

Ahead of Next T-Bills Auction

Treasury Bills Auction Scheduled for 27th Mar 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:		Offer Summary
91-Day	16.24%	The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 27th of March, 2024. At the PMA, existing T-Bills totalling NGN161.33bn (NGN17.61bn, NGN1.56bn and NGN142.16bn across the 91-day, 182-day, and 364-day instruments, respectively) will mature and be rolled over.
182-Day	17.00%	
364-Day	21.12%	

Amount Allotted:

91-Day	NGN5.73bn	Outlook on Yields At the last Primary Market Auction (PMA), the CBN offered a total of NGN161.50bn across the trio instrument. This was 52.20% lower than the offer amount at the previous auction (NGN337.89bn). While total subscription declined slightly, it remained robust at NGN1.50trn (vs. NGN1.66trn at the previous auction). Meanwhile, the amount allotted fell significantly as the CBN allotted the exact offer amount (NGN161.50bn vs NGN1.32trn at the previous auction). Consequently, the bid-to-cover ratio increased to 9.27x (vs. 1.26x at the previous auction). As a result, the stop rates across the trio instruments—91-day, 182-day, and 364-day declined by 100bps, 100bps, and 37bps to 16.24%, 17.00%, and 21.12%, respectively.
182-Day	NGN4.92bn	
364-Day	NGN150.85bn	

SUMMARY OF CURRENT AUCTION

Auction Date	Mar 27 2024	In the upcoming auction, we expect a slight uptick in stop rates across the offered instruments. In our view, the broad expectation of a rate hike at the March MPC meeting is likely to prompt investors to seek higher rates at the auction. Furthermore, the monetary authority's commitment to make fixed income rates better reflect policy direction further reinforces our expectations and makes a case for an uptick in rates at the auction.
Settlement Date	Mar 28 2024	
Auction Size		
91-Day	NGN17.61bn	In the secondary market, the mood has been predominantly bullish since the last auction, chiefly driven by robust system liquidity and FPI inflows during the period. Consequently, the average T-bills yield declined to 18.41% as of 25th March (from 19.70% as of the last auction date).
182-Day	NGN1.56bn	
364-Day	NGN142.16bn	

Maturing Instruments

91-Day	NGN17.61bn	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:
182-Day	NGN1.56bn	
364-Day	NGN142.16bn	

Meristem Advised Stop Rates

91-Day	16.00%-17.50%	
182-Day	17.00%-18.20%	
364-Day	19.50%-21.50%	

Tenor	Offer Size	Advised Rates
91-Day	NGN17.61bn	16.00%-17.50%
182-Day	NGN1.56bn	17.50%-18.20%
364-Day	NGN142.16bn	19.50%-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

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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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