

Treasury Bills Auction Scheduled for 8th Mar 2023

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	3.00%
182-Day	3.24%
364-Day	9.90%

Amount Allotted:

91-Day	NGN9.96bn
182-Day	NGN10.21bn
364-Day	NGN243.33bn

SUMMARY OF CURRENT AUCTION

Auction Date	March 8, 2023
Settlement Date	March 9, 2023

Auction Size

91-Day	NGN1.03bn
182-Day	NGN10.55bn
364-Day	NGN212.92bn

Maturing Instruments

91-Day	NGN1.03bn
182-Day	NGN10.55bn
364-Day	NGN212.92bn

Meristem Advised Stop Rates

91-Day	2.00%-3.00%
182-Day	2.25%-3.24%
364-Day	7.00%-8.50%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 8th of March, 2023. At the PMA, existing T-Bills totalling NGN224.50bn (NGN1.03bn, NGN10.55bn and NGN212.92bn 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 rose rapidly to 3.00%, 3.24%, and 9.90% (vs 0.10%, 0.30%, and 2.24% at the previous auction), respectively. This came after a sustained decline in stop rates to near-zero levels. Contrary to previous auctions this year, lower system liquidity was the primary driver of the significant rate increase. Specifically, interbank liquidity reported by CBN plunged to a negative value of c.NGN22bn as of the auction date. Hence, the total subscription settled at NGN296.75bn – the lowest since September 2022. Likewise, the bid-to-cover declined significantly to 1.00x (vs 1.92x at the previous auction), signifying lower investors' demand.

At the upcoming auction, the stop rates across instruments are estimated to moderate marginally. Although we consider the recent excess CRR debits by the CBN, system liquidity remains robust (c.NGN309bn as of March 06). Furthermore, the amount offered is lower than the previous auction (NGN263.50bn). Additionally, the Government's increasing need to manage its finance costs complements our outlook.

In the secondary market, increased selloffs were noticed on the Treasury instruments, particularly short-dated ones. Subsequently, the average Treasury bills rose by 60bps to 4.19% as of March 07, 2023 (vs 3.59% on the date of the previous auction). In the near term, we posit that yields on the instruments would likely remain at the current level.

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	NGN1.03bn	2.00%-3.00%
182-Day	NGN10.55bn	2.25%-3.24%
364-Day	NGN212.92bn	7.00%-8.50%

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

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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