

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	2.00%
182-Day	3.50%
364-Day	9.00%

Amount Alloted:

91-Day	NGN12.46bn
182-Day	NGN87.99bn
364-Day	NGN132.12bn

SUMMARY OF CURRENT AUCTION

Auction Date April 28, 2021

Settlement Date April 29, 2021

Auction Size

91-Day	NGN11.39bn
182-Day	NGN6.00bn
364-Day	NGN71.07bn

Maturing Instruments

91-Day	NGN11.39bn
182-Day	NGN6.00bn
364-Day	NGN71.07bn

Meristem Advised Stop Rates

91-Day	2.00% - 2.50%
182-Day	3.00% - 3.50%
364-Day	9.50% - 10.00%

Treasury Bills Auction Scheduled for 28th of April 2021

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 28th of April 2021. At the PMA, Existing T-Bills worth NGN11.39bn, NGN6.00bn, and NGN71.07bn across the 91-day, 182-day, and 364-day instruments, will mature, and will be rolled-over.

Outlook on Yields

In line with our expectation, the last PMA saw stop rates on the 91 and 182-day instruments unchanged from previous levels, while stop rates on the 1-year bill climbed by 100bps to 9.00%. Notably, bids (i.e. investor demand) were skewed in favor of the 364-day bill, with bid-to-cover ratio rising to 1.65x (from 1.37x at the previous auction). In contrast, bid-to-cover ratios on the 91 and 182-day offers fell to 1.27x and 1.58x respectively (from 3.27x and 3.93x at the previous PMA). As we had earlier noted, the FG's preference for the 364-day paper continued, with the DMO finally allotting 2.69x (NGN132.12bn) the initial offer size of NGN49.14bn. This, in our view is symptomatic of sustained pressure on government finances, despite a relatively better oil price environment. As a downside, we note the more recent developments in the oil market, where concerns about demand recovery given a worsening coronavirus situation in India have precipitated a drop in crude oil prices.

Broadly, bullish sentiments have dominated the secondary market for T-bills since the last auction, with average yields retreating by c. 43bps to 3.61% (as at April 23rd, 2021), from 4.04% on the date of the previous auction. This suggests that investors may have rushed to the secondary market to fill unmet demand from the PMA.

The major challenge for most investors remains having to endure negative real rates of return, as headline inflation continues its ascent (March 2021: 18.17% YoY). At the upcoming auction, although we expect investors to continue to demand better rates, we think the status quo would be maintained – with stop rates on the 91 and 182-day offers unchanged, and a slight uptick to stop rates on the 364-day instrument.

In consideration of the above, 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	NGN11.38bn	2.00%-2.50%
182-Day	NGN6.00bn	3.00%-3.50%
364-Day	NGN71.07bn	9.50%-10.00%

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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

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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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