

## Treasury Bills Auction Scheduled for 8<sup>th</sup> June 2022

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	2.50%
182-Day	3.89%
364-Day	6.49%

#### Amount Allotted:

91-Day	NGN3.56bn
182-Day	NGN1.25bn
364-Day	NGN168.67bn

### SUMMARY OF CURRENT AUCTION

Auction Date	June 8, 2022
Settlement Date	June 9, 2022

#### Auction Size

91-Day	NGN2.32bn
182-Day	NGN0.79bn
364-Day	NGN164.11bn

#### Maturing Instruments

91-Day	NGN2.32bn
182-Day	NGN0.79bn
364-Day	NGN164.11bn

#### Meristem Advised Stop Rates

91-Day	2.50%-3.05%
182-Day	3.00%-4.50%
364-Day	6.00%-7.50%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 8<sup>th</sup> of June 2022. At the PMA, existing T-Bills totalling NGN167.22bn (NGN2.32bn, NGN0.79bn and NGN164.11bn 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, 182-Day and 364-Day instruments advanced by 79bps, 89bps and 179bps (to 2.50%, 3.89% and 6.49%) respectively. The increase in rate was driven by the hike in Monetary Policy Rate (MPR) by 150bps to 13.50%. Specifically, we observed strong investors demand for the 91-Day instrument as subscription to offer on the instrument was 4.44x (vs. 0.72x at the last auction) and bid-to-cover expanded to 6.69x vs. (1.35x as at the last auction) However, we note a reduction in overall investors' appetite as the total subscription was 1.55x the amount offered (vs. 2.96x in the previous auction). Similarly, bid-to-cover ratio declined to 1.37x vs. 2.74x in the previous auction.

At the next auction, we expect a rise in rates on the trio instruments as the market continue to price in the increase in the Monetary Policy Rate (MPR). Also, we note that the Government is more attuned to raising funds from the domestic debt market to fund its budget deficit having cancelled its plan to raise funds from the international debt market due to high cost of raising external debt. However, we are of the opinion that the increase in system liquidity given the OMO maturities and the decline in money market rates last week could make a case for a marginal reduction in the stop rates at the PMA.

Bearish sentiment was sustained in the fixed income secondary market as average treasury yield rose by 55bps to 4.69% as of June 06, 2022 (vs. 4.14% as of 25<sup>th</sup> May 2022). We expect the bearish performance to continue in the secondary market as yields trend upwards and investors shift their focus to the PMA.

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	NGN2.32bn	2.50%-3.00%
182-Day	NGN0.79bn	3.00%-4.50%
364-Day	NGN164.11bn	6.00%-7.50%

## 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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