

Treasury Bills Auction Scheduled for 13th Mar 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	17.24%
182-Day	18.00%
364-Day	21.49%

Amount Allotted:

91-Day	NGN14.42bn
182-Day	NGN10.55bn
364-Day	NGN1,292.71bn

SUMMARY OF CURRENT AUCTION

Auction Date	Mar 13 2024
Settlement Date	Mar 14 2024

Auction Size

91-Day	NGN0.73bn
182-Day	NGN0.92bn
364-Day	NGN159.85bn

Maturing Instruments

91-Day	NGN0.73bn
182-Day	NGN0.92bn
364-Day	NGN159.85bn

Meristem Advised Stop Rates

91-Day	16.00%-17.50%
182-Day	17.50%-18.50%
364-Day	19.00%-21.50%

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 13th of March, 2024. At the PMA, existing T-Bills totalling NGN161.50bn (NGN0.73bn, NGN0.92bn and NGN159.85bn across the 91-day, 182-day, and 364-day instruments, respectively) will mature and be rolled over.

Outlook on Yields

The CBN offered a total of NGN337.89bn across the trio instruments at the last Primary Market Auction (PMA), 27.27% higher than the NGN265.50bn offered at the previous auction. Particularly noteworthy was the higher allotment amount for the 364-day instrument, which saw an 8.44% rise to NGN1.29trn. However, despite expectations of higher yields at the auction, stop rates across all offered instruments—91-day, 182-day, and 364-day—experienced increases to 17.24%, 18.00%, and 21.49%, respectively. This rise occurred amidst a lower subscription level of NGN1.656trn, compared to NGN2.24trn at the previous auction, indicating tighter system liquidity.

In the upcoming auction, we anticipate rates to hover around current levels across all trio instruments. The lower offer amount may deter significant investor participation, which further supports our expectation. Nevertheless, it is essential to acknowledge the continued focus on liquidity management and the central bank's commitment to ensuring that fixed income rates correspond with the prevailing yield environment. This concerted effort aims to sustain rates at attractive levels for investors.

In the secondary market, the sentiment has been largely bearish since the last auction, driven by sell-offs across tenors. Resultantly, the average T-bills yield increased to 18.82% as of 11th March (from 17.56% as of the last auction date).

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	NGN0.73bn	16.00%-17.50%
182-Day	NGN0.92bn	17.50%-18.50%
364-Day	NGN159.85bn	19.00%-21.50%

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.* 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 is held twice a month (i.e. every other Wednesday). The above likely stop rates are our estimates and might not hold, 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 raise 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 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 them until maturity would mean the investor gets a fixed interest payment.

Benefits of T-bills

The biggest reason T-Bills are so popular is that they are one of the few money-market instruments affordable to individual investors. Other positives are that T-bills (and all treasuries) are considered risk-free investments because the full faith of the

Ahead of Next T-Bills Auction

federal Government backs them. 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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