

## Treasury Bills Auction Scheduled for 27<sup>th</sup> Apr 2022

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	1.74%
182-Day	3.00%
364-Day	4.60%

#### Amount Allotted:

91-Day	NGN4.51bn
182-Day	NGN10.56bn
364-Day	NGN143.97bn

### SUMMARY OF CURRENT AUCTION

Auction Date April 28, 2022

Settlement Date April 29, 2022

#### Auction Size

91-Day	NGN2.68bn
182-Day	NGN2.02bn
364-Day	NGN116.27bn

#### Maturing Instruments

91-Day	NGN2.68bn
182-Day	NGN2.02bn
364-Day	NGN116.27bn

#### Meristem Advised Stop Rates

91-Day	1.50% - 1.75%
182-Day	2.50% - 3.50%
364-Day	4.00% - 5.00%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 27<sup>th</sup> of April 2022. At the PMA, existing T-Bills totalling NGN120.97bn (NGN2.68bn, NGN2.02bn and NGN116.27bn across the 91-day, 182-day, and 364-day instruments, respectively), will mature and be rolled over.

### Outlook on Yields

At the last PMA, stop rate on the 182-day instrument remained unchanged at 3.00%, while rate on the 91-day instrument declined marginally to 1.74% (vs 1.75% at the prior auction). Rates on the 364-day instrument on the other hand increased by 15bps to 4.60%. Investors' appetite at the auction strengthened, as total subscription increased by 5.15%MoM, thus bid to cover was higher at 1.64x (vs. 1.42x at the prior auction).

At the coming auction, we expect a marginal increase in rate across instruments. We expect the bond auction held earlier during the week to further tighten liquidity, we also note the likelihood of investors demanding higher rates, due to the uptick in inflation. We also consider the increased funding need of the Government during the quarter, which could propel an increase in rates. On the flip side, the need to minimize Government's funding cost and likelihood of exploring the international debt market in the near term could serve as incentives to keep rates unchanged.

Meanwhile, bearish sentiments have prevailed in the fixed income secondary market, as average Treasury bills yield increased by 38.00bps to 3.80% as at April 25, 2022 (vs. 3.42% on the previous auction date). Our expectation of marginal increase in rates at the PMAs should further cause an uptick in yields in the secondary market. In addition, we believe that investors' need for cashflow amid the festive season could prompt selloffs in the market. Consequently, we project that the secondary fixed income market will remain bearish 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	NGN2.68bn	1.50% - 1.75%
182-Day	NGN2.02bn	2.50% - 3.50%
364-Day	NGN116.27bn	4.00% - 5.00%

## 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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