

Ahead of Next T-Bills Auction

Treasury Bills Auction Scheduled for 6th Dec. 2023

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	8.00%
182-Day	12.00%
364-Day	16.75%

Amount Allotted:

91-Day	NGN9.96bn
182-Day	NGN1.82bn
364-Day	NGN199.93bn

SUMMARY OF CURRENT AUCTION

Auction Date	Dec 6 2023
Settlement Date	Dec 7 2023

Auction Size

91-Day	NGN1.03bn
182-Day	NGN1.94bn
364-Day	NGN101.39bn

Maturing Instruments

91-Day	NGN1.03bn
182-Day	NGN1.94bn
364-Day	NGN101.39bn

Meristem Advised Stop Rates

91-Day	6.99% - 8.05%
182-Day	8.99% - 10.50%
364-Day	15.00% - 16.50%

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 6th of December 2023. At the PMA, existing T-Bills totalling NGN104.35bn (NGN1.03bn, NGN1.94bn and NGN101.39bn 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 and 182-day instruments increased by 100bps to 8.00% and 12.00%, while the rate on the 364-day remained unchanged at 16.75%. With system liquidity at a robust level, the auction was met with strong investor demand. Thus, the overall subscription was 5.82x the amount offered (vs. 2.82x at the previous auction). Furthermore, there was an increase in the overall bid-to-cover ratio (at 2.19x from 1.76x).

At the forthcoming auction, we estimate that the stop rates will decline across instruments relative to the last auction. Our expectation is hinged on the strong demand for instruments, especially on the long end of the curve and a relatively lower amount on offer (due to a lower maturity) compared to the high system liquidity.

Meanwhile, bullish sentiments have prevailed in the secondary fixed-income market since the last auction, as average Treasury bill yields have declined to 10.53% (as of the 5th of December) from 12.67% at the last auction. In our view, the yield decline reflects the high system liquidity. Thus, we do not rule out further decreases in secondary market fixed income yields as we expect unmet demands at the primary market to filter into the secondary market.

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	6.99% - 8.05%
182-Day	NGN1.94bn	8.99% - 10.50%
364-Day	NGN101.39bn	15.00% - 16.50%

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 positives are that T-bills (and all Treasuries) are considered to be risk-free

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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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ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

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