

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	1.10%
182-Day	1.55%
364-Day	3.05%

Amount:

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

SUMMARY OF CURRENT AUCTION

Auction Date	September 16, 2020
Settlement Date	September 17, 2020

Auction Size

91-Day	NGN2.00bn
182-Day	NGN8.38bn
364-Day	NGN148.36bn

Maturing Instruments

91-Day	NGN2.00bn
182-Day	NGN8.38bn
364-Day	NGN168.36bn

Meristem Advised Stop Rates

91-Day	1.00% - 1.20%
182-Day	1.30% - 1.50%
364-Day	3.00% - 3.15%

Treasury Bills Auction Scheduled for 16th 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 16th of September 2020. Existing T-Bills worth NGN178.75bn will mature and are expected to be reissued in NGN2.00bn, NGN8.38bn and NGN148.36bn across the 91-day, 182-day, and 364-day tenored instruments.

Outlook on Yields

At the last primary market auction (PMA), rates trended lower in line with the trend established so far this year. Market demand for T-Bills however remained strong attracting NGN262.40bn in subscriptions (vs. NGN128.06bn on offer) with bid-to-cover ratios of 1.96x, 1.64x and 2.11x across the respective tenored instruments. Stop rates declined across board to 1.10%, 1.55%, and 3.05% (vs. 1.15%, 1.80% and 3.34% at the previous auction) for the 91-day, 182-day and 364-day instruments respectively.

Bullish sentiment has continued to dominate the secondary market for Treasury bills as the scarcity of attractive investment alternatives and ample system liquidity have given rise to sustained buying pressure. Since last week's primary market auction, average T-bills yield have fallen from 1.93% to 1.73%, signalling bullish momentum as investors redirected funds to the secondary market to fill unmet demand at the PMA.

The Nigerian Bureau of Statistics (NBS) in its recently released Consumer Price Index (CPI) report for August 2020 reported an uptick in headline inflation by 40bps to 13.22% (vs. 12.82% in July). This is the 12th consecutive month of an upswing in inflation, which further pushes real rate of returns into the negative territory. However, we do not expect that investors' participation at the next auction would be deterred by this development considering system liquidity levels (supported by OMO maturities and FGN bond coupon payments totalling NGN492.09bn, the CBN's expansionary monetary stance, and monthly FAAC allocations).

On the other hand, we are also mindful of the fact that dollar liquidity has somewhat improved following the resumption of FX sales by the CBN to both BDCs and in the I&E FX window. This could suggest that foreign investors willing to repatriate their funds might be able to do so, thus, possibly limiting their participation in the upcoming primary market auction. Nonetheless, we expect ample participation especially from domestic players as they seek capital preservation at the dearth of attractive alternatives.

Advised Stop Rates

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

Tenor	Offer Size	Advised Rates
91-Day	NGN2.00bn	1.00% - 1.20%
182-Day	NGN8.38bn	1.30% - 1.50%
364-Day	NGN168.36bn	3.00% - 3.15%

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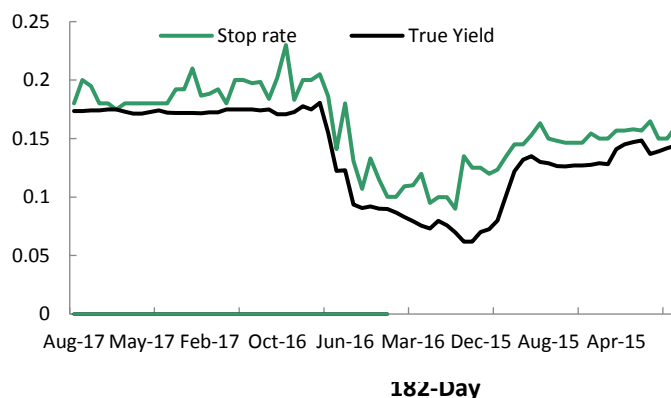
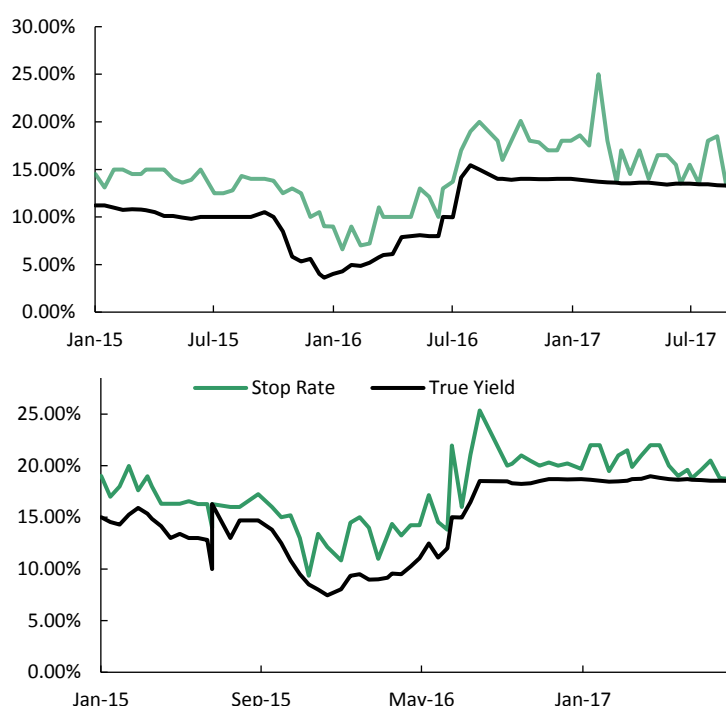
Investing through Meristem Wealth Management Limited

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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