

## Treasury Bills Auction Scheduled for 14<sup>th</sup> Sept 2022

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	5.50%
182-Day	5.85%
364-Day	10.00%

#### Amount Allotted:

91-Day	NGN1.03bn
182-Day	NGN10.55bn
364-Day	NGN203.15bn

### SUMMARY OF CURRENT AUCTION

Auction Date September 14, 2022

Settlement Date September 15, 2022

#### Auction Size

91-Day	NGN1.44bn
182-Day	NGN6.85bn
364-Day	NGN151.31bn

#### Maturing Instruments

91-Day	NGN1.44bn
182-Day	NGN6.85bn
364-Day	NGN151.31bn

#### Meristem Advised Stop Rates

91-Day	5.50%-5.85%
182-Day	5.85%-6.20%
364-Day	10.00%-10.50%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 14<sup>th</sup> of September 2022. At the PMA, existing T-Bills totalling NGN159.60bn (NGN1.44bn, NGN6.85bn and NGN151.31bn across the 91-day, 182-day, and 364-day instruments, respectively), will mature and be rolled over.

### Outlook on Yields

Similar to the previous PMA, the stop rates increased on the trio instruments. The 91-Day, 182-Day, and 364-Day instruments increased by 200bps, 135bps and 255bps to (5.50%, 5.85% and 10.00%) respectively. In our opinion, the rise in stop rates signals investors increased appetite for higher rates, given the tighter monetary policy stance. Also, the increase in the interest rate on savings accounts and bank deposits has incentivized investors to demand higher rates. Specifically, we observed strong investors' appetite for the 364-Day instrument as the subscription to offer on the instrument settled at 1.28x relative to 1.06x recorded at the last auction. On the other hand, investors' demand for the 91-Day and 182-Day instruments declined substantially, with the subscription-to-offer ratio declining to 0.05x and 0.34x from 0.70x and 0.95x, respectively, at the last auction. Cumulatively, the Federal Government successfully raised the exact amount offered mainly due to the high subscription on the 364-Day instrument. The bid-to-cover ratio, thus, declined marginally to 1.03x vs 1.05x recorded in the previous auction.

As investors continue to price the monetary policy rate (MPR) increase, we expect rates to increase on the trio instruments at the next auction. Also, with the continuous inflationary pressure and its impact on real returns, we expect investors to demand higher rates to compensate for the rising prices. However, we observed improved system liquidity following the CBN's upward revision of the saving deposit rate. Hence, the improved system liquidity and the CBN ways and means financing make a case for a possible marginal reduction in the stop rates at the PMA.

Bullish sentiment reigned in the secondary market as the average Treasury bills yield moderated by 77.87bps to 7.67% as of September 12, 2022 (vs. 8.44% on the date of the previous auction). In the near term, we expect this bullish sentiment to wane as the expectation of higher rates at the PMAs support an upward movement in yield. Overall, we expect bearish sentiment to prevail in the secondary market over the near to medium term.

Given the above, our rate guidance is informed by the need to strike a balance between 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	NGN1.44bn	5.50%-5.85%
182-Day	NGN6.85bn	5.85%-6.20%
364-Day	NGN151.31bn	10.00%-10.50%

## 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

## 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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