

Treasury Bills Auction Scheduled for 28th Sep 2023

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	6.50%
182-Day	7.00%
364-Day	12.98%

Amount Allotted:

91-Day	NGN1.03bn
182-Day	NGN0.92bn
364-Day	NGN150.18bn

SUMMARY OF CURRENT AUCTION

Auction Date	Sept 28, 2023
Settlement Date	Sept 29, 2023

Auction Size

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

Maturing Instruments

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

Meristem Advised Stop Rates

91-Day	4.00-6.50%
182-Day	6.20%-8.00%
364-Day	12.00%-13.00%

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 28th of September, 2023. At the PMA, existing T-Bills totalling NGN177.12bn (NGN1.75bn, NGN1.56bn and NGN173.81bn 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 on the 91-day and 364-day instruments rose to 6.50% and 12.98% respectively (vs 4.50% and 12.55% at the previous auction). Rate on the 182-day instrument however remained unchanged at 7.00%. This is attributable to the prevailing tight liquidity conditions, which fell to a five-month low of NGN396.01bn prior to the auction. Furthermore, we note the relatively weak investors' appetite as total subscription (NGN643.87bn) was only 3.23x the amount offered (compared to 4.08x at the previous auction). Similarly, overall bid-to-cover ratio was lower at 3.23x (vs. 4.08x at the last auction).

We anticipate a marginal decline in the stop rates at both ends of the curve. This expectation is underpinned by the slight improvement in system liquidity and expectation of FAAC disbursement during the week. Additionally, we anticipate that bond coupon payments on the Mar-27s will contribute positively to system liquidity. Nonetheless, we anticipate the stop rate for the 182-day instrument to increase marginally, which is likely to encourage more participation on the instruments.

We saw muted activities in the secondary market as the average T-bills yield declined to 8.04% as of Sept 26 (from 8.22% as of the previous auction date). We expect further moderation in the average T-Bills yield in the near term.

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	NGN1.75bn	4.00-6.50%
182-Day	NGN1.56bn	6.20%-8.00%
364-Day	NGN173.81bn	12.00%-13.00%

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

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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