

Treasury Bills Auction Scheduled for 7th Dec 2022

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	6.50%
182-Day	8.05%
364-Day	14.84%

Amount Allotted:

91-Day	NGN11.68bn
182-Day	NGN1.82bn
364-Day	NGN199.93bn

SUMMARY OF CURRENT AUCTION

Auction Date	December 07, 2022
Settlement Date	December 08, 2022

Auction Size

91-Day	NGN21.03bn
182-Day	NGN11.94bn
364-Day	NGN21.39bn

Maturing Instruments

91-Day	NGN21.03bn
182-Day	NGN11.94bn
364-Day	NGN21.39bn

Meristem Advised Stop Rates

91-Day	6.25%-6.50%
182-Day	8.00%-8.05%
364-Day	13.50%-14.00%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 7th of December, 2022. At the PMA, existing T-Bills totalling NGN54.45bn (NGN21.03bn, NGN11.94bn and NGN21.39bn 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 increased by 85bps to settle at 14.84%. We view this as a response to the tight monetary policy stance maintained by the Monetary Policy Committee, which led to another 100bps rate in its November meeting. Also, we observed a decline in investors' demand compared to the previous auction as the subscription-to-offer ratio across the trio instruments decreased to 0.37x, 0.07x and 2.47x from (0.72x, 0.19x and 3.59x at the prior auction), respectively. However, the bid-to-cover ratio increased marginally to 1.69x relative to 1.68x recorded in the previous auction.

At the forthcoming auction, we expect a moderation in stop rates, specifically on the 364-day instrument. Our expectation is primarily hinged on the robust interbank liquidity. For context, the overnight policy rate and the overnight rate declined to 11.88% and 12.75% from 17.13% and 17.25% (as at the previous auction), respectively. Also, the relatively low amount offered - NGN54.45bn (vs NGN213.43bn in the prior period) could prompt oversubscription, thus, driving stop rates lower.

The bullish sentiment prevailed in the secondary market, as the average Treasury bills decreased by 135bps to 11.57% as of December 05, 2022 (vs 12.91% on the date of the previous auction). This is because investors with unmet demands at the prior auction rotated into the secondary market during the period. We expect the same dynamics to continue in the near term as the amount on offer is low (as highlighted above), and there is also increased system liquidity.

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	NGN21.03bn	6.25%-6.50%
182-Day	NGN11.94bn	8.00%-8.05%
364-Day	NGN21.39bn	13.50%-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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