

## Treasury Bills Auction Scheduled for 11<sup>th</sup> Jan 2023

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	2.75%
182-Day	7.15%
364-Day	8.49%

#### Amount Allotted:

91-Day	NGN2.16bn
182-Day	NGN17.16bn
364-Day	NGN48.11bn

### SUMMARY OF CURRENT AUCTION

Auction Date January 11, 2023

Settlement Date January 12, 2023

#### Auction Size

91-Day	NGN11.55bn
182-Day	NGN16.49bn
364-Day	NGN28.90bn

#### Maturing Instruments

91-Day	NGN11.55bn
182-Day	NGN16.49bn
364-Day	NGN28.90bn

#### Meristem Advised Stop Rates

91-Day	2.00%-2.50%
182-Day	6.20%-6.80%
364-Day	7.50%-8.00%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 11<sup>th</sup> of January, 2023. At the PMA, existing T-Bills totalling NGN57.02bn (NGN11.55bn, NGN16.49bn and NGN28.90bn 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, 182-Day, and 364-Day instruments declined by 275bp, 15bps and 140bps to 2.75%, 7.15%, and 8.49%, respectively. The decline in stop rates was due to high investors' demand for the instruments, as the total subscription exceeded the amount offered. This resulted in the auction's subscription-to-offer ratios of 10.36x, 1.19x, and 6.39x. However, the bid-to-cover ratio moderated to 5.20x relative to the 32.84x recorded in the previous auction.

In the forthcoming auction, we expect further moderation in stop rates on the instruments. This expectation is mainly based on the modest amount offered - NGN57.02bn (vs NGN54.45bn in the previous period), which may lead to an oversubscription similar to the previous auction. Moreso, interbank liquidity received a slight boost due to the recent cash reserve credit.

In the secondary market, the bullish sentiment lingers, as the average Treasury bills decreased by 272bps to 4.38% as of January 09, 2023 (vs 7.10% on the date of the previous auction). We ascribe this to buying activities in the secondary market from investors with unmet demand at the last auction. We expect the same dynamics to continue in the near term as the amount on offer is low (as highlighted above).

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	NGN11.55bn	2.00%-2.50%
182-Day	NGN16.49bn	6.20%-6.80%
364-Day	NGN28.90bn	7.50%-8.00%

## 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

## Ahead of Next T-Bills Auction

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positives are that 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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