

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	1.30%
182-Day	1.80%
364-Day	3.35%

Amount:

91-Day	NGN8.85bn
182-Day	NGN26.60bn
364-Day	NGN71.60bn

SUMMARY OF CURRENT AUCTION

Auction Date	July 29 th 2020
Settlement Date	July 30 th 2020

Auction Size

91-Day	NGN49.84bn
182-Day	NGN54.59bn
364-Day	NGN161.52bn

Maturing Instruments

91-Day	NGN49.84bn
182-Day	NGN54.59bn
364-Day	NGN161.52bn

Meristem Advised Stop Rates

91-Day	1.30% - 1.50%
182-Day	1.60% - 1.95%
364-Day	3.30% - 3.60%

Treasury Bills Auction Scheduled for 29th 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 29th of July 2020. Existing T-Bills worth NGN265.95bn will mature, and likely reissued in NGN49.84bn, NGN54.59bn and NGN161.52bn across the 91-day, 182-day, and 364-day tenored instruments.

Outlook on Yields

At the last primary market auction, investor appetite for T-bills remained strong with an oversubscription of NGN82.09bn and bid to cover ratios of 3.13x, 2.37x and 1.37x on the 91-day, 182-day and 364-day instruments respectively. Stop rates also trended lower across board, settling at 1.30%, 1.80% and 3.35% for the 91-day, 182-day and 364-day instruments respectively.

In the secondary market for T-bills, buying pressure also continued to dominate, evinced by a moderation in yields across tenors. Thus, average T-bills yield have shed 17bps since the last auction date, settling at 1.93% as at 26th July 2020.

In the broader economy, the coronavirus pandemic continues to dominate headlines, necessitating fiscal and monetary responses from various governments and central banks. In Nigeria, the Monetary Policy Committee (MPC) held their fourth meeting of the year on the 20th of July, where they voted to retain the MPR at 12.50% and keep other parameters unchanged. A decision in line with its ultimate goal of supporting expansion via real sector credit. We believe this decision would have no material impact on yields which have remained pressured given the dearth of alternative investments with good returns. More so, the downbeat earnings expectation has made equities market unattractive as investors thread cautiously ahead of earnings season. On the other hand, the robust system liquidity has continued to drive market participation. This is further supported by the inflow of intervention funds, FAAC disbursements and FGN bond coupon payments.

Although yields are depressed and real rates of return have remained in the negative region, investors appear to prioritize capital preservation amid the ravaging pandemic. Given the significant amount of bills maturing tomorrow, we expect investors to bid higher at the primary market auction, spurring an uptick in the stop rates across tenors.

Advised Stop Rates

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

Tenor	Offer Size	Advised Rates
91-Day	NGN49.84bn	1.30% - 1.50%
182-Day	NGN54.59bn	1.60% - 1.95%
364-Day	NGN161.52bn	3.30% - 3.60%

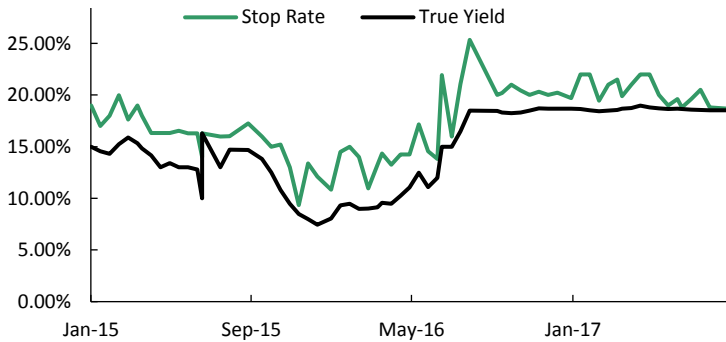
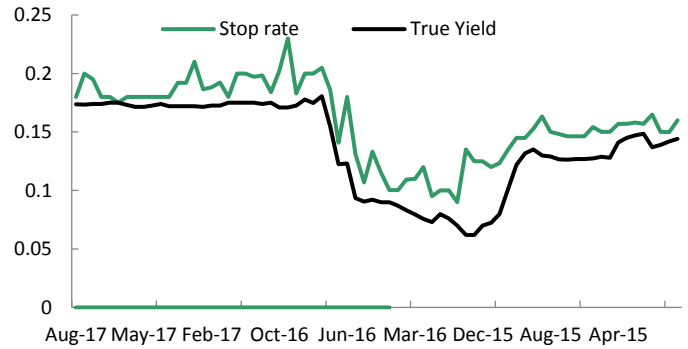
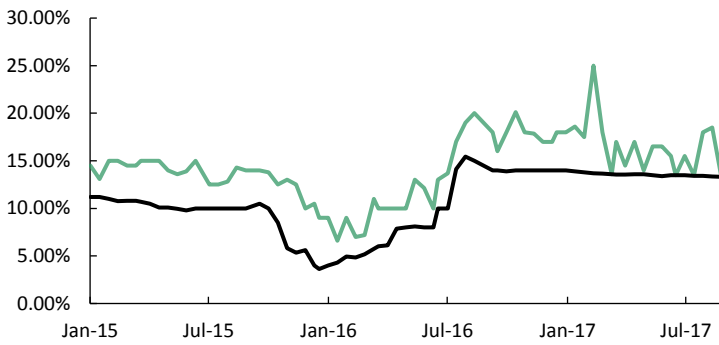
Investing through Meristem Wealth Management Limited

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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