

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	1.85%
182-Day	2.50%
364-Day	3.84%

Amount:

91-Day	NGN49.84bn
182-Day	NGN10.62bn
364-Day	NGN71.07bn

SUMMARY OF CURRENT AUCTION

Auction Date 13th May 2020

Settlement Date 14th May 2020

Auction Size

91-Day	NGN4.38bn
182-Day	NGN12.92bn
364-Day	NGN16.54bn

Maturing Instruments

91-Day	NGN4.38bn
182-Day	NGN12.92bn
364-Day	NGN16.54bn

Meristem Advised Stop Rates

91-Day	1.50% - 2.00%
182-Day	2.10% - 2.50%
364-Day	3.30% - 3.70%

Treasury Bills Auction Scheduled for 14th May 2020

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 14th of May 2020. Existing T-Bills worth NGN33.84bn will mature, and an equal amount will be issued in the 91-day, 182-day, and 364-day instruments. The CBN is expected to auction NGN4.38bn, NGN12.92bn and NGN16.54bn in the 91-day, 182-day, and 364-day instruments, respectively.

Outlook on Yields

Since the last Treasury Bills auction, bearish sentiments have permeated the secondary market for T-Bills with an advancement in average yields by 13bps to 2.55%. Yields across the **1M**, **3M**, **9M** and **12M** instruments inched up by 0.09%, 0.16%, 0.26% and 0.14% respectively, apart from the **6M** bill which remained flat.

Stop rates at the last T-Bills auction also declined further with the 91-days, 182-days and 364-days stop rates pegged at 1.85%, 2.50% and 3.84% respectively. Investors' participation nonetheless remained strong with respective bid to cover ratios of 1.84x, 2.61x and 2.10x for the 91-day, 182-day, and 364-day instruments.

In the global space, major countries around the world have commenced a gradual easing of the COVID-19 induced lockdowns with the re-opening of some business segments, while treading cautiously on the path back to normality. In the same vein, the Federal Government of Nigeria on the 4th of May 2020, lifted the lockdown which spanned for a month across key states, attaching some conditionalities to the new policy. Resultantly, there has been a pick-up in economic activities.

Given the influx of OMO maturities in recent times, with another worth NGN296.95bn set to mature this week, the 14th of May 2020, we envisage excess liquidity in the system. Hence, we expect demand for instruments at the upcoming auction to remain strong.

Advised Stop Rates

Based on the above expectations, we advise the following rates for this auction.

Tenor	Offer Size	Advised Rates
91-Day	NGN4.38bn	1.50% - 2.00%
182-Day	NGN12.92bn	2.10% - 2.50%
364-Day	NGN16.54bn	3.30% - 3.70%

