

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	1.20%
182-Day	1.50%
364-Day	3.40%

Amount:

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

SUMMARY OF CURRENT AUCTION

Auction Date	August 12 th 2020
Settlement Date	August 13 th 2020

Auction Size

91-Day	NGN19.78bn
182-Day	NGN10.00bn
364-Day	NGN27.00bn

Maturing Instruments

91-Day	NGN19.78bn
182-Day	NGN10.00bn
364-Day	NGN27.00bn

Meristem Advised Stop Rates

91-Day	1.20% - 1.50%
182-Day	1.60% - 1.80%
364-Day	2.80% - 3.10%

Treasury Bills Auction Scheduled for 12th August 2020

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 12th of August 2020. Existing T-Bills worth NGN56.78bn will mature and are expected to be reissued in NGN19.78bn, NGN10.00bn and NGN27.00bn across the 91-day, 182-day, and 364-day instruments.

Outlook on Yields

At the last treasury bills primary market auction, demand significantly outweighed supply with an oversubscription of NGN202.31bn and bid to cover ratios of 1.89x, 2.91x and 1.33x on the 91-day, 182-day and 364-day instruments respectively. Stop rates also trended lower across board, settling at 1.20%, 1.50% and 3.40% (vs. 1.30%, 1.80% and 3.35% at the preceding auction) for the 91-day, 182-day and 364-day instruments respectively.

Average treasury bills yield has continued to trend downwards in the secondary market, reflecting sustained buying pressures. Since the last auction, average yields have declined by 17bps from 2.07% to 1.90% as at 07 July 2020.

The dearth of suitable alternative investment has remained a driving factor behind the bullish sentiment in the fixed income space. This is further compounded by the elevated recessionary risks occasioned by the coronavirus pandemic, which has made investors gravitate towards low-risk assets. The various monetary and fiscal stimulus responses to the pandemic are no less drivers of the robust participation in the fixed income space.

Furthermore, the CBN has indicated that significant headroom exists for monetary expansion in the second half of the year despite heightened inflationary pressures. This is expected to keep the level of system liquidity high, thus, spurring demand for investment securities notwithstanding the low yields and negative real rates of return. Other demand-pushing factors include maturing OMO bills which will not be rolled over and monthly FAAC allocations.

Advised Stop Rates

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

Tenor	Offer Size	Advised Rates
91-Day	NGN19.78bn	1.20% - 1.50%
182-Day	NGN10.00bn	1.60% - 1.80%
364-Day	NGN27.00bn	2.80% - 3.10%

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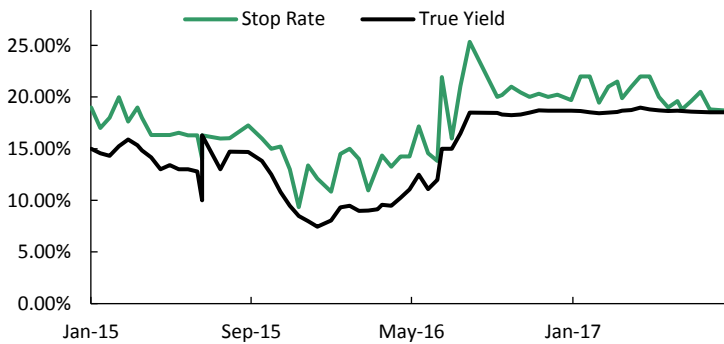
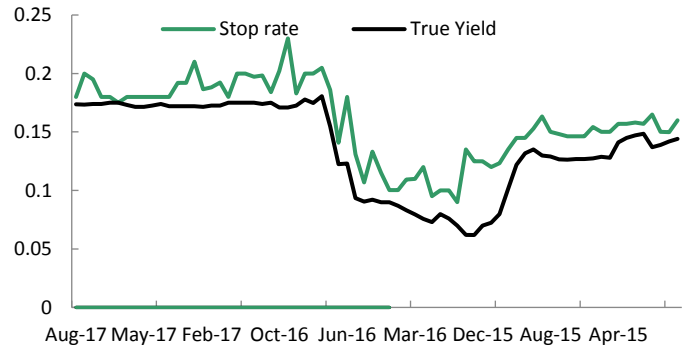
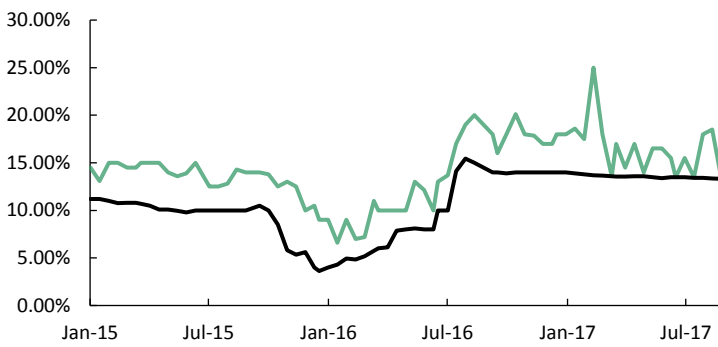
Investing through Meristem Wealth Management Limited

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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