

# Ahead of Next T-Bills Auction

## SUMMARY OF PREVIOUS AUCTION

### Stop Rate:

91-Day	2.00%
182-Day	3.50%
364-Day	6.50%

### Amount Alloted:

91-Day	NGN4.74bn
182-Day	NGN23.45bn
364-Day	NGN80.57bn

## SUMMARY OF CURRENT AUCTION

Auction Date March 17, 2021

Settlement Date March 18, 2021

### Auction Size

91-Day	NGN1.50bn
182-Day	NGN8.39bn
364-Day	NGN37.18bn

### Maturing Instruments

91-Day	NGN1.50bn
182-Day	NGN8.39bn
364-Day	NGN37.18bn

### Meristem Advised Stop Rates

91-Day	2.00%-2.50%
182-Day	3.00%-3.50%
364-Day	6.00%-7.00%

## Treasury Bills Auction Scheduled for 17<sup>th</sup> of March 2021

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 17<sup>th</sup> of March 2021. Existing T-Bills worth NGN1.50bn, NGN8.39bn and NGN37.18bn across the 91-day, 182-day, and 364-day instruments respectively will mature, and the CBN will re-issue NGN1.50bn, NGN8.39bn and NGN37.18bn across same tenors respectively.

### Outlook on Yields

At the last PMA, stop rates for the 91 and 182-Day instruments remained unchanged while that for the 364-Day instrument increased by 100bps to 6.50%. This marked a deviation from the trend of higher stop rates across all instruments on offer since the beginning of the year. Our view is that the government may be putting a lid on interest rates to minimize the burden of repayments. Recall that we had earlier expressed our concern about the government's ability to cope with higher interest rates given its weak, albeit improved revenue outlook. In any case, investors' appetite strengthened significantly as overall bid-to-cover ratio increased to 1.81x from 1.51x at the previous auction. We note that the current wave of selloffs in the equities and secondary T-bills market have been key drivers of demand at the PMAs. At the next auction therefore, we expect stop rates to hover around current levels given that demand is expected to remain strong and the offer size is relatively smaller.

As previously noted, the secondary market has continued to witness bearish sentiment since the last PMA, with average Treasury bills yield rising from 2.54% recorded on the date of the last auction to 2.72% as at 12<sup>th</sup> March 2021. We generally expect that yields will continue to rise as investors seek to minimize capital losses in view of the uptrend in interest rates. Also, higher rates offered at PMAs should spur investors to give up their current positions in order to enjoy higher interest rates.

In view of the foregoing, we advise rates which aim to achieve a balance between the goal of maximizing investment returns and that of having a successful bid. The recommended stop rates for the respective instruments are listed below:

Tenor	Offer Size	Advised Rates
91-Day	NGN1.50bn	2.00%-2.50%
182-Day	NGN8.39bn	3.00%-3.50%
364-Day	NGN37.18bn	6.00%-7.00%

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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.

## 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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