

Ahead of Next T-Bills Auction

Treasury Bills Auction Scheduled for 7th Feb 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	5.00%
182-Day	7.15%
364-Day	11.54%

Amount Allotted:

91-Day	NGN7.85bn
182-Day	NGN.44bn
364-Day	NGN217.53bn

SUMMARY OF CURRENT AUCTION

Auction Date Feb 07 2024

Settlement Date Feb 08 2024

Auction Size

91-Day	NGN200bn
182-Day	NGN200bn
364-Day	NGN600bn

Maturing Instruments

91-Day	NGN4.52bn
182-Day	NGN1.31bn
364-Day	NGN411.23bn

Meristem Advised Stop Rates

91-Day	12.00%-14.00%
182-Day	14.50%-15.50%
364-Day	16.50%-18.00%

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 7th of February 2024. At the PMA, T-Bills totalling NGN1.00trn (NGN200bn, NGN200bn and NGN600bn across the 91-day, 182-day, and 364-day instruments, respectively) will be offered.

Outlook on Yields

In line with our expectation, the last PMA saw stop rates on all instruments climbed by 256bps, 293bps, and 314bps to 5.00%, 7.15%, and 11.54%, respectively. This jump can be primarily attributed to investors' demand for higher rates owing to the Government's increased need for borrowings at the local market. Notably, total subscriptions declined by 4.74% to NGN1.09trn (vs NGN1.14trn at the previous auction). At the same time, the bid-to-cover ratio plunged to 4.69x (vs 20.16x at the previous auction) due to the higher amount allotted to investors.

In the forthcoming auction, we anticipate a higher subscription level, especially on the longer-tenor instruments. While we highlight that the market liquidity as of the 5th of January remains significantly lower relative to the amount on offer, we expect the decision of the CBN to halt discretionary cash reserve debits from the banks to improve the subscription level at the auction. Furthermore, the offer of NGN1trn suggests a heightened need for FG to raise funds from the local debt market, which could prompt investors to demand higher yields. Overall, we expect a significant increase in rates across the trio instruments.

Meanwhile, sell-offs in the secondary market for T-Bills have persisted across all tenors. Consequently, the average T-bills yield increased to 12.37% on 6th February (from 5.08% as of the last auction date). Our view is that the bearish sentiment will persist 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	NGN200bn	12.00%-14.00%
182-Day	NGN200bn	14.50%-15.50%
364-Day	NGN600bn	16.50%-18.00%

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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