

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	0.55%
182-Day	1.31%
364-Day	2.04%

Amount Alloted:

91-Day	NGN11.39bn
182-Day	NGN47.48bn
364-Day	NGN123.11bn

SUMMARY OF CURRENT AUCTION

Auction Date February 10, 2021

Settlement Date February 11, 2021

Auction Size

91-Day	NGN19.78bn
182-Day	NGN10.00bn
364-Day	NGN140.00bn

Maturing Instruments

91-Day	NGN19.78bn
182-Day	NGN10.00bn
364-Day	NGN140.00bn

Meristem Advised Stop Rates

91-Day	0.60%-1.25%
182-Day	1.20%-2.40%
364-Day	2.20%-3.50%

Treasury Bills Auction Scheduled for 10th of February 2021

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 10th of February 2021. Existing T-Bills worth NGN19.78bn, NGN10.00bn and NGN140.00bn across the 91-day, 182-day, and 364-day instruments respectively will mature, and the CBN will re-issue NGN19.78bn, NGN10.00bn and NGN140.00bn across same tenors respectively.

Outlook on Yields

Investors' demand weakened further at the last T-bills PMA relative to the previous auction as overall bid-to-cover ratio declined to 1.59x from 2.29x recorded at the previous auction. The relatively weak demand is reflective of the prevailing mood in the financial market with investors generally showing a preference for higher yielding equity instruments despite higher associated risks. This sentiment was reinforced by the decision of the MPC at its meeting last month to maintain the benchmark policy rate at 11.50%. As expected, the CBN increased stop rates to 0.55% (vs. 0.50% at previous auction), 1.31% (vs. 1.00% at previous auction), 2.04% (vs. 1.50% at previous auction) across the 91-day, 182-day and 364-day instruments respectively.

The situation was not different at the secondary market as average Treasury bills yield maintained an uptrend since the last PMA, rising from 0.61% recorded on the date of the last auction to 0.99% as at 5th February 2021. The quest for higher yields especially in the face of high inflation continues to lead investors away from risk-free Treasury instruments.

The world is getting vaccinated against COVID-19, but it is not happening fast enough. As of today, only about 131 million doses have been administered compared to about 9.80 billion doses required to achieve herd immunity. With economic recovery tied to the effective containment of the virus, near term economic outlook remains uncertain. In the domestic space, while we generally expect the challenge of low government revenue to persist, oil receipts are expected to be relatively larger this year than they were last year given the positive outlook for oil price and output. The real challenge for investors however, is having to put up with negative real returns, as we do not expect any significant increase in stop rates at the coming auction, enough to adequately compensate for inflation.

Nonetheless, we expect the offer to be oversubscribed albeit at higher bid rates. Demand will be driven by conservative investors such as PFAs especially as the alternatives are limited and carry greater risks.

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

Tenor	Offer Size	Advised Rates
91-Day	NGN19.78bn	0.60%-1.25%
182-Day	NGN10.00bn	1.20%-2.40%
364-Day	NGN140.00bn	2.20%-3.50%

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.

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.

How does the Auction Process work?

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**

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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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