

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	1.00%
182-Day	2.00%
364-Day	4.00%

Amount Alloted:

91-Day	NGN24.67bn
182-Day	NGN16.06bn
364-Day	NGN146.19bn

SUMMARY OF CURRENT AUCTION

Auction Date February 24, 2021

Settlement Date February 25, 2021

Auction Size

91-Day	NGN20.37bn
182-Day	NGN55.85bn
364-Day	NGN52.00bn

Maturing Instruments

91-Day	NGN20.37bn
182-Day	NGN55.85bn
364-Day	NGN52.00bn

Meristem Advised Stop Rates

91-Day	1.00%-1.20%
182-Day	2.00%-2.30%
364-Day	3.50%-4.50%

Treasury Bills Auction Scheduled for 24th of February 2021

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 24th of February 2021. Existing T-Bills worth NGN20.37bn, NGN55.85bn and NGN52.00bn across the 91-day, 182-day, and 364-day instruments respectively will mature, and the CBN will re-issue NGN20.37bn, NGN55.85bn and NGN52.00bn across same tenors respectively.

Outlook on Yields

Much in line with our expectation, investors demanded significantly higher rates at the last PMA, as indicated by the range of bids. Stop rates were thus increased to 1.00% (vs. 0.55% at previous auction), 2.00% (vs. 1.31% at previous auction), and 4.00% (vs. 2.04% at previous auction) across the 91-day, 182-day and 364-day instruments respectively. Although the CBN was able to raise more money than it planned, we note that investors' appetite continued to weaken with a decline in overall bid-to-cover ratio to 1.51x from 1.59x. We maintain that given the current inflationary trend, investors will continue to demand higher rates at PMAs and their participation will be limited by rates offered by the government.

The secondary market on the other hand has been relatively bearish since the last PMA as average Treasury bills yield rose from 1.20% recorded on the date of the last auction to 1.48% as at 19th February 2021. The expectation of higher yields in the future due to higher PMA rates may have led to selloffs by investors to minimize further capital losses and also to take advantage of higher rates at the PMA. Also, the relatively low interbank liquidity since the last auction was a key driver of the bearish run in the secondary space.

While we note that government revenues are expected to perform relatively better this year due to increased economic activities and the positive outlook for oil receipts, the current size of Federal Government debt and planned borrowing in 2021 implies rapidly mounting pressure on revenue through higher servicing costs. This also places a constraint on the FGN's ability to offer risk-reflective rates. It therefore remains uncertain how far higher rates can go at the PMAs. For the upcoming auction however, we expect only a slightly higher adjustment in rates from the previous auction.

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	NGN20.37bn	1.00%-1.20%
182-Day	NGN55.85bn	2.00%-2.30%
364-Day	NGN52.00bn	3.50%-4.50%

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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.

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 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

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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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