

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	2.00%
182-Day	2.20%
364-Day	4.02%

Amount:

91-Day	NGN4.40bn
182-Day	NGN7.82bn
364-Day	NGN78.71bn

SUMMARY OF CURRENT AUCTION

Auction Date 17th June 2020

Settlement Date 18th June 2020

Auction Size

91-Day	NGN2.00bn
182-Day	NGN2.00bn
364-Day	NGN10.61bn

Maturing Instruments

91-Day	NGN2.00bn
182-Day	NGN2.00bn
364-Day	NGN10.61bn

Meristem Advised Stop Rates

91-Day	2.00% - 2.45%
182-Day	2.20% - 2.50%
364-Day	3.50% - 4.00%

Treasury Bills Auction Scheduled for 17th June 2020

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 17th of June 2020. Existing T-Bills worth NGN14.61bn will mature, and likely reissued in NGN2.00bn, NGN2.00bn and NGN10.61bn across the subsisting 91-day, 182-day, and 364-day instruments respectively.

Outlook on Yields

The Bulls remained dominant at the last Treasury Bills primary market auction, as all instruments on offer were oversubscribed with respective bid-to-cover ratios of 4.92x, 5.15x and 1.46x on the 91-Day, 182-Day and 364-Day instruments. The direction of stop rates at this auction was mixed as the rates on the 91-Day and 182-Day instruments declined while the rate on the 364-Day instrument increased to 4.02%. We expect to see further yo-yo movements in stop rates at subsequent auctions as the CBN strives to raise as much short-term debt as is required.

Fears of a second wave of the COVID-19 pandemic has emanated across the world and investors have begun acting on their concerns. This being an offshoot of a sudden spike in cases, notably, In China and countries in Latin America which could cost the global economy a reversal in gains made so far. Similarly, for the Nigerian economy, this poses a major threat as receipt from crude oil might be affected. Thus, fuelling a slowdown in the momentum of accretion to the foreign exchange reserve and heightened risk of devaluation.

More recently, there has been an appreciable level of liquidity in the market comprising inflow from recent OMO maturities, and over subscription from the recently issued Sukuk bond. In this light and considering the dearth of investment opportunities in the capital market, we expect investors to participate actively at the next auction. Hence, sustaining the trend of strong demand for NTB instruments.

Advised Stop Rates

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

Tenor	Offer Size	Advised Rates
91-Day	NGN2.00bn	2.00% - 2.45%
182-Day	NGN2.00bn	2.20% - 2.50%
364-Day	NGN10.61bn	3.50% - 4.00%

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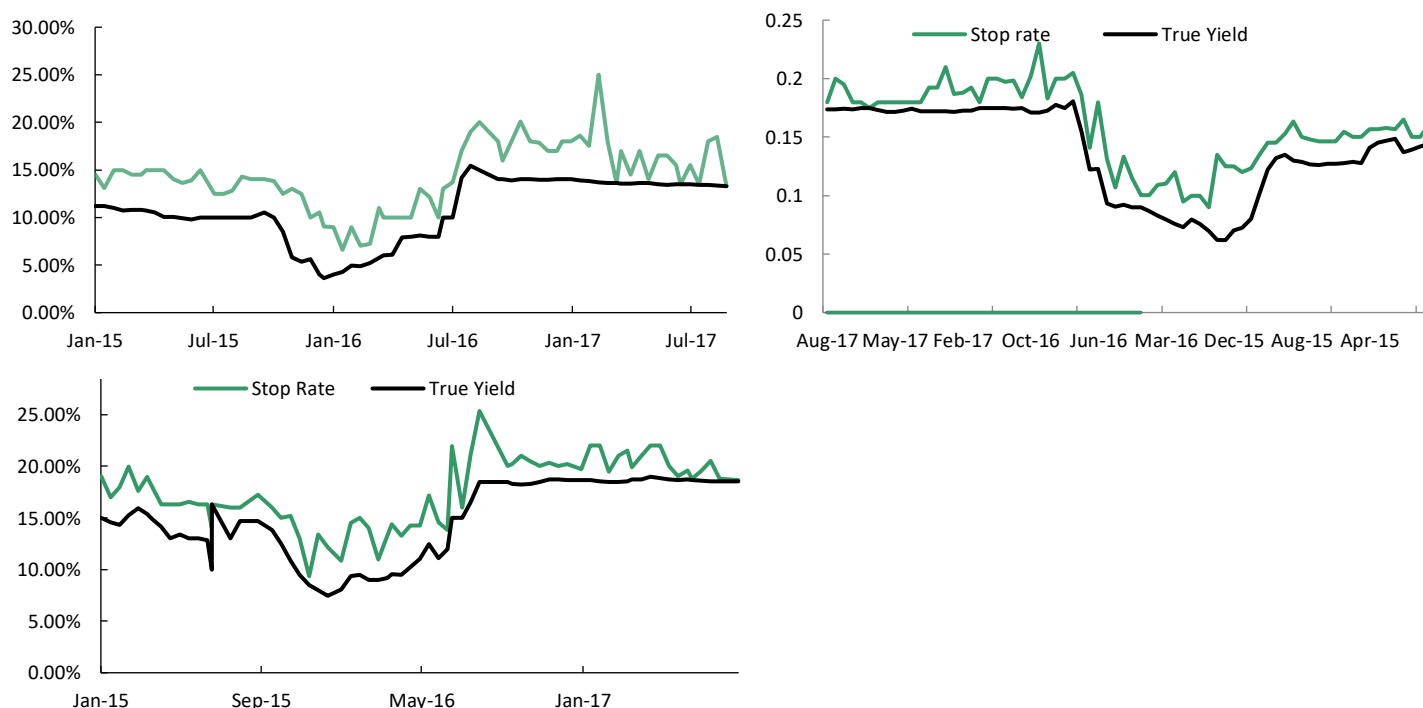
Investing through Meristem Wealth Management Limited

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

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.

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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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