

Treasury Bills Auction Scheduled for 9th Nov 2022

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	6.50%
182-Day	8.05%
364-Day	14.50%

Amount Allotted:

91-Day	NGN1.74bn
182-Day	NGN10.12bn
364-Day	NGN97.33bn

SUMMARY OF CURRENT AUCTION

Auction Date	November 09, 2022
Settlement Date	November 10, 2022

Auction Size

91-Day	NGN1.15bn
182-Day	NGN2.83bn
364-Day	NGN189.06bn

Maturing Instruments

91-Day	NGN1.15bn
182-Day	NGN2.83bn
364-Day	NGN189.06bn

Meristem Advised Stop Rates

91-Day	6.50%-7.00%
182-Day	8.05%-8.75%
364-Day	14.50%-15.00%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 9th of November, 2022. At the PMA, existing T-Bills totalling NGN193.03bn (NGN1.15bn, NGN2.83bn and NGN189.06bn 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, 182-Day, and 364-Day instruments increased by 3bps, 15bps, and 150bps to settle at 6.50%, 8.05% and 14.50%, respectively. Like recent PMAs, the increase in stop rates was primarily driven by the consolidated effect of the rate hikes and investors' demand for higher compensation. Although the subscription-to-offer and bid-to-cover ratios declined to 0.57x and 1.25x (vs. 0.59x and 3.21x at the previous auction), investors' participation increased (total subscription increased to NGN136.96bn from NGN111.94bn) relative to the previous auction. We attribute the decline in the subscription-to-offer and bid-to-cover ratios to the higher amount allotted (increased to NGN109.18bn from NGN34.82bn at the previous auction) by the CBN. In our view, this further denotes increased Federal Government's interest in the local debt market.

At the forthcoming auction, we project a marginal increase in stop rates across the trio instruments. In our opinion, investors are demanding higher rates due to the heightened macroeconomic uncertainty, particularly the rising inflation, which has dragged the real return to negative. Also, the expectation for the Monetary Policy Committee (MPC) to maintain its hawkish stance in its meeting later this month supports the outlook.

Broadly, the secondary market has been bearish as the average Treasury bills yield increased by 32bps to 14.61% as of November 7, 2022 (vs 14.29% on the date of the previous auction). We project that the bearish sentiment would persist due to investors' quest for higher rates at the PMAs. 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	NGN1.15bn	6.50%-7.00%
182-Day	NGN2.83bn	8.05%-8.75%
364-Day	NGN189.06bn	14.50%-15.00%

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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