future and security.”³ To us, this further illustrates that investors should keep a close eye on Australia exposures, not least from a risk mitigation perspective.

Further to this news, the Export Import Bank of Korea (KEXIM), appears to be close to approving a batch of USD300mn of funding/capital subsidies for the Barossa gas field in Australia.⁴ Gas from the Barossa gas field has twice the carbon intensity of other Australian gas, and current carbon-capture projections are highly dubious.⁵ As we have been following KEXIM as an exclusion candidate in the SSA sector⁶ due to the issuer’s funding of the Vung Ang II coal plant in Vietnam, we reiterate the view that bond investments in KEXIM fund investments that do not align with recent IEA policy suggestions.⁷

Figure 2. WPL AU equity vs ASX200 index. Underperformance of WPL until 2021Q3 and a fast reversal in 2022Q1. Source: Bloomberg.



² [”Stupid investment’: UN chief slams coal and Australia in extraordinary climate speech”](#), RenewEconomy, 22 Mar 2022.

³ [”Climate ’greatest threat’ to Australia’s security, defence figures warn”](#), The Straits Times, 23 Mar 2022.

⁴ [Tweet](#) by IEEFA Asia Pacific, 23 Mar 2022. A further detailing of export subsidies on behalf of Korea for the Barossa, and legal actions seeking an injunction to that is available in [”NT traditional owners take legal action over Santos’s Barossa gas project north of Darwin”](#), ABC News, 23 Mar 2022.

⁵ See [”How To Save the Barossa Project From Itself”](#), IEEFA, Oct 2021.

⁶ See [”The Reformed SSA Trader: “Be aware of”-ideas of March”](#), AFII, 12 Mar 2021.

⁷ [”Net zero by 2050”](#), International Energy Agency, May 2021.

IMPORTANT DISCLAIMER:

This report is for information and educational purposes only. The Anthropocene Fixed Income Institute ('AFII') does not provide tax, legal, investment or accounting advice. This report is not intended to provide, and should not be relied on for, tax, legal, investment or accounting advice. Nothing in this report is intended as investment advice, as an offer or solicitation of an offer to buy or sell, or as a recommendation, endorsement, or sponsorship of any security, company, or fund. AFII is not responsible for any investment decision made by you. You are responsible for your own investment research and investment decisions. This report is not meant as a general guide to investing, nor as a source of any specific investment recommendation. Unless attributed to others, any opinions expressed are our current opinions only. Certain information presented may have been provided by third parties. AFII believes that such third-party information is reliable, and has checked public records to verify it wherever possible, but does not guarantee its accuracy, timeliness or completeness; and it is subject to change without notice.

The Anthropocene Fixed Income Institute is a non-profit organization “to monitor, advocate for and influence the impact of the fixed income and bond markets in the age of human induced climate change.” For more information about the Institute, please visit www.anthropocenefii.org or follow us using the hashtag #anthropocenefii.

