

# Bond investors and new Queensland thermal coal mines

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“A mothballed thermal coalmine on some of Australia’s richest agricultural soil is preparing to revive operations after taking a major step towards gaining final government approval. Queensland’s resources minister, Scott Stewart, announced the expansion of New Acland in a two-line release issued Friday afternoon, saying he was approving New Hope Group’s mining leases for stage three of the open cut mine ‘after careful consideration’.”

[The Guardian](#), 26 Aug 2022.

Queensland’s (QLD) recent actions on reopening coal mines matter: as illustrated in Figure 2, QLD-based Galilee (11.4bn tonnes EDR) and Bowen (26.9bn tonnes EDR) basins have economically recoverable coal which – if incinerated - is equivalent to around 25% of the remaining global carbon budget to contain global warming to 1.5C.<sup>1</sup> With the news that the Queensland government has opted to take a thermal coal mine out of mothballed status as well as other projects (see ‘Further reading’), we review the investor base in Queensland’s bonds. Key take-aways are:

- Queensland Treasury Corporation (QTC) bonds trade flat or even expensive to the AUD state curves and green-labelled QTCs are trading inside the grey curve (Figure 1).
- A relatively small share of QTC green-labelled bonds is owned by ESG investors: a possible interpretation is that the market does not consider them green (Table 2).
- Dimensional Fund Advisor has a very substantial overweight in QTC bonds (Table 1), which should be a signaling tool for purposes of appeasing the Texas comptroller. The concentration in coal-intensive QLD bonds among Australian state bond is surprising giving a high focus on systematic, highly diversified strategies at the manager.
- RBA carries a notional overweight which could seem inconsistent with recent statements on “[Climate Change Risk in the Financial System](#)” (Table 1).
- The Norwegian sovereign wealth fund (NBIM) is also notional overweight in QTC bonds and should, we opine, ‘carefully consider’ the position (Table 1, data as of YE21).

Table 1. Holdings of Australian state bonds, QTC notional overweights highlighted. Source: Bloomberg, NBIM, AFII.

Long name	Australian state			Dimensional		RBA		NBIM	
	Ticker	Coal EDR	Bonds AUDbn	AUDmn	Share	AUDmn	Share	AUDmn	Share
Western Australia	WATC	1%	45	65	0.1%	7764	17.2%	258	0.6%
Queensland	QTC	64%	105	2706	2.6%	19102	18.2%	945	0.9%
New South Wales	NSWTC	33%	107	662	0.6%	16599	15.5%	375	0.3%
Victoria	TCV	0%	106	649	0.6%	15162	14.3%	833	0.8%
Southern Australia	SAFA	1%	30	139	0.5%	4912	16.4%	364	1.2%
Northern Territory	NTTC	0%	8	0	0.0%	1370	17.3%	129	1.6%
Tasmania	TASCOR	1%	6	0	0.0%	913	15.2%	104	1.7%

<sup>1</sup> Back-of-the envelope calculation: contact the author for more detail. 66% probability assumed.

Figure 1. State bonds quoted in spread over government benchmark curve. Note that the QTC "green" bonds trade inside or flat to the general QTC curve, and in turn the long-end QTC bonds trade expensive to the general state curve. Source: Bloomberg, QTC, AFII.

