

Treasury Bills Auction Scheduled for 9th Feb 2022

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	2.48%
182-Day	3.30%
364-Day	5.40%

Amount Alloted:

91-Day	NGN2.68bn
182-Day	NGN3.54bn
364-Day	NGN217.53bn

SUMMARY OF CURRENT AUCTION

Auction Date February 09, 2022

Settlement Date February 10, 2022

Auction Size

91-Day	NGN4.12bn
182-Day	NGN3.75bn
364-Day	NGN90.15bn

Maturing Instruments

91-Day	NGN4.12bn
182-Day	NGN3.75bn
364-Day	NGN90.15bn

Meristem Advised Stop Rates

91-Day	2.00%-2.40%
182-Day	3.00%-3.40%
364-Day	4.85%-5.35%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 9th of February 2022. At the PMA, existing T-Bills totalling NGN98.01bn (NGN4.12bn, NGN3.75bn and NGN90.15bn across the 91-day, 182-day, and 364-day instruments, respectively), will mature and be rolled over.

Outlook on Yields

For the first time in 2022, stop rates on all the trio instruments declined to 2.48%, 3.30% and 5.40% respectively at the last PMA (vs 2.50%, 3.44%, and 5.50% respectively at the previous auction). Feeding off the strong demand from investors compared to the relatively lower amounts of instruments on offer, rates steeped across the 91-day, 182-day and 364-day instruments. We note the persistently high system liquidity as witnessed by the significant increase in overall investors' subscription (+321%) compared to previous auction's figures. Accordingly, overall bid to cover ratio increased to 2.13x from 1.96x at the last auction.

In the next auction, we do not expect any significant movement in the stop rates across the trio instruments. In our opinion, we expect the Government to continue to leverage on the increased investors' interest (3.68x subscription to offer as at last auction), to exert downward pressure on stop rates. In addition, the expectation of higher demand at the coming auction, given the liquidity in the market supports our stance of a moderation in stop rates.

Meanwhile, the secondary market for Treasury Bills has continued its bearish run. Average yield has increased from 4.20% (as of January 27, 2022 at the last auction) to 4.26% (as at February 7, 2022). The rotation of funds into other asset classes in a bid to minimize further capital losses may have led to sell offs by investors at the secondary market. While we do not rule out the possibility of investors rallying in the secondary market given the recent decline in rates at the PMA, we expect the current bearish mood to persist in the near term.

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	NGN4.12bn	2.00%-2.40%
182-Day	NGN3.75bn	3.00%-3.40%
364-Day	NGN90.15bn	4.85%-5.35%

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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