

# NTB Auction Teaser.

Treasury bills worth N310.23 billion will mature on Thursday, 2nd March 2017. This comprises N26.14 billion, N62.00 billion and N222.08 billion of the 91, 182 and 364 day bills respectively. In its common practice, the CBN will offer the same amount at a primary auction, which will hold tomorrow, 1st March 2017.

Table 1: Auction Indicative Rates

T-Bills	91D	182D	364D
<b>Indicative Rates (%)</b>	<b>13.90-14.00</b>	<b>17.30-17.40</b>	<b>18.55-18.65</b>

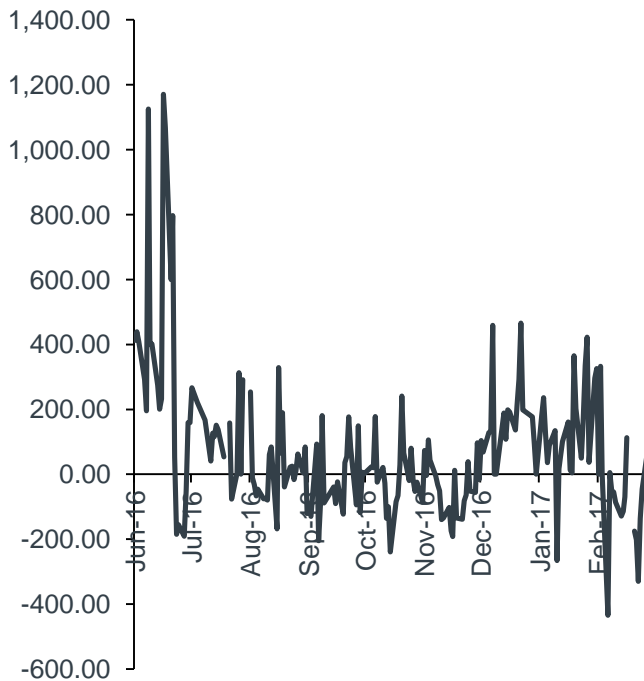
Source: : Cordros Forecast

Prior to the previous auction, trading was mixed in the secondary market, with selloffs outweighing demand amid low system liquidity (which persistently opened with a deficit balance). At the auction, stop rates on the offered bills came in lower as the 91, 182 and 364 day bills closed at 13.69% (previously 13.80%), 17.15% (previously 17.25%) and 18.45% (previously 18.54%) respectively. In addition, the 364-day bill was oversold by N60.00 billion – validating our expectation. The demand could be attributed to expected improvement in system liquidity, from the inflow of N256.41 billion maturing OMO bills the day after the auction.

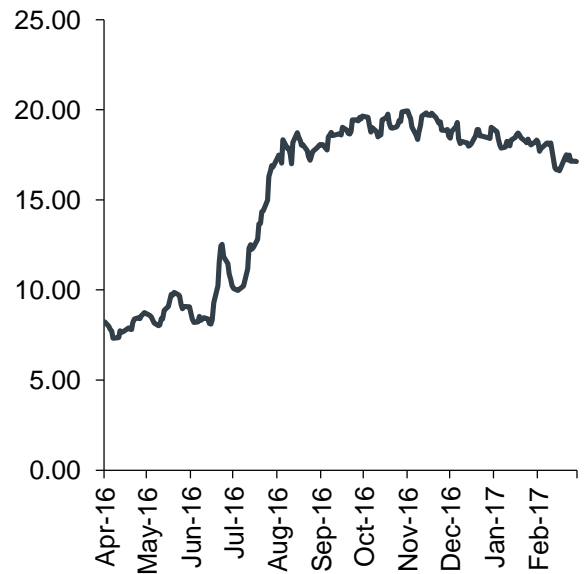
Following the auction, appetite strengthened -- albeit short-lived -- in the secondary market as system liquidity improved as N256.41 billion from maturing OMO bills eventually hit the system on Thursday, 16th January 2017. Subsequently, the bears resurfaced, with yields coming under pressure on the back of liquidity squeeze. We particularly refer to the series of foreign exchange intervention (totaling \$772.1 million) by the apex bank wherein banks liquidated their positions to create liquidity for the interventions, and OMO auctions (totaling N227.5 billion) since the February 15 auction. All these overshadowed the impact of additional inflow from maturing OMO bills worth N198.05 billion.

Overall, average yield has expanded by 43bps from 16.70% at the last auction day to 17.13% today, driven by increased pressure on system liquidity. Specifically, yields on the 91D, 182D and 364D bills closed today at 14.34%, 17.68% and 18.42% respectively, compared to the 15.39%, 17.32% and 18.30% respectively which similar maturities yielded two weeks ago.

**Fig 1: Daily Banking System Liquidity (N'bn)**



**Figure 2: Average T-Bill Yield (%)**



Source: CBN, FMDQ, Cordros Research

**Given the sustained pressure on system liquidity thus far, we sense that the possibility of high demand in tomorrow's auction appears slim. On this backdrop, we expect stop rates to come in higher than last auction levels as shown in the table above.**

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