

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	1.09%
182-Day	1.50%
364-Day	3.05%

Amount:

91-Day	NGN2.00bn
182-Day	NGN8.39bn
364-Day	NGN148.36bn

SUMMARY OF CURRENT AUCTION

Auction Date	September 30, 2020
Settlement Date	October 01, 2020

Auction Size

91-Day	NGN10.00bn
182-Day	NGN17.60bn
364-Day	NGN86.37bn

Maturing Instruments

91-Day	NGN10.00bn
182-Day	NGN17.60bn
364-Day	NGN86.37bn

Meristem Advised Stop Rates

91-Day	1.00%-1.20%
182-Day	1.40%-1.60%
364-Day	3.00%-3.05%

Treasury Bills Auction Scheduled for 30th September 2020

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 30th of September 2020. Existing T-Bills worth NGN113.97bn will mature and are expected to be reissued in NGN10.00bn, NGN17.60bn and NGN86.37bn across the 91-day, 182-day, and 364-day tenored instruments.

Outlook on Yields

The T-bills space has continued to see robust patronage despite the downtrend in stop rate. All tenors on offer were oversubscribed, evinced by respective bid-to-cover ratios of 1.99x, 1.85x and 1.25x across the 91-day, 182-day and 364-day tenors. Activities at the auction pressed stop rates across all the tenors to 1.09%, 1.50% and 3.05% on the 91-day, 182-day and 364-day tenors respectively.

Liquidity in the financial system and the dearth of attractive alternatives has continued to drive buying pressure in the secondary market. On this note, average yields declined to 1.47% on the 25th of September 2020 from 1.73% at the last auction.

At the last MPC meeting, the Committee voted to cut the policy rate from 12.50% to 11.50% and reduce the asymmetric corridor to +100bps/-700bps. We expect this to constitute a disincentive to conventional savings and spur patronage of money market instruments, despite the widening negative real rate of return.

At the upcoming auction, we expect momentum from the last auction to persist given that the variables under consideration have not changed much — Ample system liquidity, FPIs inability to repatriate their funds, and limited investment alternative.

We advise rates with the dual purpose of achieving the best possible yields, as well as ensuring the success of the bid. The advised stop rates for the respective instruments are listed below:

Tenor	Offer Size	Advised Rates
91-Day	NGN10.00bn	1.00% - 1.20%
182-Day	NGN17.60bn	1.40% - 1.60%
364-Day	NGN86.37bn	3.00% - 3.05%

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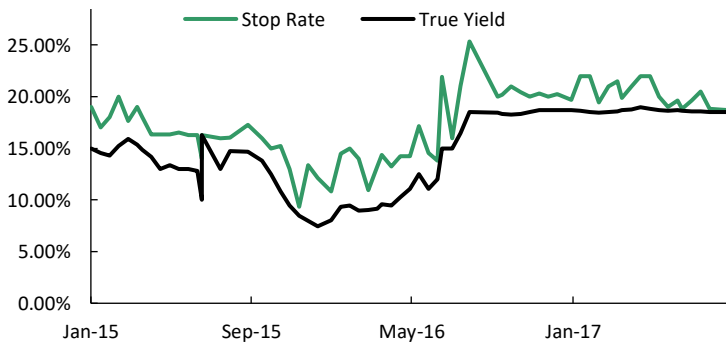
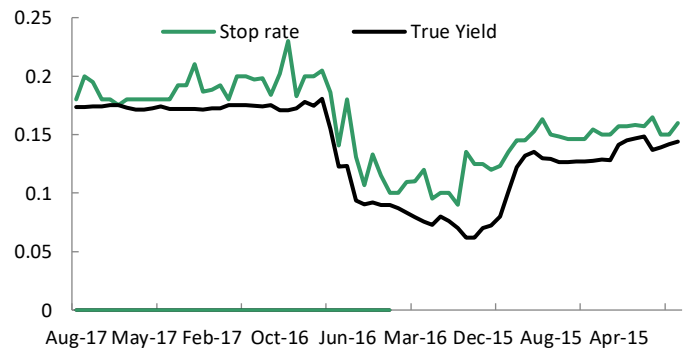
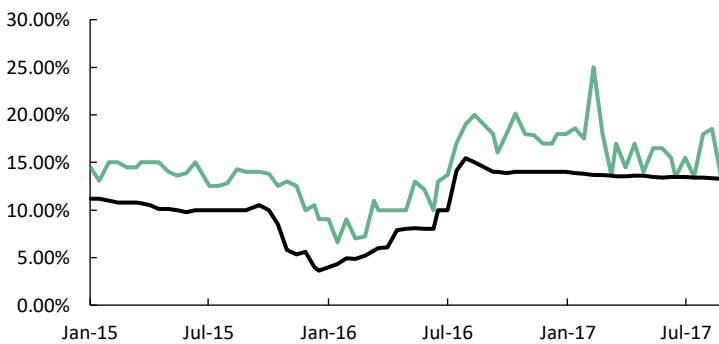
Investing through Meristem Wealth Management Limited

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



182-Day

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.

How is Return Determined?

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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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