

NTB Auction Teaser.

Treasury bills worth N100.84 billion will mature on Thursday, 2nd October, 2017 - comprising N23.06 billion, N23.43 billion, and N54.35 billion of the 91-day, 182-day, and 364-day bills, respectively. In customary fashion, the CBN will offer the same amount at the primary auction which will hold tomorrow, Wednesday, 1st October, 2017.

Table 1: Auction Indicative Rates

T- Bills	91D	182D	364D
Indicative Rates (%)	13.00 - 13.10	15.15 - 15.25	15.45 - 15.55

Source: Cordros Forecast

Prior to the last auction, sentiments were broadly bearish, as average yield expanded by 16 bps to 17.27% from the previous week's close of 17.11%. Yields expanded across all ends of the curve – short (+ 20 bps), mid (+6bps), and long (+3 bps) to 18.67%, 17.27%, and 16.30%, respectively. The bearish proceedings were reflective of relatively tight liquidity position, which was in a deficit position during the period. However, the overnight rate seesawed, before dropping to 28.67% (from 35.33% in the previous week), a day to the auction.

At the auction, the apex bank sold N133.79 billion worth of T-bills – comprising N10.25 billion, N11 billion and N112.54 billion of the 91-day, 182-day, and 364-day bills, respectively. The bills were allotted at lower-than-previous rates of 13.1% (vs. 13.25%), 15.3% (vs.15.50%) and 15.59% (vs. 15.73%). Notably, the 364DTM was 2.6x oversubscribed, while the 91DTM and 182DTM bills were undersubscribed by N11.98 billion and N22.19 billion respectively. Investor reaction at the auction further reflected increased demand for the one-year bill amid the cessation of the same by the apex bank in its frequent OMO auctions.

In the post-auction week, investors remained downbeat, with average yield expanding by 44 bps from the day of the auction to 17.92%, as system liquidity remained pressured. Meanwhile, reactions were slightly mixed last week, albeit with a bearish bias, as average yield expanded by 17 bps to 18.09%, dousing the impact of a latter improvement in liquidity position following inflows via monthly budgetary allocation to state and local governments worth N247.89 billion and matured OMO bills worth N93.74 billion.

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

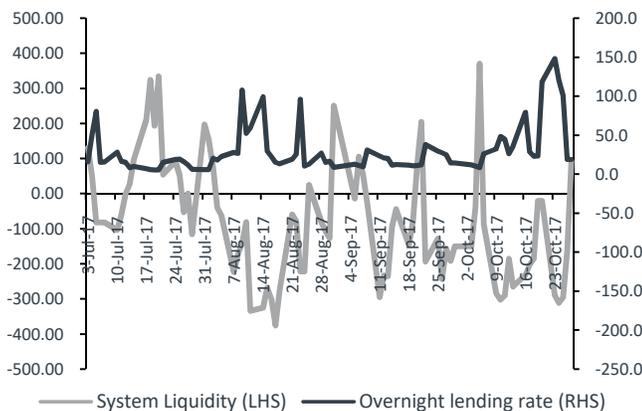
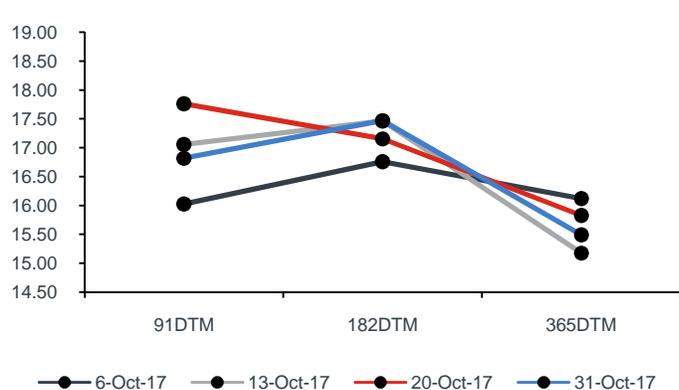


Fig 2: Average T-Bills Yield (%)



Source: CBN, FMDQ, Cordros Research

Overall, average yield expanded by 20 bps to 17.68%, since the last auction. Specifically, compared to what similar maturities yielded two weeks ago, yields rose on the current 91DTM, 182DTM and 352DTM by 24 bps, 60 bps, and 31 bps to 16.82%, 17.47%, and 15.49%, respectively.

That said, we expect healthy demand at tomorrow's auction, on the back of expected improvement in system liquidity following the inflow of matured OMO bills (worth N101.47 billion) on Thursday, with stop rates on the 91, 182, and 364-day bills coming in lower relative to the previous auction. See indicative rates above.

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