

Treasury Bills Auction Scheduled for 25th Oct. 2023

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	3.67%
182-Day	5.11%
364-Day	9.25%

Amount Allotted:

91-Day	NGN2.78bn
182-Day	NGN3.02bn
364-Day	NGN30.77bn

SUMMARY OF CURRENT AUCTION

Auction Date	Oct 25, 2023
Settlement Date	Oct 26, 2023

Auction Size

91-Day	NGN2.85bn
182-Day	NGN7.95bn
364-Day	NGN97.33bn

Maturing Instruments

91-Day	NGN2.85bn
182-Day	NGN7.95bn
364-Day	NGN97.33bn

Meristem Advised Stop Rates

91-Day	2.55%-3.80%
182-Day	4.55%-5.50%
364-Day	8.70%-9.00%

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 25th of October 2023. At the PMA, existing T-Bills totalling NGN108.13bn (NGN2.85bn, NGN7.95bn and NGN97.33bn across the 91-day, 182-day, and 364-day instruments, respectively) will mature and be rolled over.

Outlook on Yields

At the last Primary Market Auction (PMA), the total amount offered (NGN36.65bn), the lowest in 2023, was lower than NGN177.12bn at the previous auction. Subsequently, the total subscription declined to NGN36.56bn (59.18% lower than the previous auction). Notwithstanding, the subscription-to-offer and bid-to-cover ratios advanced to 8.78x (vs. 4.44x at the previous auction). In our opinion, the narrow margin between the subscription level and the amount offered increased the Government's bargaining power to offer lower rates on the instruments. Thus, stop rates across the trio instruments declined to 3.67%, 5.11% and 9.25% (vs 4.99%, 6.55% and 11.37% at the previous auction).

In the next auction, we expect a marginal uptick in the stop rates of the 91-day and 182-day instruments while the 364-day instrument declines further. We consider the Government's offer to raise higher amount than it did in the preceding auction, thus making a compelling case for an increase in stop rates (especially at the short end of the curve). Furthermore, the wider negative real rate of return could induce investors' demand for higher incentives. Nonetheless, the liquidity level (NGN225.34bn as of October 23), 2.08x the amount offered, is a downside to the outlook.

Meanwhile, the mood in the secondary market has been relatively bullish owing to the unfulfilled demand in the PMA, which flowed into the market. As a result, the average Treasury Bills yield moderated to 6.73% as of October 23 (from 6.99% at the previous auction). In the near term, we expect improved system liquidity to fuel investors' demand in the secondary market and thus sustain the current bullish sentiment.

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	NGN2.85bn	2.55%-3.80%
182-Day	NGN7.95bn	4.55%-5.50%
364-Day	NGN97.33bn	9.70%-9.00%

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 T-bills (and all Treasuries) are considered to be risk-free investments because they are

Ahead of Next T-Bills Auction

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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