

Treasury Bills Auction Scheduled for 10th Nov 2021

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	2.50%
182-Day	3.50%
364-Day	6.99%

Amount Alloted:

91-Day	NGN2.68bn
182-Day	NGN2.02bn
364-Day	NGN230.34bn

SUMMARY OF CURRENT AUCTION

Auction Date	November 10, 2021
Settlement Date	November 11, 2021

Auction Size

91-Day	NGN4.80bn
182-Day	NGN7.99bn
364-Day	NGN138.03bn

Maturing Instruments

91-Day	NGN4.80bn
182-Day	NGN7.99bn
364-Day	NGN138.03bn

Meristem Advised Stop Rates

91-Day	2.00%-2.50%
182-Day	3.00%-3.50%
364-Day	6.60%-6.89%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 10th of November 2021. At the PMA, Existing T-Bills totalling NGN150.82bn (NGN4.80bn, NGN7.99bn and NGN138.03bn across the 91-day, 182-day, and 364-day instruments respectively), will mature and be rolled-over.

Outlook on Yields

At the last PMA, the stop rates on the 91-day and 182-day instruments were unchanged at 2.50% and 3.50% respectively. However, the rate on the 364-day instrument declined to 6.99% from 7.25% at the previous auction. Investors' demand waned, as overall subscription was 2.87x amount offered (vs 4.05x at the last auction). Also, the overall bid to cover ratio declined to 1.83x (from 2.63x).

In the coming auction, we expect stop rates to remain unchanged on the 91- and 182-Day instruments in line with recent historical trends. However, we expect the rate on the 364-Day instrument to decline further. This is mainly because of the Government's preference for the longer-term instrument, despite a 11.74% decline in investor subscription for the instrument at the last auction. We note further that subscription-to-offer fell to 3.01x from 4.46x on the 364-Day instrument at the last auction.

Meanwhile, yields in secondary market has been bullish as average T-Bills yields declined (18bps) to 5.16% (vs 5.34% as at the date of the last auction). However, we do not expect any significant movement in yields in the near term as inflation expectations points to further moderation.

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	NGN4.80bn	2.00%-2.50%
182-Day	NGN7.99bn	3.00%-3.50%
364-Day	NGN138.03bn	6.60%-6.89%

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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