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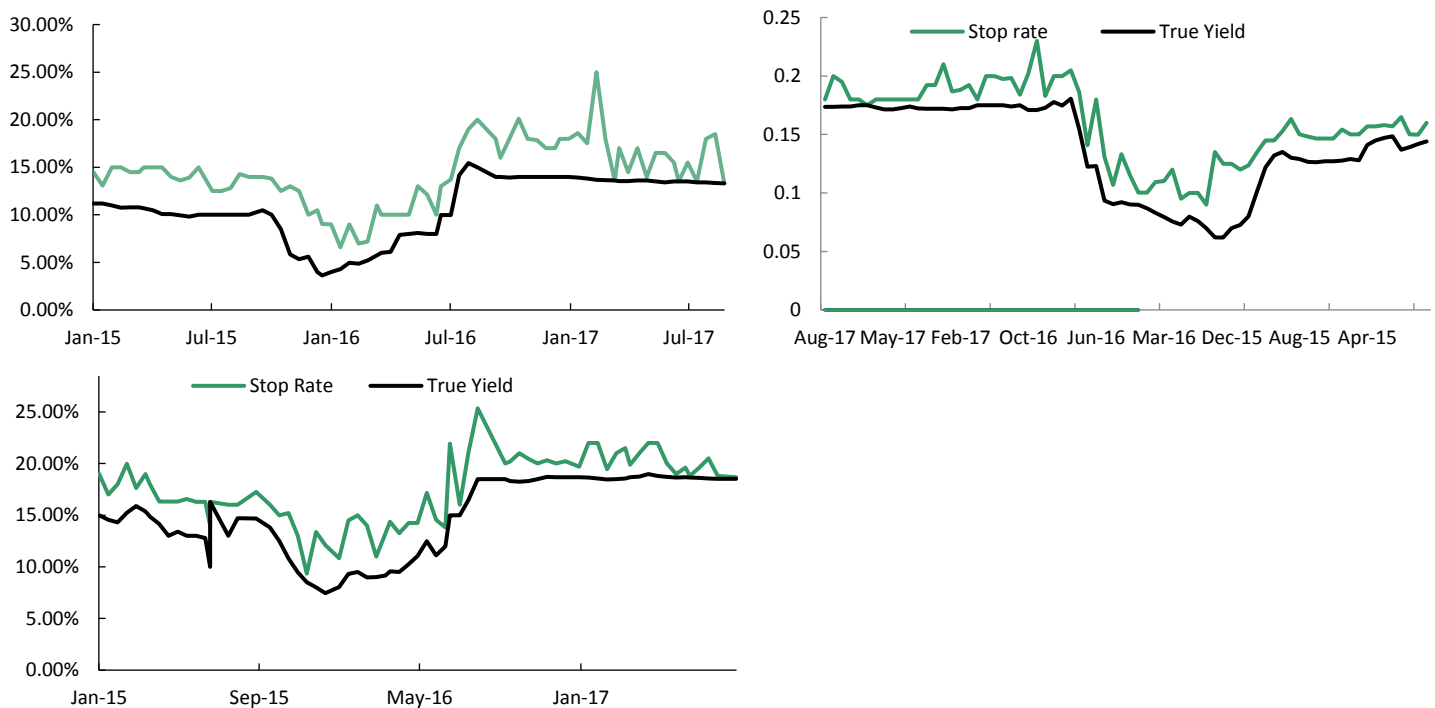
Investing through Meristem Wealth Management Limited

Meristem Wealth Management Limited charges a transaction fee of 0.25% of the principal amount invested, and there will be three (3) days prior notification before maturity for all Treasury Bills investments. *The income from investing in T-Bills is tax-free, so interest received is not subject to withholding tax and you will receive an immediate Investment confirmation letter for the Treasury bills. Also, note that the T-Bills certificates can be used as collateral for securing loans.*

Participation Process

The T-bills Primary Auction bid holds twice in a month (i.e. every other Wednesday). The above likely stop rates are our estimates and might not necessarily hold true, as the final decision always lies with the CBN based on the auction process.

Recent Stop Rates on Past Auctions for 91-Day, 182-Day and 364-Day Instruments



Source: CBN, FMDQ, Bloomberg, Meristem Research

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About Treasury Bills

Treasury Bills (T-bills) are marketable money market securities that serve the purpose of raising money for the government and are also used as monetary policy tools by the Central Bank. T-bills are short-term securities that mature in 1 year or less from their issue date. They are usually issued with 3-month, 6-month, and 1-year maturities.

How is Return Determined?

T-bills are purchased for a price that is less than their par (face) value; when they mature, the government pays the holder the full par value. Effectively, your interest is the difference between the purchase price of the security and what you get at maturity.

The advised stop rate is different from the annualized yield of instruments. For example; the annualized yield of a 91-day T-bill, with a stop rate of 15.30% is 15.90%. If you buy a 91-day T-bill with a face value and stop rate of N1, 000,000 and 15.3% accordingly, the discounted value would be N962, 274. The difference between the face value and purchase price, which is N37, 726, is the money return and it implies 15.9% yield on annual basis. However, the holding period yield for this instrument is 3.75% since it is held for a 91-day period (3 months), and not a year.

Treasury bills (as well as notes and bonds) are issued through a competitive bidding process at auctions.

Primary market trading of Treasury bill instruments entails auctions by the country's monetary authority – The Central Bank of Nigeria. **T-bills are auctioned at established rates which determine the return to investors.** Purchasing these instruments in the primary market and holding it until maturity would mean that the investor gets a fixed interest payment.

Benefits of T-bills

The biggest reasons that T-Bills are so popular are that they are one of the few money-market instruments that are affordable to individual investors. Other positives are that T-bills (and all Treasuries) are considered to be risk-free investments because they are backed by the full faith of the Federal Government. In addition, returns on T-bills are tax-free, unlike equities.

The only downside to T-bills is that investors will not get a great return (alpha) because Treasuries are considered “exceptionally safe”.

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