

NTB Auction Teaser.

Higher Than Previous Rates Expected

On Thursday, 20th October 2016, the sum of N138.17 billion will be injected into the banking system through maturing treasury bills. This comprises N36.79 billion, N35.00 billion and N66.39 billion of the 91-day, 182-day and 364-day bills respectively. In its customary fashion, the Central Bank of Nigeria (CBN) will offer the same amount at the Primary Market Auction (PMA), which will hold today, 19th October 2016.

Table 1: Auction Indicative Rates

T-Bills	91D	182D	364D
Indicative Rates (%)	14.00-14.40	17.50-17.90	18.30-18.70

Source: Cordros Forecast

In the buildup to the previous auction, held on October 5 2016, active demand dominated the treasury bills space, driven primarily by an improvement in system liquidity – which particularly swung into surplus balance from a deficit balance – as the apex bank tapered on its liquidity mopping activities during the period (there were actually no OMO auctions prior to the PMA). In effect, stop rates on the 91, 182 and 364-day bills recorded marginal rates of 13.90%, 17.09% and 18.25% respectively (vs. 14.00%, 17.77% and 18.48%) at the previous auction.

Despite an initial positive reaction from investors in the secondary market, average yield expanded by 59bps, from 19.16% at the last auction day to 19.75%. The primary driver of the uptrend in yields was the significant drain in system liquidity, following a special intervention foreign exchange auction held on October 14 2016. Other system withdrawals that contributed to the tight liquidity conditions that drove up yields include (1) a net outflow of N275 billion via OMO auctions, and (2) N95 billion via bond auction.

Fig 1: Daily Banking System Liquidity (N'M)

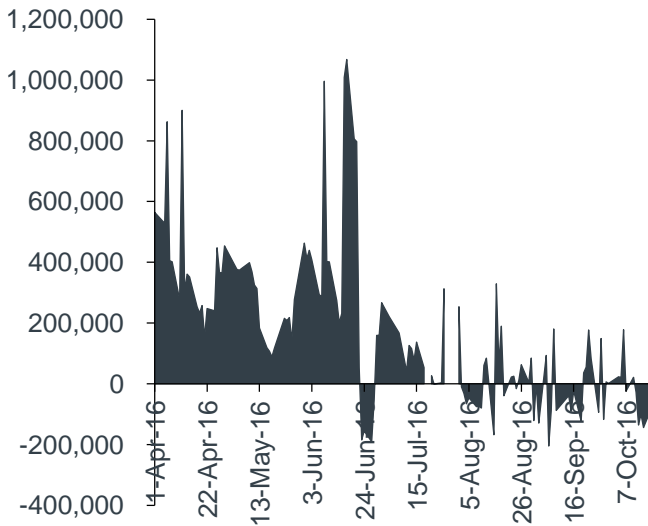
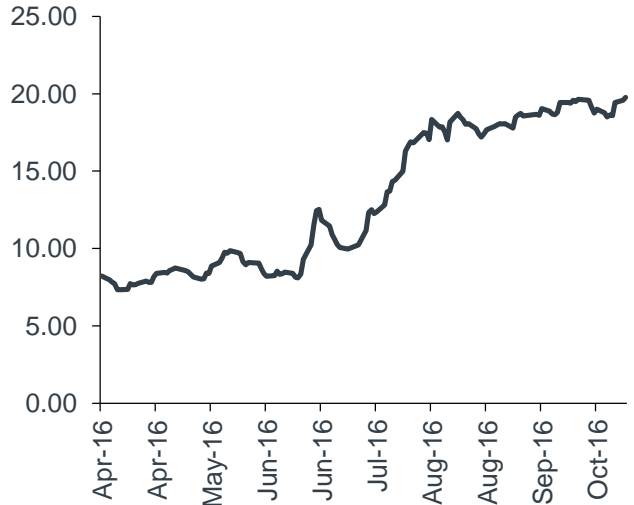


Figure 2: Average T-Bill Yield (%)



Source: CBN, FMDQ, Cordros Research

Overall, we expect that the stop rates on securities issued at today's auction will be higher than their respective levels at the previous auction primarily because of the current strain in system liquidity.

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