

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	1.00%
182-Day	1.00%
364-Day	2.00%

Amount:

91-Day	NGN12.76bn
182-Day	NGN4.50bn
364-Day	NGN107.62bn

SUMMARY OF CURRENT AUCTION

Auction Date October 28, 2020

Settlement Date October 29, 2020

Auction Size

91-Day	NGN29.84bn
182-Day	NGN10.62bn
364-Day	NGN91.92bn

Maturing Instruments

91-Day	NGN49.83bn
182-Day	NGN10.61bn
364-Day	NGN93.92bn

Meristem Advised Stop Rates

91-Day	0.80% - 1.00%
182-Day	0.80% - 1.00%
364-Day	1.00% - 2.00%

Treasury Bills Auction Scheduled for the 28th of October 2020

Offer Summary

The Central Bank of Nigeria (CBN) would hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 28th of October 2020. Existing T-Bills worth NGN154.37bn will mature, and the CBN would re-issue NGN132.38bn — NGN29.84bn, NGN10.62bn and NGN91.92bn across the 91-day, 182-day, and 364-day tenured instruments, respectively.

Outlook on Yields

The T-bills primary market auction (PMA) continued its year-long bullish streak at the last auction. All tenors at the auction were oversubscribed, with respective bid-to-cover ratios of 2.58x, 9.94x and 5.02x across the issued maturities. As earlier hinted, stop rates dipped to 1.00% (vs. 1.08% at previous auction), 1.00% (vs. 1.49% at previous auction), 2.00% (vs. 2.80% at previous auction) across the 91-day, 182-day and 364-day instruments.

In the secondary market, buying pressure from robust system liquidity has continued to taper yields performance. This momentum has been responsible for the downward trend in yield movement so far in the year. Since the last auction, average T-bills yield had dipped to 0.66% as at 26th of October 2020, (vs. 1.35% at the previous auction).

In recent times, concerns have continued to mount about a second wave of the coronavirus in the global space. We have noted this development given how detrimental it could be to the global supply chain and Nigeria's crude-oil receipt. This spike in the number of cases constitutes a layer of risk, which when coupled with the current trend of inflation (currently at 13.71% YoY), increases investors' risk. Thus, ordinarily prompting investors to request for higher rates as opposed to the prevailing market rates.

Nonetheless, we expect the current bullish momentum to headline the next auction despite the low rates. This patronage flows from financial system liquidity which is buoyed by Inflows (OMO maturity: NGN620.62bn and FAAC allocation: NGN639.90bn). Also, the relative illiquidity in the foreign exchange market for foreign outflows, and limited investment options have added extra impetus for demand.

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

Tenor	Offer Size	Advised Rates
91-Day	NGN29.84bn	0.80% - 1.00%
182-Day	NGN10.62bn	0.80% - 1.00%
364-Day	NGN91.92bn	1.00% - 2.00%

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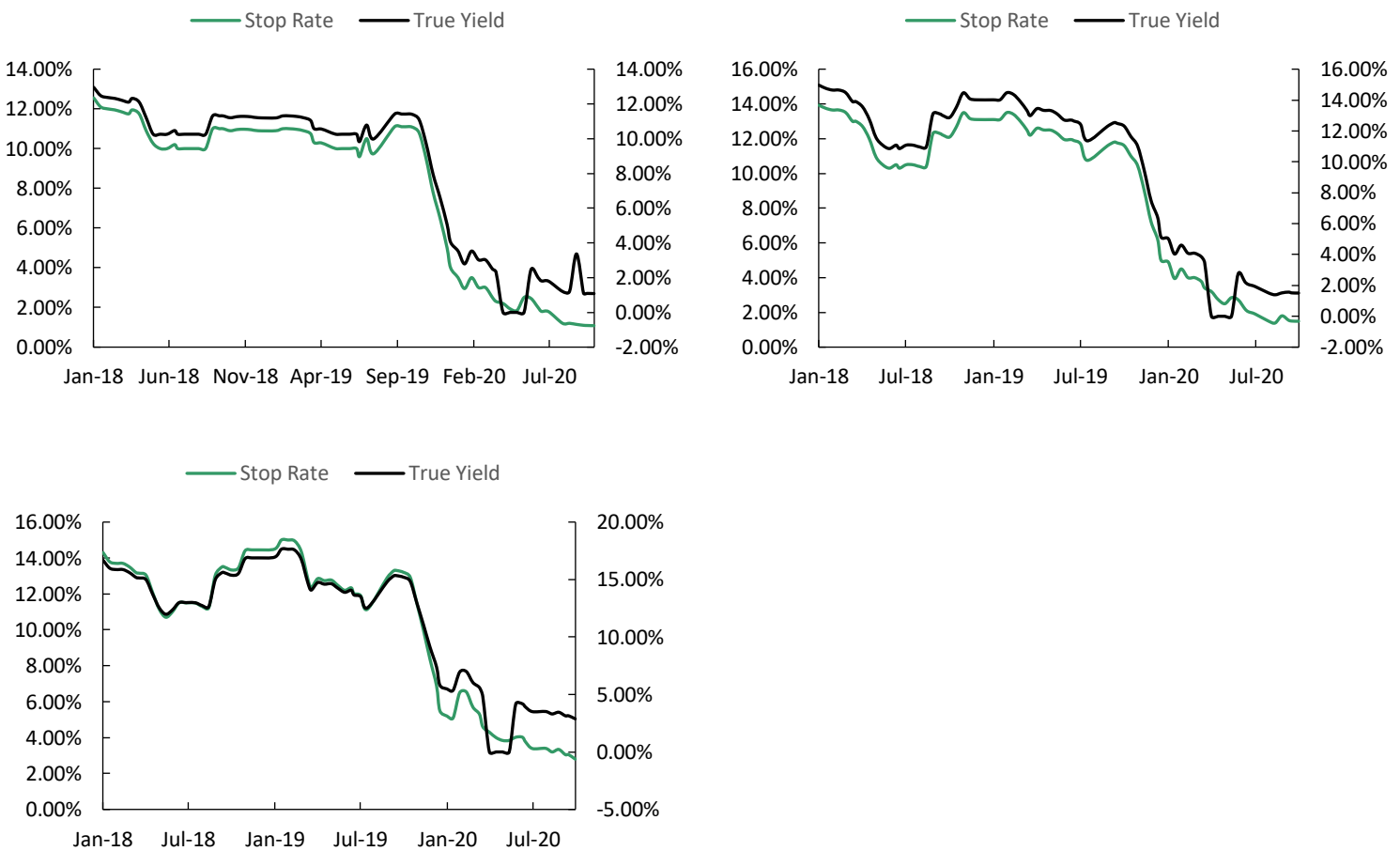
Investing through Meristem Wealth Management Limited

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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