

Ahead of Next T-Bills Auction

Treasury Bills Auction Scheduled for 8th Dec 2021

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	2.50%
182-Day	3.50%
364-Day	5.89%

Amount Alloted:

91-Day	NGN2.04bn
182-Day	NGN3.78bn
364-Day	NGN209.90bn

SUMMARY OF CURRENT AUCTION

Auction Date December 8, 2021

Settlement Date December 9, 2021

Auction Size

91-Day	NGN4.94bn
182-Day	NGN10.09bn
364-Day	NGN38.70bn

Maturing Instruments

91-Day	NGN4.94bn
182-Day	NGN10.09bn
364-Day	NGN38.70bn

Meristem Advised Stop Rates

91-Day	2.00%-2.50%
182-Day	3.00%-3.50%
364-Day	5.35%-5.60%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 8th of December 2021. At the PMA, Existing T-Bills totalling NGN53.73bn (NGN4.94bn, NGN10.09bn and NGN38.70bn 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 remained at 2.50% and 3.50% respectively. However, the rate on the 364-day instrument declined to 5.89% from 6.50% at the previous auction. Investors' demand waned, as overall subscription to offer dropped to 3.51x (vs. 3.81x at the last auction). Also, the overall bid to cover ratio declined to 1.93x (from 2.94x).

In the coming auction, the amount on offer (NGN53.75bn) is significantly below that of the previous auction as maturing bills are lower. Thus, 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 reduction in investors' demand (subscription-to-offer fell to 3.63x from 4.10x at the last auction for the 364-day instrument).

Meanwhile, yield in the secondary market has maintained a downtrend following the 364-day instrument yield path at the PMA. Since the last auction, average T-Bills yield has declined by 38bps to 4.52%. Expectations of further moderation in inflation, and our projected decline in the 364-days instrument stop rate at the PMA both provide justification for further downward pressure on yields in the secondary market. On the flip side, investor cashflow needs for the festive season could trigger yield reversal northwards. A combination of these factors would determine yield direction; thus, we expect a moderate swing in yield for the rest of the year.

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	NGN4.94bn	2.00%-2.50%
182-Day	NGN10.09bn	3.00%-3.50%
364-Day	NGN38.70bn	5.35%-5.60%

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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