

# Ahead of Next T-Bills Auction

## SUMMARY OF PREVIOUS AUCTION

### Stop Rate:

91-Day	2.50%
182-Day	3.50%
364-Day	8.20%

### Amount Alloted:

91-Day	NGN3.17bn
182-Day	NGN3.54bn
364-Day	NGN258.53bn

## SUMMARY OF CURRENT AUCTION

Auction Date August 11, 2021

Settlement Date August 12, 2021

### Auction Size

91-Day	NGN8.44bn
182-Day	NGN16.06bn
364-Day	NGN27.00bn

### Maturing Instruments

91-Day	NGN8.44bn
182-Day	NGN16.06bn
364-Day	NGN27.00bn

### Meristem Advised Stop Rates

91-Day	2.00%-2.50%
182-Day	3.00%-3.50%
364-Day	7.70%-8.00%

## Treasury Bills Auction Scheduled for 11<sup>th</sup> Aug 2021

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 11<sup>th</sup> of August 2021. At the PMA, Existing T-Bills totalling NGN51.49bn (NGN8.44bn, NGN16.06bn and NGN27.00bn across the 91-day, 182-day, and 364-day instruments respectively), will mature and be rolled-over.

### Outlook on Yields

At the last PMA, average stop rate further declined to 4.73% from 4.89% largely driven by decline on stop rate on the 364 day instrument from 8.67% to 8.20%. However, rates on the short (91-Day) and medium (182-Day) end of the curve remained unchanged at 2.50% and 3.50% respectively. The strong investors' demand on the 364-day instrument continues to put downward pressure on the stop rate in that maturity segment. This has also influenced the FGN's appetite for raising debt at that maturity segment as 97% of the total allotment was raised from the 364-day instrument (vs. 92% at the previous auction).

In the coming auction, we expect the rates of the 91- and 182-Day instruments to remain unchanged given previous trends. However, we expect a further moderation in the rate on the 364-Day instrument, as investors appetite is expected to remain strong.

Meanwhile, the secondary market has continued its bullish run since the last auction, as average T-bills yields fell to 5.35% as at 9<sup>th</sup> August 2021 (vs. 11.36% from the last auction date). Investors rallied in the secondary market to fulfill unmet demand at the PMA (especially on the long end of the curve). Nonetheless, the real rates of return remain entrenched in the negative territory despite the recent disinflation.

In view of the above, our rate guidance is informed by the need to strike a balance between the goals of maximizing investment returns and having a successful bid. Thus, the recommended stop rates for the respective instruments are as follows:

Tenor	Offer Size	Advised Rates
91-Day	NGN8.44bn	2.00%-2.50%
182-Day	NGN16.06bn	3.00%-3.50%
364-Day	NGN27.00bn	7.70%-8.00%

## 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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