

## Treasury Bills Auction Scheduled for 7<sup>th</sup> Sept 2022

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	4.00%
182-Day	5.00%
364-Day	8.50%

#### Amount Allotted:

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

### SUMMARY OF CURRENT AUCTION

Auction Date September 7, 2022

Settlement Date September 8, 2022

#### Auction Size

91-Day	NGN0.77bn
182-Day	NGN21.29bn
364-Day	NGN192.68bn

#### Maturing Instruments

91-Day	NGN0.77bn
182-Day	NGN21.29bn
364-Day	NGN192.68bn

#### Meristem Advised Stop Rates

91-Day	4.00%-4.50%
182-Day	5.00%-5.50%
364-Day	8.50%-9.00%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 7<sup>th</sup> of September 2022. At the PMA, existing T-Bills totaling NGN214.74bn (NGN0.77bn, NGN21.29bn and NGN192.68bn across the 91-day, 182-day, and 364-day instruments, respectively), will mature and be rolled over.

### Outlook on Yields

At the previous PMA, the stop rates on the 91-day, 182-day, and 364-day instruments increased by 50bps, 50bps and 105bps to (4.00%, 5.00% and 8.50%), respectively. This increase can be attributed to investors' pricing of the increased market risk as well as the hike in monetary policy rate. Also, the Government has continued to tap the domestic debt market to fund its deficit. However, we observed a reduced investors' demand on the 91-day and 364-day instruments as subscription to offer ratio declined to 0.70x and 1.06x (from 1.77x and 1.25x in the last auction) while that of the 182-day instrument improved marginally to 0.95x (vs. 0.93x in the last auction). Similarly, the total bid-to-cover ratio declined to 1.05x relative to 2.07x recorded in the previous auction. This signifies lower investors' participation at the auction.

At the next auction, we expect an uptrend in spot rates across all instruments on offer as investors continue to price in the increase in Monetary Policy Rate (MPR). Furthermore, the increase in interest rates on savings account and bank deposit rates also gives investors the incentive to demand for higher rates. However, since the previous auction, money market rates have moderated which suggests increase in system liquidity. This, in combination with the CBN Ways and Means financing window could suppress the stop rates.

In the secondary market, the sentiment has been relatively bullish as average treasury bills yield moderated by 24bps to 8.46% as of September 5, 2022 (vs. 8.70% on the date of the previous auction). This can be attributed to the increased buying interest as investors cherry picked relatively attractive maturities across the curve. However, we maintain our expectation of uptrend in yields in the near to medium term as investors' focus more on PMAs given the expectation of increase in rates.

In view of 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	NGN0.77bn	4.00%-4.50%
182-Day	NGN21.29bn	5.00%-5.50%
364-Day	NGN192.68bn	8.50%-9.00%

## 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

## 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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