

Treasury Bills Auction Scheduled for 25th May 2022

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	1.74%
182-Day	3.00%
364-Day	4.70%

Amount Allotted:

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

SUMMARY OF CURRENT AUCTION

Auction Date	May 25, 2022
Settlement Date	May 26, 2022

Auction Size

91-Day	NGN5.36bn
182-Day	NGN3.78bn
364-Day	NGN143.88bn

Maturing Instruments

91-Day	NGN5.36bn
182-Day	NGN3.78bn
364-Day	NGN143.88bn

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 25th of May 2022. At the PMA, existing T-Bills totalling NGN153.03bn (NGN5.36bn, NGN3.78bn and NGN143.88bn 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 instrument remained unchanged (at 1.74% and 3.00%, respectively), while the stop rate on the 364-Day instrument dropped by 9bps to 4.70%. In addition to the Federal Government successfully raising more than the amount offered as typical, investors' appetite also improved as the total subscription was 2.96x the amount offered (vs. 2.06x in the previous auction). Similarly, bid-to-cover ratio improved to 2.74x vs. 1.92x in the previous auction.

At the next auction, we do not expect a change in the rate on the 91- and 182-days instruments. However, we expect a marginal rise in the rate on the 364-day instrument. We think that the market will price in the 150bps increase in the monetary policy rate (MPR), a decision just taken by the Monetary Policy Committee (MPC). In addition, the low system liquidity makes a case for an increase in the stop rates in the PMA.

Bearish sentiment was sustained in the fixed income secondary market as average treasury yield rose by 6bps to 3.99% as of May 20, 2022 (vs. 3.93% as of 9th May 2022). We expect this bearish sentiment to remain in the near term as investors continue to opt for attractive instruments across the yield curve. Also, we expect the hike in the MPR to filter into the secondary market.

In respect to 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	NGN5.36bn	1.50%-1.75%
182-Day	NGN3.78bn	2.50%-3.50%
364-Day	NGN143.88bn	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 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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