

Ahead of Next T-Bills Auction

Treasury Bills Auction Scheduled for 8th May 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

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

Amount Allotted:

| | |
|---------|-------------|
| 91-Day | NGN7.85bn |
| 182-Day | NGN12.95bn |
| 364-Day | NGN121.77bn |

SUMMARY OF CURRENT AUCTION

| | |
|-----------------|------------|
| Auction Date | May 8 2024 |
| Settlement Date | May 9 2024 |

Auction Size

| | |
|---------|-------------|
| 91-Day | NGN39.90bn |
| 182-Day | NGN5.44bn |
| 364-Day | NGN134.02bn |

Maturing Instruments

| | |
|---------|-------------|
| 91-Day | NGN39.90bn |
| 182-Day | NGN5.44bn |
| 364-Day | NGN134.02bn |

Meristem Advised Stop Rates

| | |
|---------|---------------|
| 91-Day | 15.75%-16.24% |
| 182-Day | 16.50%-17.50% |
| 364-Day | 18.50%-20.70% |

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 8th of May, 2024. At the PMA, existing T-Bills totalling NGN179.36bn (NGN39.90bn, NGN5.44bn and NGN134.02bn 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), which was also the last auction of Q1:2024, the CBN offered a total of NGN142.57bn across the trio instruments, slightly lower than the NGN149.64bn offered at the previous auction. Rates across all maturities remained unchanged at 16.24%, 17.00%, and 20.70% for the 91-Day, 182-Day, and 364-Day respectively. Although, the CBN successfully allotted more than the amount offered (2.54x), we observed a weakened investors' appetite as the average subscription to offer ratio dipped to 5.31x from 12.16x. Also, allotment was tilted towards the 364-Day instrument. The government's perceived preference for the 364-Day instrument is indicative of increased pressure of high debt burden on government finances which is not expected to ease off any time soon. While it is helpful that global oil prices have been on the rise in recent times, spending continues to significantly outweigh revenue.

At the upcoming auction, although we expect investors to continue to demand better rates, we think the status quo would be maintained – with stop rates on the 91 and 364-day offers unchanged, and a slight uptick to stop rates on the 182-day instrument.

Meanwhile, the secondary market has continued its bullish run since the last auction, as average T-bills yields fell to 22.53% as at 6th May 2024 (vs. 25.06% from the last auction date). Investors rallied in the secondary market to fulfill unmet demand at the PMA. Nonetheless, the real rates of return remain entrenched in the negative territory in the face of higher inflationary pressures.

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 | NGN39.90bn | 15.75%-16.24% |
| 182-Day | NGN5.44bn | 16.50%-17.50% |
| 364-Day | NGN134.02bn | 18.50%-20.70% |

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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