

# Ahead of Next T-Bills Auction

## Treasury Bills Auction Scheduled for 8<sup>th</sup> Feb 2023

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	0.29%
182-Day	1.80%
364-Day	4.78%

#### Amount Allotted:

91-Day	NGN1.74bn
182-Day	NGN1.26bn
364-Day	NGN217.53bn

### SUMMARY OF CURRENT AUCTION

Auction Date	February 08, 2023
Settlement Date	February 09, 2023

#### Auction Size

91-Day	NGN4.52bn
182-Day	NGN1.31bn
364-Day	NGN211.23bn

#### Maturing Instruments

91-Day	NGN4.52bn
182-Day	NGN1.31bn
364-Day	NGN211.23bn

#### Meristem Advised Stop Rates

91-Day	0.20%-0.35%
182-Day	1.50%-2.00%
364-Day	4.50%-5.00%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 8<sup>th</sup> of February, 2023. At the PMA, existing T-Bills totalling NGN217.06bn (NGN4.52bn, NGN1.31bn and NGN211.23bn across the 91-day, 182-day, and 364-day instruments, respectively), will mature and be rolled over.

### Outlook on Yields

At the last PMA, the stop rates on the 91-Day, 182-Day, and 364-Day instruments further declined to 0.29%, 1.80%, and 4.78% (vs 2.00%, 4.33%, and 7.30% at the previous auction), respectively. Akin to the sentiment at the first PMA of 2023, investors' demand for the instruments was significant. Specifically, the total subscription (NGN1.04trn) was about five times the amount offered. However, the bid-to-cover ratio declined to 4.74x (vs 6.80x at the previous auction). We attribute this to the robust interbank liquidity at the auction date (which propelled higher subscriptions) and the Government's decision to allot less at the auction relative to investors' bids.

We anticipate a marginal increase in stop rates on the instruments at the upcoming auction. Expressly, the relatively tight interbank liquidity following the recent CRR debit by the apex bank presents a case for higher rates. Also, the perceived increased default risk on the country's sovereign instruments – fanned by the latest credit rating downgrade by Moody's and S&P – could prompt investors to demand higher rates. However, we highlight the Government's conscious efforts to manage borrowing costs as a downside to this outlook.

In the secondary market, the sentiment has been bullish on the back of buoyant system liquidity. As a result, the average Treasury bills declined significantly by 102bps to 2.21% as of February 06, 2023 (vs 3.23% on the date of the previous auction). In the near term, we expect minimal activities premised on limited interbank liquidity.

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	NGN4.52bn	0.20%-0.35%
182-Day	NGN1.31bn	1.50%-2.00%
364-Day	NGN211.23bn	4.50%-5.00%

## 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

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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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