

# Ahead of Next T-Bills Auction

## SUMMARY OF PREVIOUS AUCTION

### Stop Rate:

91-Day	1.08%
182-Day	1.49%
364-Day	2.80%

### Amount:

91-Day	NGN10.00bn
182-Day	NGN17.60bn
364-Day	NGN106.37bn

## SUMMARY OF CURRENT AUCTION

Auction Date      October 16, 2020

Settlement Date      October 17, 2020

### Auction Size

91-Day	NGN8.85bn
182-Day	NGN3.50bn
364-Day	NGN92.54bn

### Maturing Instruments

91-Day	NGN8.85bn
182-Day	NGN3.50bn
364-Day	NGN112.54bn

### 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 14<sup>th</sup> October 2020

### Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 14<sup>th</sup> of October 2020. Existing T-Bills worth NGN124.88bn will mature and are expected to be reissued in NGN8.85bn, NGN3.50bn and NGN92.54bn across the 91-day, 182-day, and 364-day tenored instruments.

### Outlook on Yields

At the last primary market auction (PMA), investor interest remained strong, as the total offer of NGN113.97bn was met with total subscription of NGN348.27bn and bid-to-cover ratio of 3.05x. Much in line with previous treasury bill auctions, stop rates trended lower, howbeit marginally (by -1bps) on the short and medium-term bills, and by -25bps on the 1-year bill. Stop rates declined to 1.08%, 1.49%, and 2.80% (vs. 1.09%, 1.50% and 3.05% at the preceding auction) for the 91-day, 182-day and 364-day instruments respectively.

Bullish sentiment has held sway in the secondary Treasury bills market – a situation which we expect would linger as market dynamics (i.e. a dearth of attractive alternatives and system liquidity) support sustained buying pressure. Since the last primary market auction (PMA), average T-bills yield have dipped by 8bps to 1.37% from 1.45% , indicating sustained bullish momentum.

In our ‘*Macroeconomic Update: Inflation Expectation*’ report published on 7<sup>th</sup> October 2020, we highlighted our expectation for headline inflation to rise to 13.49% in September from 13.22% in August 2020. We identified food supply shortfalls, higher energy costs and the pass-through to transportation and logistics costs as upside risks. This would in turn further worsen the real rate of return which is sunk deep in the negative territory. However, we do not expect investors’ participation to be deterred by this development considering system liquidity levels (to be supported by this week’s incoming OMO maturities worth NGN370.00bn).

We also do not rule out investors opting to rotate their funds into the equities market, which has benefitted in the past two (2) weeks from the abysmal fixed income yield environment. We also consider that foreign investors willing to repatriate their funds might now be able to do so (following the resumption of FX sales by the CBN to both BDCs and in the I&E FX window), thus, possibly limiting their participation in the upcoming 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	NGN8.85bn	1.00% - 1.20%
182-Day	NGN3.50bn	1.40% - 1.60%
364-Day	NGN92.54bn	3.00% - 3.05%

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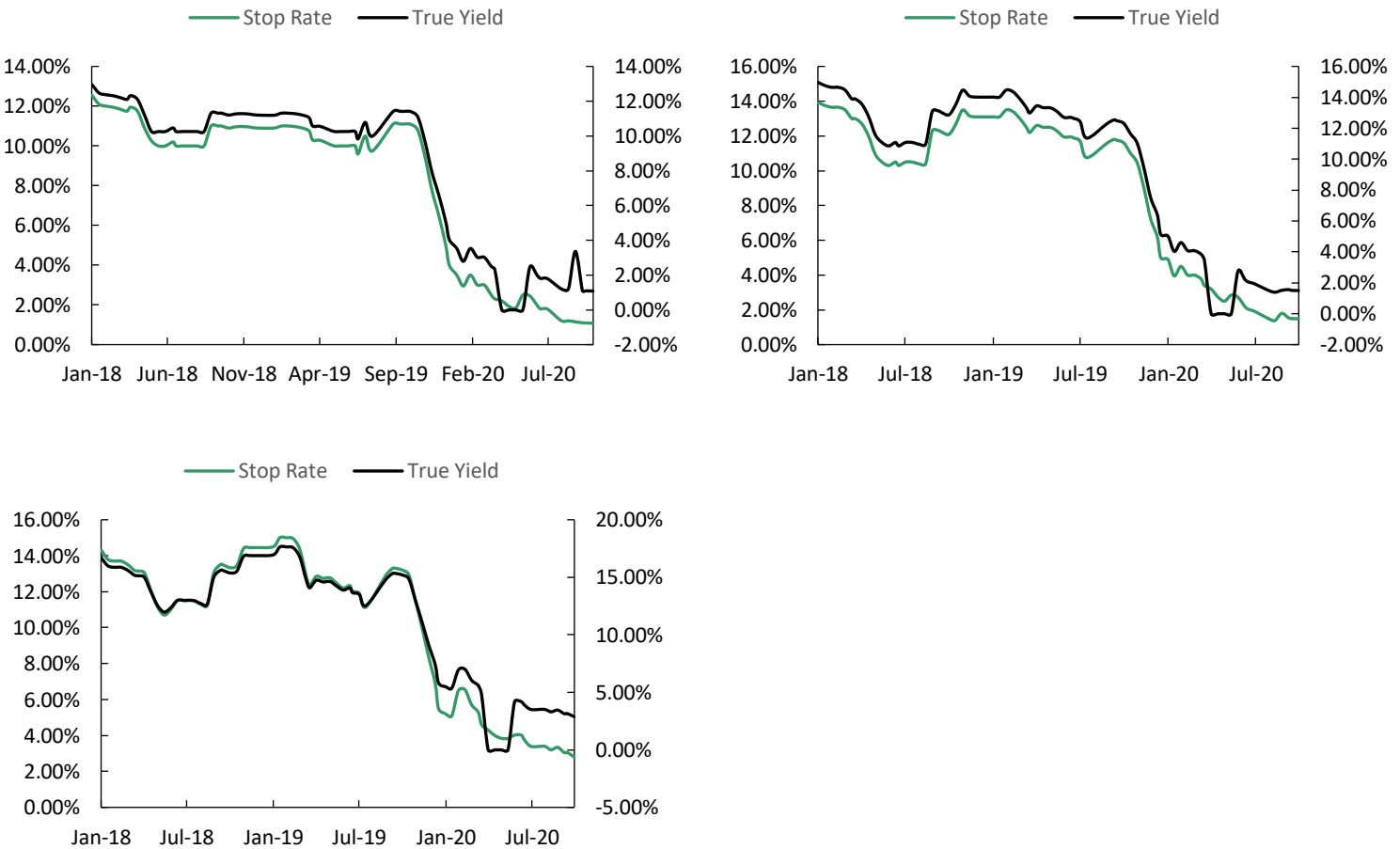
## Investing through Meristem Wealth Management Limited

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



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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