

Treasury Bills Auction Scheduled for 24th Aug 2022

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	3.50%
182-Day	4.50%
364-Day	7.45%

Amount Allotted:

91-Day	NGN1.15bn
182-Day	NGN1.31bn
364-Day	NGN148.15bn

SUMMARY OF CURRENT AUCTION

Auction Date	August 24, 2022
Settlement Date	August 25, 2022

Auction Size

91-Day	NGN3.56bn
182-Day	NGN11.03bn
364-Day	NGN280.93bn

Maturing Instruments

91-Day	NGN3.56bn
182-Day	NGN11.03bn
364-Day	NGN280.93bn

Meristem Advised Stop Rates

91-Day	3.40%-4.00%
182-Day	4.10%-5.50%
364-Day	7.45%-8.50%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 24th of August 2022. At the PMA, existing T-Bills totalling NGN295.53bn (NGN3.56bn, NGN11.03bn and NGN280.93bn 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 increased by 70bp, 40bps and 45bps to (3.50%, 4.50% and 7.45%) respectively. The increase in rate signals investors' demand for higher rates considering the impact of the rising inflation on investors' real returns. Also, the subscription to offer ratio across the trio instrument improved to 1.77x, 0.93x and 1.25x from (0.84x, 0.40x and 1.23x in the last auction). The overall improvement in the subscription-to-offer ratio signals an increased investor's appetite. The total subscription-to-offer ratio thus improved to 1.25x (vs 1.21x in the last auction), and the bid-to-cover ratio also increased to 1.25x relative to 1.21x recorded in the previous auction.

At the next auction, we expect rates to increase across all instruments on offer as investors continue to price in the increased market risk and the recent monetary policy rate hike. Also, given the high cost of raising funds from the foreign debt market, we expect the government to focus more on borrowing from the domestic debt market to cover its current budget deficit. In addition, the upward revision in the savings deposit rate (to a minimum of 30% of MPR from 10%) by the CBN could be a consideration for investors to demand a higher rate.

In the secondary market, bearish sentiment reigned as the average Treasury Bills yield increased by 7bps to 7.85% as of August 22, 2022 (vs. 7.78% on the date of the previous auction). In the near term, we expect this bearish sentiment to persist due to the expectation of higher rates at the PMAs.

Given the above, our rate guidance is informed by the need to balance 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	NGN3.56bn	3.40%-4.00%
182-Day	NGN11.03bn	4.10%-5.50%
364-Day	NGN280.93bn	7.50%-8.50%

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

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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