

NTB Auction Teaser.

Lower-Than-Previous Stop Rates Expected

Treasury Bills worth N170.51 billion will mature on Thursday, 16th March 2017. This comprises of the 91-DTM (N39.01 billion), 182-DTM (N48.45 billion) and 364-DTM (N83.05 billion) bills. In customary fashion, the CBN will offer the same amount -- and an additional N43.25 billion of the 364-DTM -- at the primary auction, which will hold tomorrow, Wednesday, 15th March 2017.

Table 1: Auction Indicative Rates

T-Bills	91D	182D	364D
Indicative Rates (%)	13.50-13.60	17.05-17.15	18.35-18.45

Source: Cordros Forecast

Prior to the previous auction, trading was relatively quiet in the secondary market, with majority of the bills not being traded. Dealing Member Banks (DMB) were not obliged to show two way quotes to enable the system to clear a backlog of unsettled trades, as earlier guided by the FMDQ. At the last auction, N26.14 billion, N62.00 billion, and N222.08 billion of the 91-DTM, 182-DTM, and 364-DTM bill were offered respectively. Stop rate on the shortest maturity came in 4bps lower at 13.65%, while the 182 and 364-day maturities printed higher stop rates of 17.20% (previously 17.15%) and 18.50% (previously 18.45%) respectively. Notably, the bid-to-cover ratio at the last auction, the lowest in recent auctions, reflected significant strain on system liquidity. Although the secondary market closed the auction week with yields declining on average (19bps w/w to 16.96%), market mood was broadly somber, owing to the FMDQ's guidance.

Investors were more upbeat last week, with average yield contracting by 31bps w/w to 16.65%. Yield contracted in all sessions of the week, with demand stronger at the tail end following inflows from government budgetary disbursement and OMO repayment -- worth N71.64 billion on Thursday, 9th March, 2017 (-333bps to 15.25%). At the time of writing, yields have contracted by 8bps on average, from 16.82% at the last auction day to 16.74% yesterday, despite the overall drop in system liquidity. Yields on the 91-DTM, 182-DTM and 364-DTM closed yesterday at 15.70%, 17.94% and 18.25% respectively, compared to the 17.07%, 18.25% and 18.42% which similar maturities yielded two weeks ago.

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

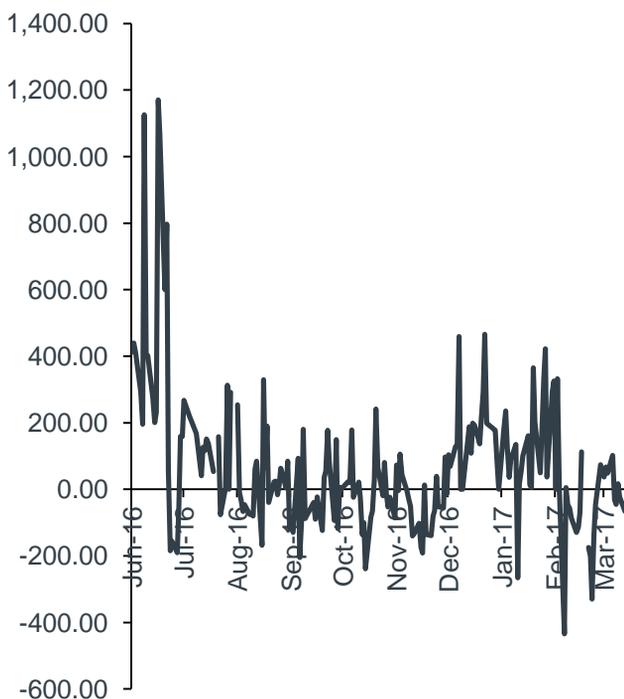
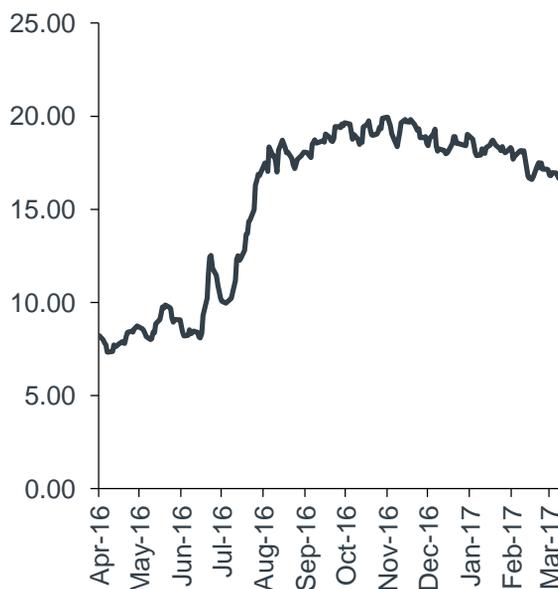


Fig 2: Average T-Bill Yield (%)



Source: CBN, FMDQ, Cordros Research

Last two weeks, the Debt Management Office (DMO) introduced the FGN Savings Bond – for which Offer opened this week -- which is targeted at retail investors. In a move considered as protecting the new product, the FGN securities market structure was subsequently changed, with the minimum subscription for NTB increased to N50 million. Notwithstanding, **we expect demand to remain hearty in tomorrow’s T-bills auction (save for continued strain on system liquidity) and given the southward movement in yields thus far, we expect stop rates to come in lower relative to the previous auction.**

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