

Ahead of Next T-Bills Auction

Treasury Bills Auction Scheduled for 23rd Feb 2022

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	2.48%
182-Day	3.30%
364-Day	5.20%

Amount Alloted:

91-Day	NGN1.91bn
182-Day	NGN1.82bn
364-Day	NGN221.23bn

SUMMARY OF CURRENT AUCTION

Auction Date February 23, 2022

Settlement Date February 24, 2022

Auction Size

91-Day	NGN2.04bn
182-Day	NGN22.86bn
364-Day	NGN90.38bn

Maturing Instruments

91-Day	NGN2.04bn
182-Day	NGN22.86bn
364-Day	NGN90.38bn

Meristem Advised Stop Rates

91-Day	2.30%-2.48%
182-Day	3.00%-3.30%
364-Day	4.90%-5.25%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 23rd of February 2022. At the PMA, existing T-Bills totalling NGN115.28bn (NGN2.04bn, NGN22.86bn and NGN90.38bn 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 2.48% and 3.30% respectively. However, the rate on the 364-day instrument declined to 5.20% from 5.24% at the previous auction. With system liquidity at a robust level, the auction was met with strong investor demand. Thus, overall subscription was 4.55x amount offered (vs. 3.68x at the previous auction). Furthermore, there was only a marginal change in the overall bid to cover ratio (at 1.98x from 2.13x), explained by lower amount offered (NGN98.01bn vs. NGN129.33bn at the penultimate auction). Altogether, we think the high level of participation supported by high liquidity continues to give impetus to the Government to lower rates.

In the coming auction, we expect stop rates across the 91-Day and 182-Day instruments to remain unchanged. However, we expect the rate on the 364-Day instrument to decline further. In our opinion, the Government will continue to strive to manage its debt costs despite its funding needs. In addition, the OMO maturities and coupon payments might also filter into the NTB auction, further enhancing system liquidity and exerting downward pressure on stop rates. Supporting our view, so far this year, the Government has raised more than the amount offered at PMAs (total of NGN506.26bn as against offer size of NGN304.96bn).

Meanwhile, in the secondary market, average Treasury Bills yields declined from 4.24% (as of February 09, 2022 at the last auction) to 4.17% (as at February 21st, 2022) owing to high demand in the secondary market to fulfill unmet needs at the PMA. In the near term, we expect the high liquidity in the system to drive a higher demand in the secondary market. Thus, we expect the current bullish mood to persist, further anchored on our expectation of a moderation in PMA rates.

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	2.30%-2.48%
182-Day	NGN3.75bn	3.00%-3.30%
364-Day	NGN90.15bn	4.90%-5.25%

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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