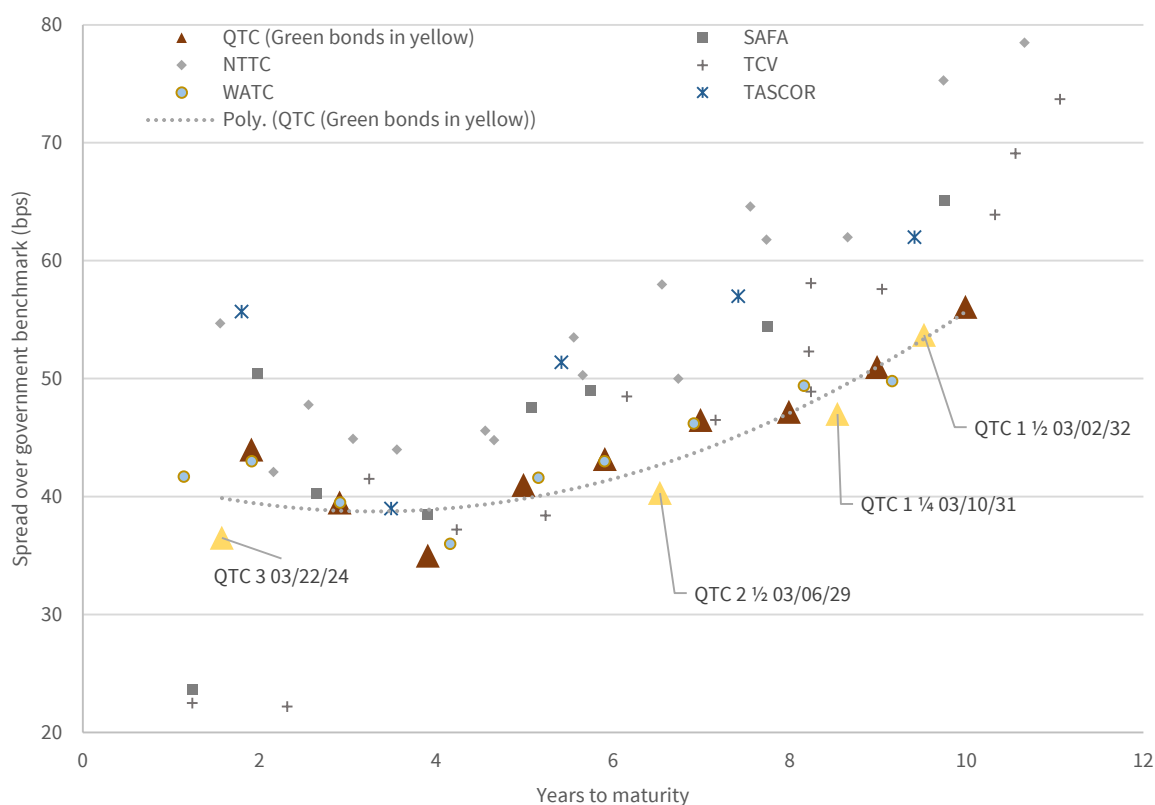


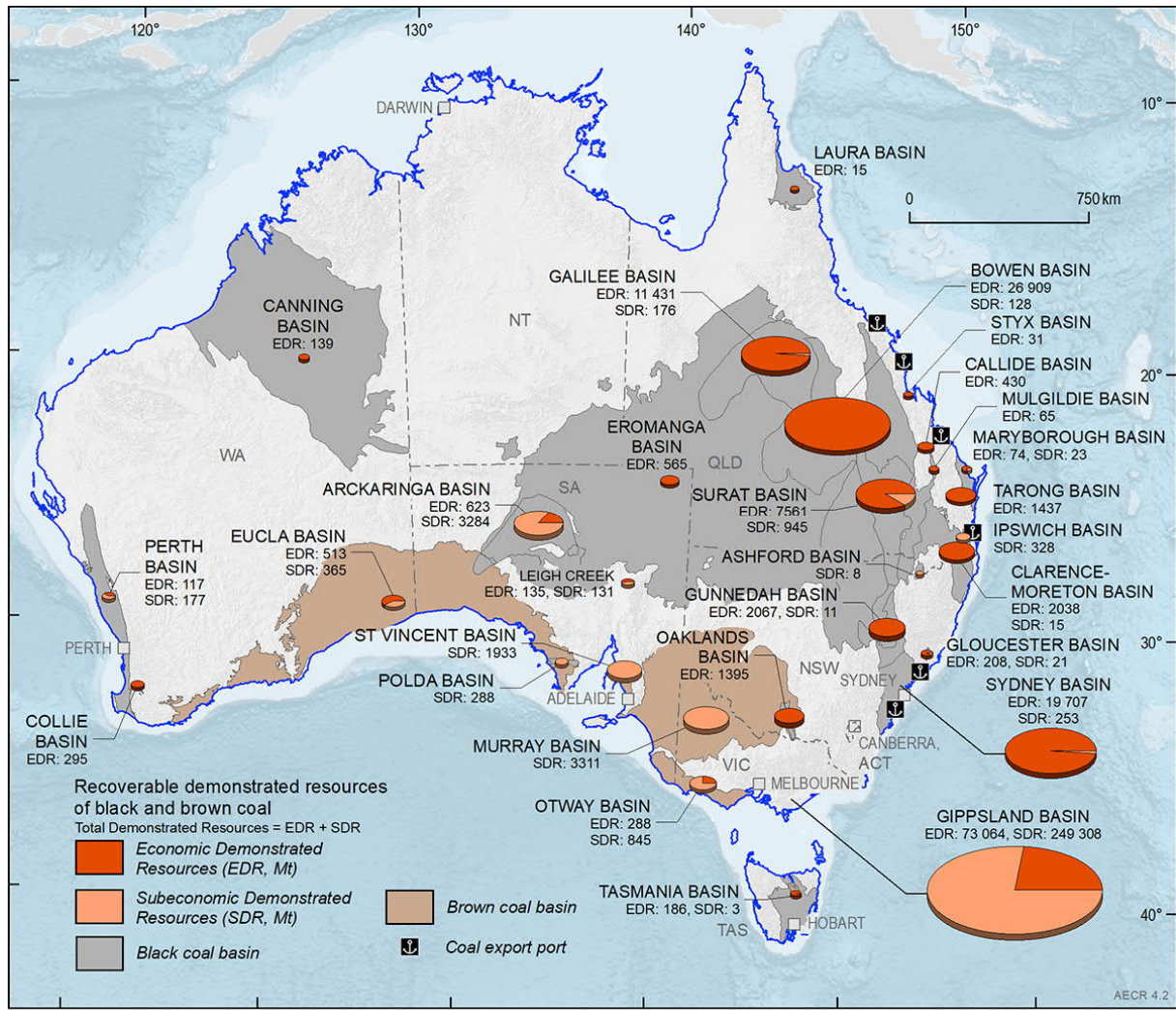
Table 2. QTC green bonds and aggregate ownership. "Total coverage" refers to the amount of ownership that data is accessible for, relative to total bond issue size. "ESG share" calculates out of that ownership how much is ascribed to funds that carry non-pecuniary/ESG type of wordings in their fund name. Calculations are made including/excluding RBA from the total ownership base. For example, in the QTC 1.5 03/32 bonds, out of the investors owning the bond only 2.3% are dedicated to ESG when including RBA in the total calculation, and 11.4% when excluding RBA. Source: Bloomberg, AFII.

Bond	ISIN	Size AUDmn	Date of issuance	Total coverage	ESG share inc RBA	ESG share ex RBA
QTC 3 03/24	AU000XQLQAD1	750	Mar-17	7.6%	14.9%	14.9%
QTC 2.5 03/29	AU3SG0001928	1,730	Feb-19	20.9%	5.9%	29.3%
QTC 1.25 03/31	AU3SG0002371	1,500	Nov-20	28.2%	7.3%	42.4%
QTC 1.5 03/32	AU3SG0002561	3,000	Sep-21	13.9%	2.3%	11.4%
<i>Size-weighted average</i>		1,745		18.0%	5.6%	22.9%

**Further reading:**

- “BHP asks to mine Queensland coal for 90 years”, Australian Financial Review, 11 Aug 2022.
- “Valeria Project”, Queensland Government web-site, accessed 27 Aug 2022; “Valeria Coal Project”, Glencore Australia web-site, accessed 27 Aug 2022.
- “Methane Emissions from Superemitting Coal Mines in Australia Quantified Using TROPOMI Satellite Observations”, Sadavarte et al., Environ. Sci. Technol. 2021, 55, 24, 16573–16580.
- “The Reformed SSA Trader: New Year’s Exclusions”, Anthropocene Fixed Income Institute, 6 Jan 2021.
- “Reef Credits: An Indulgence”, Anthropocene Fixed Income Institute, 22 Oct 2020.

Figure 2. Coal reserves in Australia. Numbers reflect million tonnes. For example: "The Galilee Basin: EDR 11,431; SDR: 176" (orange colour) means that there is 11.4 billion tonnes of "economic demonstrated" hard coal, equivalent to around 35 billion tonnes of CO2 emissions, if used as thermal. We advise against using the colored terminology on coal, and rather refer to hard and wet coal. Source: [Geoscience Australia](http://www.geoscience.gov.au), Australian Government.



Source: Geoscience Australia.

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