

## Treasury Bills Auction Scheduled for 29<sup>th</sup> Mar 2023

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	2.55%
182-Day	5.00%
364-Day	9.49%

#### Amount Allotted:

91-Day	NGN1.10bn
182-Day	NGN0.92bn
364-Day	NGN159.85bn

### SUMMARY OF CURRENT AUCTION

Auction Date	March 29, 2023
Settlement Date	March 30, 2023

#### Auction Size

91-Day	NGN2.16bn
182-Day	NGN3.34bn
364-Day	NGN139.96bn

#### Maturing Instruments

91-Day	NGN2.16bn
182-Day	NGN3.34bn
364-Day	NGN139.96bn

#### Meristem Advised Stop Rates

91-Day	2.00%-2.55%
182-Day	4.55%-5.50%
364-Day	8.90%-9.70%

### Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 29th of March, 2023. At the PMA, existing T-Bills totalling NGN145.47bn (NGN2.16bn, NGN3.34bn and NGN139.96bn 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 182-day and 364-day instruments decreased to 5.00% and 9.49% (vs 6.00% and 10.00% at the previous PMA), respectively. However, the rate on the 91-day instrument increased by 111 bps to 2.55%. Specifically, robust system liquidity continues to trigger high investors' demand for the instruments – displayed by the 13.89% increase in total subscriptions relative to the prior auction. As a result, the subscription-to-offer ratios of the trio instruments increased to 6.43x, 19.43x, and 6.30x (vs 4.23x, 1.07x, and 4.18x at the prior auction).

At the forthcoming auction, we expect a marginal uptick in the rates across the three instruments. First, the recent Monetary Policy Rate (MPR) hike could prompt investors to demand higher rates as they seek to narrow the negative real returns caused by the persistent inflationary pressures. Additionally, the negative system liquidity (NGN588.74bn as of March 27) is also expected to contribute to the increase in stop rates. However, the estimated inflow from the Federation Account Allocation Committee (FAAC) is a downside to this outlook.

In the secondary market, the mood has been relatively bullish as the unmet demands at the PMA found their way into the market. Thus, the average Treasury bills yield declined by 54bps to 6.12% as of March 28, 2023 (vs 6.76% on the date of the previous auction). In the near term, we envisage the bullish sentiment to persist owing to increased system 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	NGN2.16bn	2.00%-2.55%
182-Day	NGN3.34bn	4.55%-5.50%
364-Day	NGN139.96bn	8.90%-9.70%

## 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 positives are that

## Ahead of Next T-Bills Auction

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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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