

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	1.79%
182-Day	1.91%
364-Day	3.40%

Amount:

91-Day	NGN10.00bn
182-Day	NGN20.00bn
364-Day	NGN58.86bn

SUMMARY OF CURRENT AUCTION

Auction Date	15 th July 2020
Settlement Date	16 th July 2020

Auction Size

91-Day	NGN5.85bn
182-Day	NGN26.60bn
364-Day	NGN74.60bn

Maturing Instruments

91-Day	NGN5.85bn
182-Day	NGN26.60bn
364-Day	NGN74.60bn

Meristem Advised Stop Rates

91-Day	1.40% - 1.70%
182-Day	1.80% - 2.00%
364-Day	3.00% - 3.60%

Treasury Bills Auction Scheduled for 15th July 2020

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 15th of July 2020. Existing T-Bills worth NGN107.05bn will mature, and likely reissued in NGN5.85bn, NGN26.60bn and NGN74.60bn across the subsisting 91-day, 182-day, and 364-day instruments respectively.

Outlook on Yields

Strong appetite was sustained at the last primary market auction, as all instruments on offer were oversubscribed with respective bid-to-cover ratios of 2.50x, 2.94x and 4.19x on the 91-Day, 182-Day and 364-Day instruments. Stop rates at this auction also declined further on all tenors, pegging at 1.79%, 1.91% and 3.40% for the 91-days, 182-days and 364-days instruments respectively.

Buying pressure has also permeated the secondary market for T-bills like in the primary market, reflected by the downward trend of yields across tenors. Consequently, average T-Bills yields shed 0.29% to 2.24% on the 13th of July 2020.

With the World Health Organisation (WHO) recording daily increases in the COVID-19 cases (230,000 new cases on the 12th of July), concerns in the global space remain unabated with a bleak outlook for the rest of the year. New outbreaks have led to renewed, localised lockdowns in various parts of the world like cities in Britain, Latin America, Asia and other parts of Europe. These have added its weight on oil prices, as OPEC+ are set to roll back on production cuts from August 2020. This poses increased risks for Nigeria, as crude oil receipts remain pressured, thus, limiting accretion to external reserves.

Amidst the challenges the country faces and coupled with the adverse effect of the pandemic on oil receipts, Nigeria is likely to enter its second recession in four (4) years. Already, the Federal Government has projected a 12.96% and 3.6% contraction in oil and non-oil GDP respectively in 2020. This indicates a decline in real GDP by 4.2% YoY in 2020. Government revenues have also taken a hit with Nigeria's participation in the OPEC+ output cut agreement in April, hurting foreign exchange inflows to the country.

With a relatively high system liquidity of NGN195.45bn at the start of the week, and given that investors have acclimatised to the lower rates at issuances, we expect bullish momentum to be sustained at the primary market auction.

Advised Stop Rates

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

Tenor	Offer Size	Advised Rates
91-Day	NGN5.85bn	1.40% - 1.70%
182-Day	NGN26.60bn	1.80% - 2.00%
364-Day	NGN74.60bn	3.00% - 3.60%

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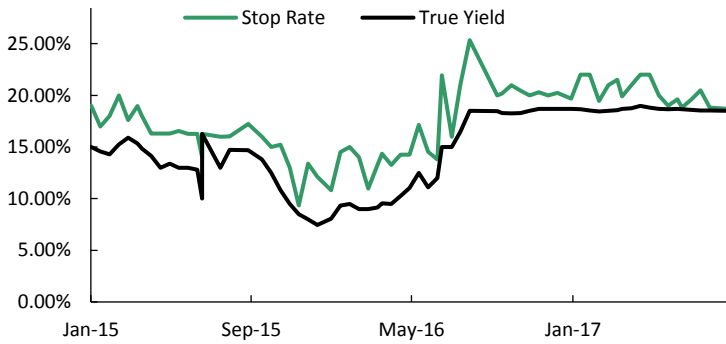
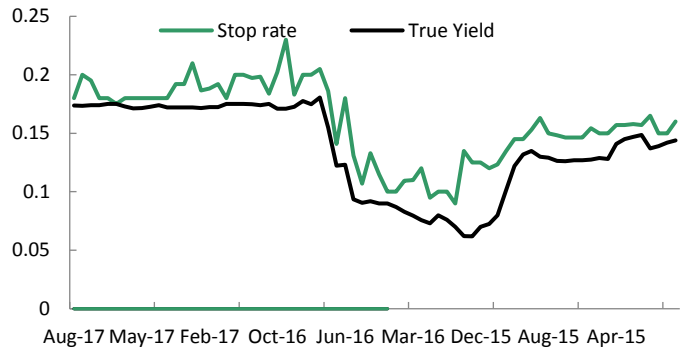
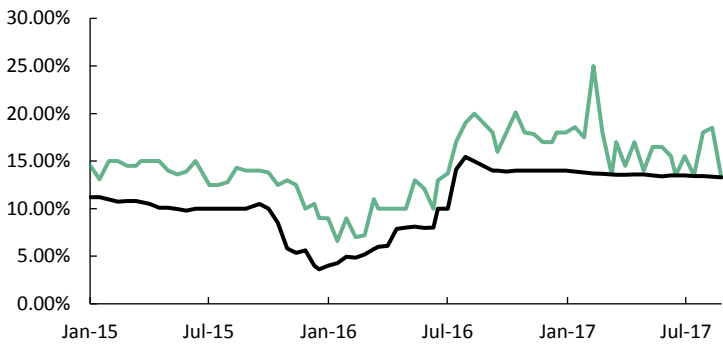
Investing through Meristem Wealth Management Limited

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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ISI Emerging Markets: www.securities.com/ch.html?pc=NG

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