

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

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	4.99%
182-Day	6.55%
364-Day	11.37%

#### Amount Allotted:

91-Day	NGN1.75bn
182-Day	NGN1.56bn
364-Day	NGN173.81bn

### SUMMARY OF CURRENT AUCTION

Auction Date Oct 11, 2023

Settlement Date Oct 12, 2023

#### Auction Size

91-Day	NGN2.78bn
182-Day	NGN3.02bn
364-Day	NGN30.76bn

#### Maturing Instruments

91-Day	NGN2.78bn
182-Day	NGN3.02bn
364-Day	NGN30.76bn

#### Meristem Advised Stop Rates

91-Day	2.50%-3.00%
182-Day	5.75%-6.00%
364-Day	9.60%-10.00%

### Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 11th of October 2023. At the PMA, existing T-Bills totalling NGN36.56bn (NGN2.78bn, NGN3.02bn and NGN30.76bn across the 91-day, 182-day, and 364-day instruments, respectively), will mature and be rolled over.

### Outlook on Yields

At the previous Primary Market Auction (PMA), the stop rates across the trio instruments declined to 4.99%, 6.55% and 11.37% (vs 6.50%, 7.00% and 12.98% at the previous auction), respectively. We note the improvement in investors' demand driven by high system liquidity. Thus, the total subscription advanced by 22.20% (compared to the last auction's record) to NGN786.79bn, and the overall bid-to-cover ratio increased to 4.25x (from 3.23x).

In the coming auction, we expect stop rates across the 91-Day, 182-Day, and 364-Day instruments to decline. In our opinion, the Government will continue to strive to manage its debt costs despite its funding needs. In addition, the relatively robust system liquidity (NGN510.09bn as of Oct 09), which is 13.95x the amount offered, is likely to exert downward pressure on stop rates.

Meanwhile, in the secondary market, average Treasury Bills yields declined to 7.71% (as of Oct 09), down from 8.04% at the previous auction. We attribute this dip to high demand in the secondary market to fulfil unmet needs at the PMA. In the near term, we expect the high liquidity in the system to drive a higher demand in the secondary market. Thus, we expect the current bullish mood to persist, further anchored on our expectation of a moderation in PMA rates.

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	NGN2.78bn	2.50%-3.00%
182-Day	NGN3.02bn	5.75%-6.00%
364-Day	NGN30.76bn	9.60%-10.00%

## 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 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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