

# Ahead of Next T-Bills Auction

## SUMMARY OF PREVIOUS AUCTION

### Stop Rate:

91-Day	1.20%
182-Day	1.39%
364-Day	3.20%

### Amount:

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

## SUMMARY OF CURRENT AUCTION

Auction Date	August 26 <sup>th</sup> 2020
Settlement Date	August 27 <sup>th</sup> 2020

### Auction Size

91-Day	NGN20.37bn
182-Day	NGN31.75bn
364-Day	NGN145.48bn

### Maturing Instruments

91-Day	NGN20.37bn
182-Day	NGN31.75bn
364-Day	NGN145.48bn

### Meristem Advised Stop Rates

91-Day	1.20% - 1.30%
182-Day	1.45% - 1.70%
364-Day	3.10% - 3.60%

## Treasury Bills Auction Scheduled for 26<sup>th</sup> 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 26<sup>th</sup> of August 2020. Existing T-Bills worth NGN197.60bn will mature and are expected to be reissued in NGN20.37bn, NGN31.75bn and NGN145.48bn across the 91-day, 182-day, and 364-day tenored instruments.

### Outlook on Yields

At the last treasury bills primary market auction, investors' participation remained strong evidenced by an oversubscription of NGN61.40bn and bid to cover ratios of 1.55x, 3.11x and 2.09x on the 91-day, 182-day and 364-day instruments respectively. Stop rates trended lower to 1.39% and 3.20% on the 182-day and 364-day instruments (vs. 1.50% and 3.40% at the preceding auction) but remained unchanged at 1.20% on the 91-day instrument.

Average treasury bills yield continued its downtrend in the secondary market, due to sustained buying pressures. Since the last auction, average yields have declined by 13bps from 1.93% to 1.80% as at 21 August 2020.

While economic activities are picking up gradually, several countries across the world have begun sliding into recession, a fall out of the lockdown measures and the disruption in global supply chains.

In the domestic space, report by the National Bureau of Statistics (NBS) shows that Nigeria's GDP contracted by 6.10% YoY in Q2:2020; far worse than the -2.06% YoY recorded in Q2:2016 during the global oil price crash. Although the relative stability of oil prices and the pickup of economic activities are expected to support recovery, the outlook is still largely uncertain, and we expect investors to factor this into their decisions in the coming treasury bills auction. On the other hand, headline Inflation has maintained its uptrend, rising to 12.82% YoY in July from 12.56% recorded in June 2020.

With persistently declining yields, real rate of returns remain firmly in the negative territory. We however do not expect investors to be deterred by this development at the next auction given the elevated system liquidity and the dearth of attractive alternative investments. Our outlook for system liquidity is premised on CBN's expansionary monetary stance, maturing OMO bills 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% - 1.30%
182-Day	NGN10.00bn	1.45% - 1.70%
364-Day	NGN27.00bn	3.10% - 3.60%

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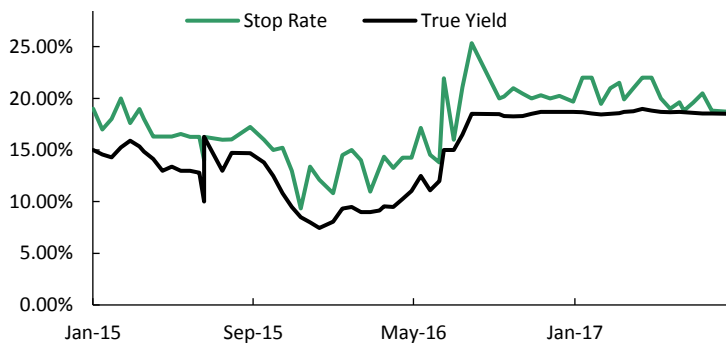
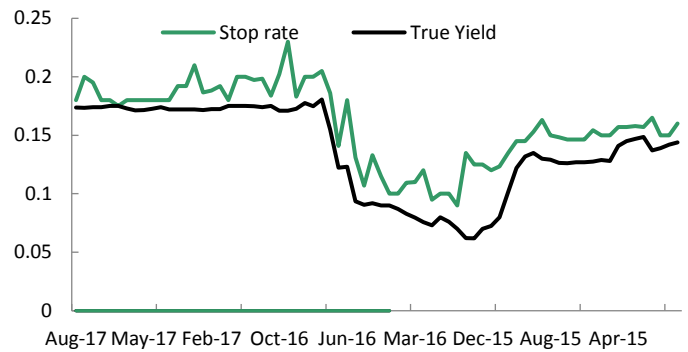
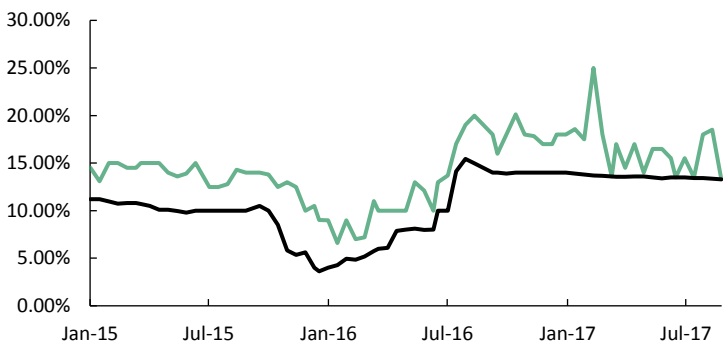
## Investing through Meristem Wealth Management Limited

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](http://www.securities.com/ch.html?pc=NG)

**Reuters:** [www.thomsonreuters.com](http://www.thomsonreuters.com)

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