

Treasury Bills Auction Scheduled for 23rd Nov 2022

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	6.50%
182-Day	8.05%
364-Day	13.99%

Amount Allotted:

91-Day	NGN4.52bn
182-Day	NGN5.44bn
364-Day	NGN300.16bn

SUMMARY OF CURRENT AUCTION

Auction Date November 23, 2022

Settlement Date November 24, 2022

Auction Size

91-Day	NGN2.28bn
182-Day	NGN1.25bn
364-Day	NGN209.29bn

Maturing Instruments

91-Day	NGN2.28bn
182-Day	NGN1.25bn
364-Day	NGN209.29bn

Meristem Advised Stop Rates

91-Day	7.50%-8.25%
182-Day	8.50%-9.00%
364-Day	14.00%-14.70%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 23rd of November, 2022. At the PMA, existing T-Bills totalling NGN212.82bn (NGN2.28bn, NGN1.25bn and NGN209.29bn 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, and 182-Day stayed flat at 6.50% and 8.05%, while that of 364-Day instruments declined by 51bps to settle at 13.99%. This represents the first decline in the stop rate on the 364-Day instrument since September 2022. Notably, total subscription increased to the highest since February (NGN520.92bn vs. NGN136.96bn at the previous auction), signifying increased investors' participation. We also note that the most recent FAAC allocation, which pushed system liquidity higher, also contributed to the increased participation at the auction. Thus, the subscription-to-offer and bid-to-cover ratios increased to 2.70x and 1.68x (vs 0.57x and 1.25x at the previous auction).

At the forthcoming auction, we expect an increase in stop rates across the trio instruments. In response to the Monetary Policy Committee's (MPC) decision to raise the Monetary Policy Rate (MPR) by 100bps to 16.50%, we expect investors to price the rate hike in their demands at the auction. Also, the higher inflation rate reported in October could prompt investors to demand higher rates to compensate for the risks.

The secondary market has remained largely bearish, as the average Treasury bills increased by 50bps to 12.58% as of November 22, 2022 (vs 12.08% on the date of the previous auction). In the near term, we expect the sentiment to remain the same as investors focus more on the PMA, given the expectation of increase in rates.

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	NGN2.28bn	7.50%-8.25%
182-Day	NGN1.25bn	8.50%-9.00%
364-Day	NGN209.29bn	14.00%-14.70%

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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