

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

| | |
|---------|-------|
| 91-Day | 2.50% |
| 182-Day | 3.50% |
| 364-Day | 9.65% |

Amount Allotted:

| | |
|---------|-------------|
| 91-Day | NGN3.12bn |
| 182-Day | NGN4.12bn |
| 364-Day | NGN143.88bn |

SUMMARY OF CURRENT AUCTION

Auction Date June 09, 2021

Settlement Date June 10, 2021

Auction Size

| | |
|---------|------------|
| 91-Day | NGN4.74bn |
| 182-Day | NGN7.82bn |
| 364-Day | NGN78.71bn |

Maturing Instruments

| | |
|---------|------------|
| 91-Day | NGN4.74bn |
| 182-Day | NGN7.82bn |
| 364-Day | NGN78.71bn |

Meristem Advised Stop Rates

| | |
|---------|-------------|
| 91-Day | 2.00%-2.50% |
| 182-Day | 3.00%-3.50% |
| 364-Day | 9.60%-9.85% |

Treasury Bills Auction Scheduled for 9th of June 2021

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 9th of June 2021. At the PMA, Existing T-Bills worth NGN4.74bn, NGN7.82bn, and NGN78.71bn across the 91-day, 182-day, and 364-day instruments, will mature, and be rolled over.

Outlook on Yields

At the last PMA, stop rates at the short and medium end of the treasury bills curve (91 and 182 days) remained unchanged at 2.50% and 3.50% but declined by 10bps on the long end (364 days) to 9.65% (vs.9.75%). Subscription for the 91- and 182-day bills was significantly lower than amount offered as Investor preference was heavily skewed towards the 364-day bills. This was evidenced by the increase in bid to cover ratio on the 364-day bill to 1.99x from 1.72x. Overall, the government successfully raised more than the total amount offered as it shifted its interest more towards the 364-day bills. Thus, the increase in average bid to cover ratio (to 1.58x from 1.38x) implied stronger investor appetite at the auction. Meanwhile, although investors continued to press for higher yields, strong investor demand provided the CBN enough impetus to offer a lower rate on the 364-day instrument.

Rates at the coming auction will be influenced by investor demand and the outlook for inflation, FGN's revenues and debt serviceability. On the one hand, investor demand is expected to remain robust with higher bid ranges due to persistent inflationary pressure. On the other hand, FGN finances and debt burden remain pressured despite increase in crude oil prices as crude oil production and exports are still subject OPEC+ restrictions. We therefore expect rate reductions (especially on the mid-to-long end of the curve) or in the best case, a retention of last PMA rates.

In the secondary market for T-bills, the average yield has increased since the last PMA to 6.25% as of 7th June 2021 (from 5.48% on the day of the previous PMA) indicating a bearish run as selloffs persist. Although we expect inflation rate to moderate further due to the effect of the effect of a high base, it remains well above yields in the fixed income market leaving real rate of return firmly in the negative territory. Therefore, we expect selloffs in the secondary market to continue over the near term as investors seek higher yields from the primary market and from relatively riskier alternatives which have strong fundamentals.

In view 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 | NGN4.74bn | 2.00%-2.50% |
| 182-Day | NGN7.82bn | 3.00%-3.50% |
| 364-Day | NGN78.71bn | 9.60%-9.85% |

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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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