

## Treasury Bills Auction Scheduled for 15<sup>th</sup> Mar 2022

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	1.75%
182-Day	3.28%
364-Day	4.10%

#### Amount Alloted:

91-Day	NGN2.32bn
182-Day	NGN21.29bn
364-Day	NGN212.92bn

### SUMMARY OF CURRENT AUCTION

Auction Date March 17, 2022

Settlement Date March 18, 2022

#### Auction Size

91-Day	NGN0.96bn
182-Day	NGN3.61bn
364-Day	NGN53.46bn

#### Maturing Instruments

91-Day	NGN0.96bn
182-Day	NGN3.61bn
364-Day	NGN53.46bn

#### Meristem Advised Stop Rates

91-Day	1.50%-1.75%
182-Day	2.95%-3.00%
364-Day	3.75%-4.00%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 15<sup>th</sup> of March 2022. At the PMA, existing T-Bills totalling NGN58.00bn (NGN0.96bn, NGN3.61bn and NGN53.46bn 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 rate on the 364-day instrument declined significantly by 25bps to settle at 4.10% (vs. 4.35% at the previous auction). Rates on the 91-day and 182-day instruments also declined by 49bps and 2bps to 1.75% and 3.28% respectively. High system liquidity (given the OMO maturities) continue to trigger robust demand for the instruments, as subscription ratio remains elevated at 5.14x vs. 5.23x at the last auction. However, the recent drop in subscription (19.87% relative to the drop in offer size: 18.46%) imply a gradual wane in investor's interest. Thus, bid-to-cover declined to 2.04x (vs. 2.34x at the last auction).

While we expect rates on the 91-day and 182-day instruments to remain largely unchanged, we project a decline in stop rates on the 364-day instrument in the coming auction. We are of the opinion that the Federal Government will continue to focus on managing its cost of debt. On the other hand, we note the strong demand for instruments, especially on the long end of the curve, makes a compelling case for a decline in rate on this instrument.

Meanwhile bullish sentiments have prevailed in the secondary fixed income market since the last auction supported by the high level of liquidity in the market, as buying interest was recorded on medium tenured bills. Average Treasury-bills yields have declined to 3.41% (as of 14<sup>th</sup> of March) from 3.47% (as at the 9<sup>th</sup> of March), as investors cherry-picked relatively attractive maturities across the curve. We however expect a sustained bullish trend, as unmet bids at the PMA are channeled into the secondary market. Also, the expectation of OMO maturity on the 15<sup>th</sup> of March should further boost system liquidity in the market.

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	NGN960.66mn	1.50%-1.75%
182-Day	NGN3.61bn	2.95%-3.00%
364-Day	NGN53.46bn	3.75%-4.00%

## 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

## Ahead of Next T-Bills Auction

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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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