

Treasury Bills Auction Scheduled for 28th Sept 2022

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

| | |
|---------|-------|
| 91-Day | 5.50% |
| 182-Day | 6.00% |
| 364-Day | 9.75% |

Amount Allotted:

| | |
|---------|-------------|
| 91-Day | NGN8.50bn |
| 182-Day | NGN0.92bn |
| 364-Day | NGN150.18bn |

SUMMARY OF CURRENT AUCTION

| | |
|-----------------|--------------------|
| Auction Date | September 28, 2022 |
| Settlement Date | September 29, 2022 |

Auction Size

| | |
|---------|-------------|
| 91-Day | NGN12.28bn |
| 182-Day | NGN20.35bn |
| 364-Day | NGN108.71bn |

Maturing Instruments

| | |
|---------|-------------|
| 91-Day | NGN12.28bn |
| 182-Day | NGN20.35bn |
| 364-Day | NGN108.71bn |

Meristem Advised Stop Rates

| | |
|---------|--------------|
| 91-Day | 5.50%-5.75% |
| 182-Day | 6.25%-6.50% |
| 364-Day | 9.75%-10.25% |

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 28th of September 2022. At the PMA, existing T-Bills totalling NGN141.34bn (NGN12.28bn, NGN20.35bn and NGN108.71bn 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 instrument remained unchanged at 5.50%, while the stop rate on the 182-Day instrument increased by 15bps to 6.00%. However, the stop rate on the 364-Day instrument declined by 25bps to settle at 9.75%. We attribute the divergent movement in yields to investors' preference for the longer tenured instrument (subscription to offer on the 364-day instrument increased to 3.10x from 1.28x at the previous auction) due to its relatively higher discount rate. On the flip side, the subscription to offer on the 182-day instrument was lower (0.20x) relative to the previous auction (0.34x), explaining the increased rate. The bid-to-cover ratio also increased to 2.55x from 1.03x recorded at the previous auction.

With the increase in the monetary policy rate (from 14.00% on July 19th, 2022, to 15.50% on September 27th, 2022) and increased market risk, we expect rates to increase across all instruments on offer. Furthermore, the most recent coupon payment of NGN131.20bn on two Federal Government of Nigeria bonds is anticipated to support the improvement in liquidity. However, the major tailwind to higher rates at the PMA is the recent increase in banks' Cash Reserve Ratio (CRR). We expect this to cause a liquidity squeeze in the system, especially as there is a tight two-day window (till September 29th) to meet the target CRR of 32.50%.

Bullish sentiment reigned in the secondary market as the average Treasury bills yield moderated by 52bps to 7.27% as of September 26, 2022 (vs. 7.79% 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 | NGN12.28bn | 5.50%-5.75% |
| 182-Day | NGN20.35bn | 6.25%-6.50% |
| 364-Day | NGN108.71bn | 9.75%-10.25% |

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

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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