

## Treasury Bills Auction Scheduled for 5<sup>th</sup> June 2024

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

|         |        |
|---------|--------|
| 91-Day  | 16.50% |
| 182-Day | 17.45% |
| 364-Day | 20.69% |

#### Amount Allotted:

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

### SUMMARY OF CURRENT AUCTION

|                 |             |
|-----------------|-------------|
| Auction Date    | June 5 2024 |
| Settlement Date | June 6 2024 |

#### Auction Size

|         |             |
|---------|-------------|
| 91-Day  | NGN14.42bn  |
| 182-Day | NGN26.82bn  |
| 364-Day | NGN179.89bn |

#### Maturing Instruments

|         |             |
|---------|-------------|
| 91-Day  | NGN14.42bn  |
| 182-Day | NGN26.82bn  |
| 364-Day | NGN179.89bn |

#### Meristem Advised Stop Rates

|         |               |
|---------|---------------|
| 91-Day  | 15.55%-16.55% |
| 182-Day | 16.75%-18.00% |
| 364-Day | 19.45%-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 5<sup>th</sup> of June, 2024. At the PMA, existing T-Bills totalling NGN221.13bn (NGN14.42bn, NGN26.82bn and NGN179.89bn 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 NGN508.98bn (highest offer since the first auction in February – NGN1.00trn), across the trio instruments, 4.10x the NGN56.56bn offered at the previous auction. As we noted in the previous Ahead of T-Bills, the last auction was characterized by a significant focus on the shorter end of the yield curve, which constitutes c. 65% of the total auction size. Despite this, subscription was heavier at the 364-day end of the curve, with subscription level crossing the NGN1trn mark to NGN1.43trn (vs NGN879.75bn at the previous auction). Overall, overall subscription surged by 74.07% to NGN1.59trn, up from NGN914.06bn at the prior auction. This strong investor interest suggests optimism about potentially higher returns in the fixed-income market. Following the recent hike in the monetary policy rate to 26.25%, yields on treasury bills also rose after a four-week period of stability. Rates on the 91-day and 182-day bills increased to 16.50% and 17.45% respectively, from 16.24% and 17.00%. However, the yield on the 364-day bill came in slightly lower at 20.69%, compared to 20.70% at the previous auction.

At tomorrow's auction, we anticipate that rates will largely hover around current levels, yet still offer an attractive entry point for investors. Although there is a need to moderate borrowing costs, we believe it is crucial to maintain a competitive yield environment to ensure foreign portfolio investors continue to inject foreign exchange into the market.

In the secondary market, where previously issued bills are traded, the average yield has dropped further since the auction. As of June 3rd, 2024, yields fell to 21.67% compared to 22.11% on the auction date. This decline reflects a bullish trend in the secondary market, likely fueled by investors seeking to acquire bills they couldn't obtain during the 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:

| Tenor   | Offer Size  | Advised Rates |
|---------|-------------|---------------|
| 91-Day  | NGN14.42bn  | 15.55%-16.55% |
| 182-Day | NGN26.82bn  | 16.75%-18.00% |
| 364-Day | NGN179.89bn | 19.45%-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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