

Treasury Bills Auction Scheduled for 29th Sep 2021

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	2.50%
182-Day	3.50%
364-Day	7.20%

Amount Allotted:

91-Day	NGN0.96bn
182-Day	NGN3.61bn
364-Day	NGN151.31bn

SUMMARY OF CURRENT AUCTION

Auction Date	September 29, 2021
Settlement Date	September 30, 2021

Auction Size

91-Day	NGN2.26bn
182-Day	NGN3.24bn
364-Day	NGN106.37bn

Maturing Instruments

91-Day	NGN2.26bn
182-Day	NGN3.24bn
364-Day	NGN106.37bn

Meristem Advised Stop Rates

91-Day	2.00%-2.50%
182-Day	3.00%-3.50%
364-Day	6.80%-7.20%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 29th of September 2021. At the PMA, Existing T-Bills totalling NGN111.87bn (NGN2.26bn, NGN3.24bn and NGN106.37bn across the 91-day, 182-day, and 364-day instruments respectively), will mature and be rolled-over.

Outlook on Yields

At the last PMA, stop rates across all offered instruments (91-day, 182-day, and 364-day) remained unchanged at 2.50%, 3.50% and 7.20% respectively. Investors' demand waned as overall bid to cover ratio declined to 0.71x (vs 1.16x recorded at the previous auction), largely driven by the reduced demand for the 364-day instrument (bid to cover: 0.69x from 1.23x in the prior auction). The weakened investors' appetite for the 364-day instrument could be attributed to the expectation of a reduced rate on the instrument, picking from previous trends. On the other hand, we observed an uptick in investors' subscription on the 91- and 182-day instruments (average subscription to offer: 0.96x vs 0.85x as at the previous auction).

In the coming auction, we expect stop rates on the 91- and 182-Day instruments to remain unchanged at previous levels. For the 364-day instrument, we anticipate a slight moderation in the stop rate. This stems from our expectation that the FG would be more inclined towards external borrowings, especially given the oversubscription witnessed on its Eurobond offering in the market recently. (Recall that the FGN raised USD4bn as against the USD3bn offered).

Meanwhile, the secondary market reversed its bullish run since the last auction, as average T-bills yields increased to 5.37% as at 27th September 2021 (from 4.91% at the last auction date). Although inflation rate continues to decline YoY, moderating to 17.01% in August (from 17.38% in July), it remains well above yields in the fixed income market resulting in a negative real rate of return. We therefore expect the bearish sentiment in the secondary market to persist over the near to medium term given the current yield level.

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	NGN2.26bn	2.00%-2.50%
182-Day	NGN3.24bn	3.00%-3.50%
364-Day	NGN106.37bn	6.80%-7.20%

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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