

Treasury Bills Auction Scheduled for 26th Oct 2022

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	6.47%
182-Day	7.90%
364-Day	13.00%

Amount Allotted:

91-Day	NGN1.55bn
182-Day	NGN2.52bn
364-Day	NGN30.76bn

SUMMARY OF CURRENT AUCTION

Auction Date October 26, 2022

Settlement Date October 27, 2022

Auction Size

91-Day	NGN1.69bn
182-Day	NGN8.23bn
364-Day	NGN230.34bn

Maturing Instruments

91-Day	NGN1.69bn
182-Day	NGN8.23bn
364-Day	NGN230.34bn

Meristem Advised Stop Rates

91-Day	6.50%-7.00%
182-Day	8.00%-8.50%
364-Day	13.20%-14.00%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 26th of October 2022. At the PMA, existing T-Bills totalling NGN240.26bn (NGN1.69bn, NGN8.23bn and NGN230.34bn 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 declined by 2bps to settle at 6.47%, while stop rates on the 182-Day and 364-Day instruments increased by 40bps and 100bps to settle at 7.90% and 13.00% respectively. The increase in stop rates indicates lower liquidity and demand, as subscription to offer declined across all trio instruments (total subscription to offer ratio declined to 0.59x from 1.69x at the previous auction). However, total bid-to-cover increased to 3.21x from 1.33x at the previous auction due to significant reduction in allotment (NGN34.82bn vs NGN179.31bn in previous auction).

We expect a marginal uptick in stop rates across all instruments at the next auction. This is hinged on investors' demand for higher rate to compensate for decline in real return (-7.77%) due to high inflation. Other factor that supports higher rates at the PMA is the tight system liquidity due to the hawkish stance of the Monetary Policy Committee (MPC). For context, overnight policy rate and overnight rate both remain elevated at 16.33% and 16.50% respectively.

Bearish sentiment dominated the secondary market as average Treasury bills yield increased by 280.24bps to 13.05% as of October 21, 2022 (vs. 10.25% on the date of the previous auction). We expect the bearish sentiment to persist given investors expectation of higher rates at the next PMAs.

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	NGN1.69bn	6.50%-7.00%
182-Day	NGN8.23bn	8.00%-8.50%
364-Day	NGN230.34bn	13.20%-14.00%

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

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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