

## Treasury Bills Auction Scheduled for 11<sup>th</sup> May 2022

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	1.74%
182-Day	3.00%
364-Day	4.79%

#### Amount Allotted:

91-Day	NGN2.22bn
182-Day	NGN8.23bn
364-Day	NGN119.61bn

### SUMMARY OF CURRENT AUCTION

Auction Date May 11, 2022

Settlement Date May 12, 2022

#### Auction Size

91-Day	NGN1.91bn
182-Day	NGN3.00bn
364-Day	NGN122.56bn

#### Maturing Instruments

91-Day	NGN1.91bn
182-Day	NGN3.00bn
364-Day	NGN122.56bn

#### Meristem Advised Stop Rates

91-Day	1.50%-1.75%
182-Day	2.50%-3.50%
364-Day	4.30%-5.00%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 11<sup>th</sup> of May 2022. At the PMA, existing T-Bills totalling NGN127.47bn (NGN1.91bn, NGN3.00bn and NGN122.56bn 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 rates on the 91-day and 182-day instruments remained unchanged. However, in line with our expectation, the stop rate on the 364-day instrument rose by 19bps to 4.79%. Investors' demand remained strong as overall subscription to offer improved to 2.06x (from 1.84x in the previous auction), despite the marginal decline in total subscription by 4.16%MoM. Thus, overall bid-to-cover ratio increased to 1.92x (from 1.64x in the prior auction).

In the coming auction, we expect stop rates to inch higher across the trio instruments. We note that there has been a general pushback from investors in the corporate market due to the demand for higher rates on corporate issuances; even for highly rated issuers. In our opinion, this is informed by investors' expectation of higher benchmark rate amid the recent upshoot in inflation rate. Recall that at the last Monetary Policy Committee (MPC) meeting, 40% of the Committee members voted to increase the Monetary Policy Rate (MPR). Additionally, our estimated lower system liquidity in this quarter viz-a-viz the increasing fiscal spending needs further gives credibility to the expectation of a higher rate.

Reflecting the trend in the primary market, average Treasury Bills yield in the fixed income secondary market has been trending upwards, albeit gradually. Since the last PMA, average yield has increased by 6bps (to 3.93% as of 9<sup>th</sup> May 2022). We expect this bearish sentiment to persist as investors continue to cherry-pick for attractive instruments across the yield curve.

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	NGN1.91bn	1.50%-1.75%
182-Day	NGN3.00bn	2.50%-3.50%
364-Day	NGN122.56bn	4.30%-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

## Ahead of Next T-Bills Auction

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T-bills (and all Treasuries) are considered to be risk-free investments because they are 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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