

Treasury Bills Auction Scheduled for 22nd May 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

| | |
|---------|--------|
| 91-Day | 16.24% |
| 182-Day | 17.00% |
| 364-Day | 20.70% |

Amount Allotted:

| | |
|---------|-------------|
| 91-Day | NGN16.59bn |
| 182-Day | NGN5.44bn |
| 364-Day | NGN252.64bn |

SUMMARY OF CURRENT AUCTION

| | |
|-----------------|-------------|
| Auction Date | May 22 2024 |
| Settlement Date | May 23 2024 |

Auction Size

| | |
|---------|-------------|
| 91-Day | NGN331.01bn |
| 182-Day | NGN9.30bn |
| 364-Day | NGN168.67bn |

Maturing Instruments

| | |
|---------|-------------|
| 91-Day | NGN331.01bn |
| 182-Day | NGN9.30bn |
| 364-Day | NGN168.67bn |

Meristem Advised Stop Rates

| | |
|---------|---------------|
| 91-Day | 15.75%-16.24% |
| 182-Day | 16.50%-17.50% |
| 364-Day | 19.00%-20.90% |

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 22nd of May, 2024. At the PMA, existing T-Bills totalling NGN508.98bn (NGN331.01bn, NGN9.30bn and NGN168.67bn 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 CBN offered a total of NGN179.36bn (highest offer since the first auction in March – NGN337.89bn), across the trio instruments, NGN36.79bn more than the NGN142.57bn offered at the previous auction. For the fourth consecutive auction, rates across all maturities remained stable at 16.24% for the 91-Day, 17.00% for the 182-Day, and 20.70% for the 364-Day instruments. Similar to previous auctions, the allotment was heavily skewed towards the 364-Day instrument, reflecting a continued preference among investors for longer-term securities. Despite the stability in rates, overall subscription surged by 20.61% to NGN914.06bn, up from NGN757.85bn at the prior auction. This increase suggests that investors remain optimistic about potential higher rates in the fixed income market. Consequently, the bid-to-cover ratio rose significantly to 3.33x from 2.09x in the previous auction, driven largely by the heightened demand for the 364-Day instrument, which saw its bid-to-cover ratio increase to 3.48x from 2.17x.

As anticipated, the Monetary Policy Committee (MPC) raised the monetary policy rate by 150bps, reflecting its hawkish stance to combat inflationary pressures. We expect tomorrow's auction to reflect this shift, with investors likely demanding higher rates that align with the elevated interest rate environment and compensate for the decline in real returns, particularly given that April's inflation rate stood at 33.69%. We also note the peculiarity of the coming auction, characterised by a significant focus on the shorter end of the yield curve, which constitutes c. 65% of the total auction size. While this emphasis on shorter-term instruments may moderate rates at the lower end of the curve, we anticipate that monetary authorities will maintain elevated rates overall to address ongoing inflation concerns effectively.

Meanwhile, the secondary market has sustained its bullish momentum since the last auction. As of May 20, 2024, the average yield on T-bills fell to 22.13%, down from 22.45% on the last auction date. This decline indicates a strong rally in the secondary market, driven by investors seeking to fulfill their unmet demand from the Primary Market Auction (PMA).

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:

Ahead of Next T-Bills Auction

| Tenor | Offer Size | Advised Rates |
|---------|-------------|---------------|
| 91-Day | NGN331.01bn | 15.75%-16.24% |
| 182-Day | NGN9.30bn | 16.50%-17.50% |
| 364-Day | NGN168.67bn | 19.00%-20.90% |

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 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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