

Ahead of Next T-Bills Auction

Treasury Bills Auction Scheduled for 21st Feb 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:		Offer Summary
91-Day	17.24%	The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 21st of February, 2024. At the PMA, existing T-Bills totalling NGN265.50bn (NGN11.96bn, NGN10.21bn and NGN243.33bn across the 91-day, 182-day, and 364-day instruments, respectively) will mature and be rolled over.
182-Day	18.00%	
364-Day	19.00%	

Amount Allotted:

91-Day	NGN39.90bn	Outlook on Yields At the last PMA, the CBN offered a total amount of NGN1.00trn across the trio instruments (vs. NGN231.82bn offered at the previous auction). In our view, the Government's increased borrowing needs, particularly from the domestic debt market, prompted the notably higher amount offered. We also note the increased subscription level (NGN1.98trn vs. 1.09trn at the previous auction), driven by robust system liquidity during the period. Thus, the bid-to-cover declined to 1.98x (vs. 4.69x at the previous auction) due to the higher amount allotted. Notably, investors' heightened demand for higher rates, gleaned from the bid rates at the auction, pushed stop rates upward. Resultantly, the stop rates on the 91-day, 182-day and 364-day instruments rose significantly by 1224bps, 1085bps and 746bps to 17.24%, 18.00%, and 19.00%, respectively.
182-Day	NGN51.35bn	
364-Day	NGN908.75bn	

SUMMARY OF CURRENT AUCTION

Auction Date	Feb 21 2024	In the forthcoming auction, we expect a slight decline in stop rates across the trio of instruments, majorly hinged on the lower offer amount (NGN243.33bn), which makes a case for less incentive to increase stop rates at the auction. Also, we expect that the activity in the FGN bond PMA will impact market liquidity and lead to lower subscription levels at the T-Bills auction.
Settlement Date	Feb 22 2024	
Auction Size		
91-Day	NGN11.96bn	Meanwhile, the predominantly bearish mood in the secondary market has persisted since the last auction as investors continued to sell-off across tenors. Consequently, the average T-bills yield increased to 16.92% as of 19th February (from 12.85% as of the last auction date).
182-Day	NGN10.21bn	
364-Day	NGN243.33bn	
Maturing Instruments		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:
91-Day	NGN11.96bn	
182-Day	NGN10.21bn	
364-Day	NGN243.33bn	
Meristem Advised Stop Rates		
91-Day	12.00%-14.00%	
182-Day	14.00%-16.00%	
364-Day	17.00%-19.00%	

Tenor	Offer Size	Advised Rates
91-Day	NGN11.96bn	12.00%-14.00%
182-Day	NGN10.21bn	14.00%-16.00%
364-Day	NGN243.33bn	17.00%-19.00%

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.* 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

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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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