Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	0.34%
182-Day	0.50%
364-Day	0.98%

Amount:

91-Day	NGN7.50bn
182-Day	NGN6.00bn
364-Day	NGN140.87bn

SUMMARY OF CURRENT AUCTION

Auction Date	November 11, 2020
Settlement Date	November 12, 2020

Auction Size

91-Day	NGN19.78bn
182-Day	NGN40.09bn
364-Day	NGN87.94bn

Maturing Instruments

91-Day	NGN19.78bn
182-Day	NGN40.09bn
364-Day	NGN107.94bn

Meristem Advised Stop Rates

91-Day	0.15% - 0.30%
182-Day	0.30% - 0.50%
364-Day	0.70% - 1.00%

Treasury Bills Auction Scheduled for 11th November 2020

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 11th of November 2020. Existing T-Bills worth NGN19.78bn, NGN40.09bn and NGN107.94bn across the 91-day, 182-day, and 364-day tenors respectively will mature; and the CBN will re-issue NGN19.78bn, NGN40.09bn and NGN87.94bn across same tenors respectively.

Outlook on Yields

The T-bills primary market auction (PMA) continued its bullish run at the last auction as all tenors were oversubscribed, with bid-to-cover ratios of 11.32x, 6.94x and 4.93x across all tenors. Stop rates fell significantly as a result, to 0.34% (vs. 1.00% at previous auction), 0.50% (vs. 1.00% at previous auction), 0.98% (vs. 2.00% at previous auction) across the 91-day, 182-day and 364-day instruments respectively.

Activities in the secondary market have remained largely bullish since the last PMA as robust system liquidity continued to spur strong buying interests. Consequently, average T-bills yield has declined albeit marginally to 0.49% (vs. 0.52% during the previous auction) as at 6th November 2020.

We maintain our earlier concerns regarding mounting downside risks to government revenues which are now compounded by the reinstitution of lockdowns across key economies in Europe such as England and France. This may put further pressure on already weakened demand for crude oil and hence keep oil prices depressed. Furthermore, inflationary pressures persist with October inflation expected at 14.09% (vs 13.71% in September), making government securities unattractive at this time.

However, despite the risks highlighted above, we expect strong participation by investors at the next auction due to the high financial system liquidity and the fact that this is the second to the last T-Bills primary market auction for the year, Also, given that liquidity conditions in the Nigerian FX market have yet to significantly improve, we expect that the consequent inability of FPIs to exit their positions will boost demand for government instruments at the upcoming auction.

Advised Stop Rates

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

Tenor	Offer Size	Advised Rates
91-Day	**NGN19.78bn**	**0.15% - 0.30%**
182-Day	**NGN40.09bn**	**0.30% - 0.50%**
364-Day	**NGN87.94bn**	**0.70% - 1.00%**

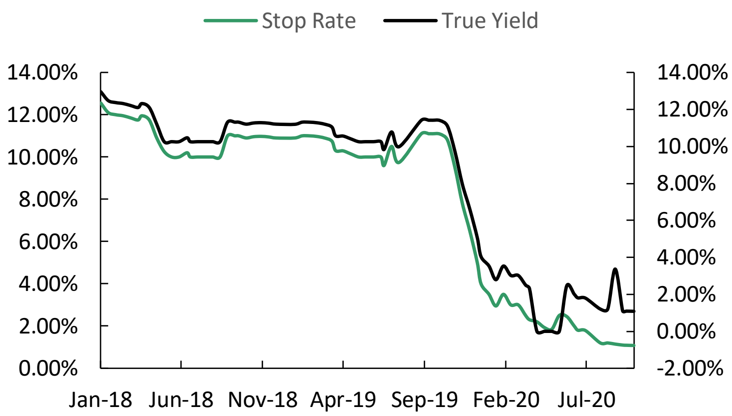
Investing through Meristem Wealth Management Limited

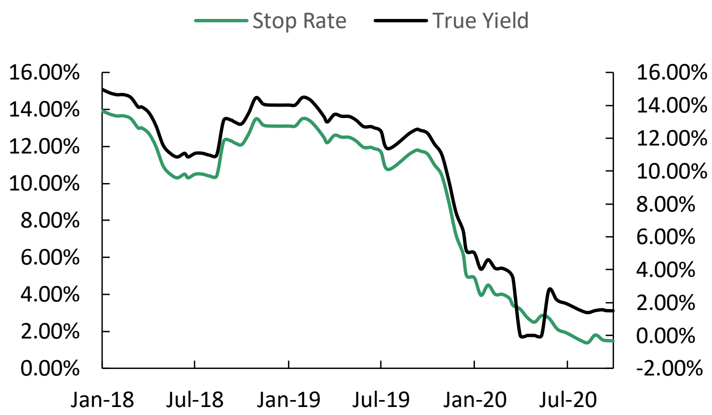
Meristem Wealth Management Limited charges a transaction fee of 0.25% of the principal amount invested, and there will be three (3) days prior notification before maturity for all Treasury Bills investments. *The income from investing in T-Bills is tax-free, so interest received is not subject to withholding 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.**

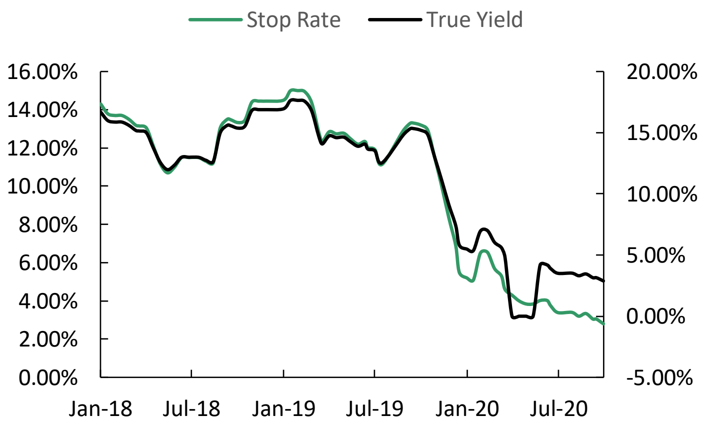
Participation Process

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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