

# Ahead of Next T-Bills Auction

## SUMMARY OF PREVIOUS AUCTION

### Stop Rate:

91-Day	1.15%
182-Day	1.80%
364-Day	3.34%

### Amount:

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

## SUMMARY OF CURRENT AUCTION

Auction Date	September 10, 2020
Settlement Date	September 11, 2020

### Auction Size

91-Day	NGN4.41bn
182-Day	NGN14.00bn
364-Day	NGN109.65bn

### Maturing Instruments

91-Day	NGN4.41bn
182-Day	NGN14.00bn
364-Day	NGN109.65bn

### Meristem Advised Stop Rates

91-Day	1.10% - 1.20%
182-Day	1.40% - 1.60%
364-Day	3.10% - 3.30%

## Treasury Bills Auction Scheduled for 10<sup>th</sup> 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 10<sup>th</sup> of September 2020. Existing T-Bills worth NGN148.06bn will mature and are expected to be reissued in NGN4.41bn, NGN14.00bn and NGN109.65bn across the 91-day, 182-day, and 364-day tenored instruments.

### Outlook on Yields

The last treasury bills primary market auction (PMA) followed the trend established so far in 2020. We witnessed strong participation, evidenced by bid to cover ratios of 1.53x, 1.77x and 0.92x across the three respective maturities. The stop rate for the 182-day and 364-day instruments however, inched higher to 1.80% and 3.34% (vs. 1.38% and 3.19% at the previous auction) respectively, while the 91-day dropped to 1.15% (vs 1.20% at the previous auction)

The Secondary market for T-bills has been largely bullish in the year, as the dearth of attractive investment vehicles in the domestic capital market and ample liquidity in the financial system have paved way for sustained buying pressure. Since the last auction, however, the bears have been on rampage, with average T-bills yield climbing to 2.10% (vs. 1.80% at the last auction) as at the 4<sup>th</sup> of September 2020.

In Q3:2020, the global economy has begun on a journey to recovery, given the resumption of economic activities and the anticipated breakthrough in vaccine development. Although, there are impending recessions across economies given the earlier global shutdown had triggered a significant economic downturn. The Nigerian economy was not insulated, evinced by the contraction (6.10% YoY) in Q2:2020 amid expectation of a further contraction in Q3:2020. The outlook, however, seems to hold some silver lining for Q4:2020, following the progress seen so far in the development of vaccines and the relative stability in oil prices, which is expected to support growth recovery and moderate overall 2020FY contraction.

On the other hand, despite the optimism, there are still downside risks — the likelihood of a protracted vaccine trial and the fear of a second wave of the virus which could trigger another round of lockdowns. Nonetheless, we expect elevated liquidity in the financial system (OMO Maturities: NGN571.48bn, T-bills Maturity: NGN128.06bn) to spur robust patronage at the next 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	NGN4.41bn	1.10% - 1.20%
182-Day	NGN14.00bn	1.40% - 1.60%
364-Day	NGN109.65bn	3.10% - 3.30%

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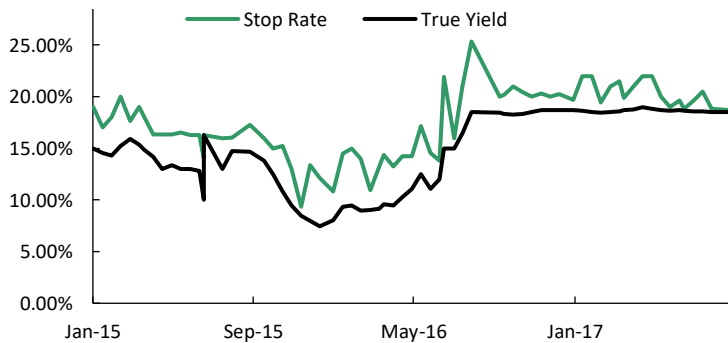
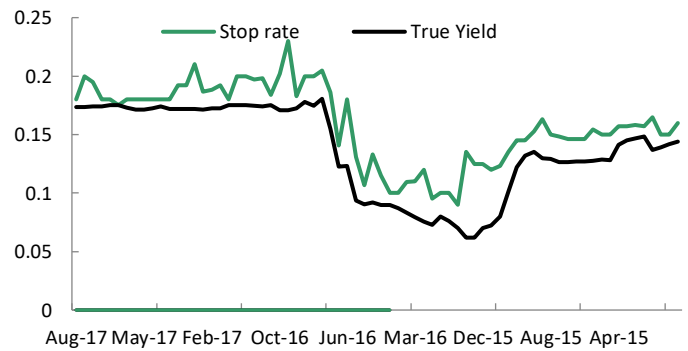
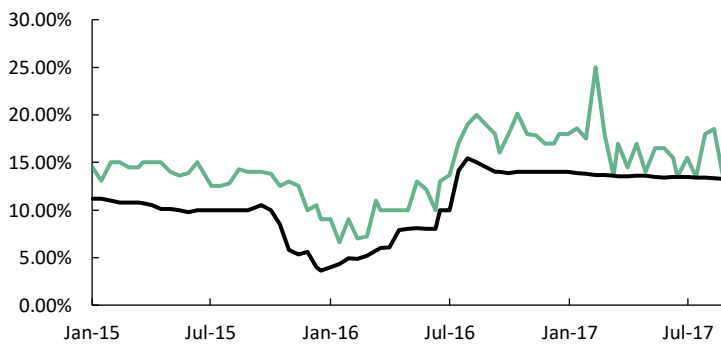
## Investing through Meristem Wealth Management Limited

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

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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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