

# Ahead of Next T-Bills Auction

## Treasury Bills Auction Scheduled for 13<sup>th</sup> Dec. 2023

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	9.00%
182-Day	13.00%
364-Day	15.75%

#### Amount Allotted:

91-Day	NGN14.42bn
182-Day	NGN28.82bn
364-Day	NGN563.12bn

### SUMMARY OF CURRENT AUCTION

Auction Date	Dec 13 2023
Settlement Date	Dec 14 2023

#### Auction Size

91-Day	NGN1.10bn
182-Day	NGN1.28bn
364-Day	NGN11.20bn

#### Maturing Instruments

91-Day	NGN1.10bn
182-Day	NGN1.28bn
364-Day	NGN11.20bn

#### Meristem Advised Stop Rates

91-Day	6.11%-7.86%
182-Day	8.70%-10.15%
364-Day	13.50%-14.50%

#### Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 13th of December 2023. At the PMA, existing T-Bills totalling NGN13.58bn (NGN1.10bn, NGN1.28bn and NGN11.20bn across the 91-day, 182-day, and 364-day instruments, respectively) will mature and be rolled over.

#### Outlook on Yields

The amount offered at the last Primary Market Auction (PMA) stood at NGN104.35bn, lower than the NGN211.71bn offered at the previous auction. Notwithstanding, the total subscription increased to NGN1.76trn (vs. NG1.23trn at the previous auction). We attribute this to the robust system liquidity during the period, evinced by the lower overnight policy rate (15.55% on 6th December vs 23.83% at the previous auction). Consequently, the subscription-to-offer ratio spiked to 16.90x (vs. 5.82x at the previous auction). The Bid-to-offer ratio also increased to 2.92x from 2.19x at the previous auction. Thus, the stop rate on the 364-day instrument declined by 100bps to 15.75%, while the rates on the 91-day and 182-day bills increased by 100bps each to 9.00% and 13.00%, respectively.

In the forthcoming auction, we expect a slight moderation in rates across the trio instruments. In our view, the lower amount on offer at the auction (NGN13.58bn vs 104.35bn at the last auction) makes a case for lower rates on the offered instruments. Also, we expect the buoyant system liquidity to fuel investors' demand at the auction, thus pushing rates lower.

In the secondary fixed-income market, the mood has remained bullish since the last auction as the unfulfilled demand from the previous auction flowed into the secondary market. As a result, the average Treasury Bills yields declined to 10.56% as of 11<sup>th</sup> December, from 10.82% at the previous auction. Owing to the relatively robust system liquidity, we expect this bullish trend to persist.

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	NGN1.10bn	6.11%-7.86%
182-Day	NGN1.28bn	8.70%-10.15%
364-Day	NGN11.20bn	13.50%-14.50%

## 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* and 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 holds twice in a month (i.e. every other Wednesday). The above likely stop rates are our estimates and might not necessarily hold true, 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 serve the purpose of raising 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 that is 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 it until maturity would mean that the investor gets a fixed interest payment.

## Benefits of T-bills

The biggest reasons that T-Bills are so popular are that they are one of the few money-market instruments that are affordable to individual investors. Other positives are that T-bills (and all Treasuries) are considered to be risk-free

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investments because they are backed by the full faith of the Federal Government. 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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