

Ahead of Next T-Bills Auction

Treasury Bills Auction Scheduled for 14th of April 2021

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	2.00%
182-Day	3.50%
364-Day	8.00%

Amount Alloted:

91-Day	NGN2.88bn
182-Day	NGN3.24bn
364-Day	NGN138.71bn

SUMMARY OF CURRENT AUCTION

Auction Date April 14, 2021

Settlement Date April 15, 2021

Auction Size

91-Day	NGN10.00bn
182-Day	NGN17.60bn
364-Day	NGN68.08bn

Maturing Instruments

91-Day	NGN15.92bn
182-Day	NGN4.50bn
364-Day	NGN49.14bn

Meristem Advised Stop Rates

91-Day	2.00%-2.50%
182-Day	3.00%-3.50%
364-Day	8.00%-9.00%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 14th of April 2021. At the PMA, Existing T-Bills worth NGN15.92bn, NGN4.50bn and NGN49.14bn across the 91-day, 182-day, and 364-day instruments, will mature, and will be rolled-over.

Outlook on Yields

At the last PMA, rates on the 91 and 182-Day instruments remained unchanged while the stop rates on the 364-Day instrument increased by 100bps (vs +50bps at the previous auction). Although, the CBN successfully raised more than the amount offered, we note that investors' appetite showed signs of weakness as the average bid to cover ratio dipped to 1.47x from 2.48x. Also, allotment was tilted towards the 364-Day instrument. While we expect rates on the 91- and 182-days instruments to remain constant, we expect a rate increase on the 364-day instrument in line with recent trends. The government's perceived preference for the 364-Day instrument is indicative of increased pressure of high debt burden on government finances which is not expected to ease off any time soon. While it is helpful that oil prices have firmed up well above the budgetary benchmark, spending continues to significantly outweigh revenue.

The bearish sentiment in the secondary market has persisted as indicated by the 11.00bps increase in treasury bills yield to 4.09% as at April 09, 2021 (vs. 3.98% on the day of the previous auction). In addition to the expectation of higher rates at PMAs, we think that investors' sentiment in the secondary market is being swayed by increased corporate commercial paper issuances observed lately which offer relatively higher yields to investors. It is our view that the corporate debt market currently provides an opportunity for both issuers (given the relatively low risk-free rates) and investors seeking higher returns to benefit from. We therefore expect sustained interest in corporate debt securities over the near-to-medium term, which implies that the secondary T-bills market will remain bearish over the same time horizon.

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	NGN15.92bn	2.00%-2.50%
182-Day	NGN4.50bn	3.00%-3.50%
364-Day	NGN49.14bn	8.00%-9.00%

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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

Ahead of Next T-Bills Auction

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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Ahead of Next T-Bills Auction

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