

# Ahead of Next T-Bills Auction

## SUMMARY OF PREVIOUS AUCTION

### Stop Rate:

|         |       |
|---------|-------|
| 91-Day  | 2.50% |
| 182-Day | 3.50% |
| 364-Day | 9.75% |

### Amount Allotted:

|         |             |
|---------|-------------|
| 91-Day  | NGN8.43bn   |
| 182-Day | NGN7.98bn   |
| 364-Day | NGN122.55bn |

## SUMMARY OF CURRENT AUCTION

Auction Date May 26, 2021

Settlement Date May 27, 2021

### Auction Size

|         |            |
|---------|------------|
| 91-Day  | NGN24.18bn |
| 182-Day | NGN19.16bn |
| 364-Day | NGN19.84bn |

### Maturing Instruments

|         |            |
|---------|------------|
| 91-Day  | NGN24.18bn |
| 182-Day | NGN19.16bn |
| 364-Day | NGN19.84bn |

### Meristem Advised Stop Rates

|         |             |
|---------|-------------|
| 91-Day  | 2.00%-2.50% |
| 182-Day | 3.00%-3.50% |
| 364-Day | 9.70%-9.85% |

## Treasury Bills Auction Scheduled for 26<sup>th</sup> of May 2021

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 26<sup>th</sup> of May 2021. At the PMA, existing T-Bills worth NGN24.18bn, NGN19.16bn, and NGN19.84bn 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 on the 182 and 364- day instruments remained unchanged from the last auction while that of the 91-day instrument increased by 25bps to 2.50%. Although average bid-to-cover ratio fell to 1.38x from 1.63x, investor demand remained robust as subscriptions significantly outweighed amount offered. The relatively lower bid-to-cover ratio was thus due to low supply (sales) of instruments on the part of the government.

Meanwhile, headline inflation rate for April 2021 moderated slightly to 18.12% due to food disinflation, however, it remains well above T-Bills yields and therefore an incentive for investors to demand higher yields at the next PMA. We however observed a moderation in investor appetite for higher yields at the last auction which may imply waning investors' influence due to limited options. Thus, we are not very optimistic of higher rates (relative to those at the last auction) at the next auction.

In the secondary market for treasury instruments, investors mood remained bearish as average T-Bills yields rose from 5.13% recorded on the date of the last auction to 5.55% (as at 24<sup>th</sup> May 2021). Negative real returns continue to dampen investors' appetite for treasury bills in the secondary market, especially as yields in the secondary market remain well above previous PMA rates. Given our expectation for rates at the next PMA, we do not expect secondary market yields to be significantly influenced by the outcome of the next auction as investors seek higher returns from investment grade corporate instruments.

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  | NGN24.18bn | 2.00%-2.50%   |
| 182-Day | NGN19.16bn | 3.00%-3.50%   |
| 364-Day | NGN19.84bn | 9.70%-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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