

## Treasury Bills Auction Scheduled for 8<sup>th</sup> Nov. 2023

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	5.99%
182-Day	9.00%
364-Day	13.00%

#### Amount Allotted:

91-Day	NGN7.85bn
182-Day	NGN12.95bn
364-Day	NGN349.54bn

### SUMMARY OF CURRENT AUCTION

Auction Date	Nov 08, 2023
Settlement Date	Nov 09, 2023

#### Auction Size

91-Day	NGN4.52bn
182-Day	NGN5.44bn
364-Day	NGN300.16bn

#### Maturing Instruments

91-Day	NGN4.52bn
182-Day	NGN5.44bn
364-Day	NGN300.16bn

#### Meristem Advised Stop Rates

91-Day	6.50%-7.00%
182-Day	9.50%-11.50%
364-Day	15.00%-16.00%

### Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 8th of November 2023. At the PMA, existing T-Bills totalling NGN310.12bn (NGN4.52bn, NGN5.44bn and NGN300.16bn 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 subscription increased substantially to NGN638.12bn (vs. NGN321.14bn at the previous auction in October). We believe the higher amount offered (NGN108.13bn vs NGN36.56bn at the previous auction) positively influenced investors' interest. Subsequently, NGN370.34bn (3.42x the amount offered) was allotted at the auction, implying a bid-to-cover ratio of 1.72x (vs 8.78x at the previous auction). From our perspective, the Government's efforts to maintain attractive treasury rates chiefly influenced the stop rates at the auction. Thus, the stop rates on the 91-day, 182-day and 364-day instruments increased by 232bps, 389bps and 375bps to 5.99%, 9.00% and 13.00% respectively.

In the forthcoming auction, we anticipate an uptick in the stop rates of the trio instruments. From the results of the recent Open Market Operation auctions, we opine that the Government is increasing its efforts to ensure that rates reflect market dynamics. Furthermore, the monetary authority's liquidity management strategy, which has limited system liquidity to NGN34.19bn as of 7<sup>th</sup> November (relative to the amount offered), makes a case for higher rates on these instruments.

The mood in the secondary market has been predominantly bearish since the last auction, driven majorly by selloffs across instruments due to tighter system liquidity. Also, the outcome of the OMO auctions spurred further selloffs in the market in anticipation of higher rates at the forthcoming auctions. As a result, the average Treasury Bills yield spiked to 11.59% as of November 6th (from 6.75% at the last auction). This trend is expected to continue 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	NGN4.52bn	6.50%-7.00%
182-Day	NGN5.44bn	9.50%-11.50%
364-Day	NGN300.16bn	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 investments because they are

## Ahead of Next T-Bills Auction

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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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