Treasury Bills Auction Scheduled for 24th July 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	16.30%
182-Day	17.44%
364-Day	21.24%

Amount Allotted:

91-Day	NGN28.47bn
182-Day	NGN9.16bn
364-Day	NGN169.64bn

SUMMARY OF CURRENT AUCTION

Auction Date	July 24 2024
Settlement Date	July 25 2024

Auction Size

91-Day	NGN16.48bn
182-Day	NGN6.44bn
364-Day	NGN255.04bn

Maturing Instruments

91-Day	NGN16.48bn
182-Day	NGN6.44bn
364-Day	NGN255.04bn

Meristem Advised Stop Rates

91-Day	**16.00%-16.90%**
182-Day	**17.20%-17.80%**
364-Day	**19.50%-21.90%**

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 24th of July, 2024. At the PMA, existing T-Bills totalling NGN277.96bn (NGN16.48bn, NGN6.44bn and NGN255.04bn across the 91-day, 182-day, and 364-day instruments, respectively) will mature and be rolled over.

Outlook on Yields

At the most recent Primary Market Auction (PMA), the CBN offered a total of NGN166.11bn across three instruments. This represents a 27.10% decrease from the NGN228.71bn offered at the previous auction but is still 3.75 times higher than the amount offered two auctions ago. The domestic debt market has recently seen a shift, with lower borrowing amounts following a significant frontloading of debt in the first quarter of the year. Although subscription levels have tapered from their previous highs, the subscription-to-offer ratio stood at 3.38x, indicating robust investor participation in the fixed income market, driven by the appeal of elevated yields. Like in most auctions, subscription was heavier at the 364-day end of the curve, with subscription reaching NGN269.32bn (vs NGN697.11bn at the last auction). Overall, rates on the 91-day and 182-day instruments remained steady at 16.30% and 17.44% for the second consecutive auction. In contrast, the rate on the 364-day instrument increased by 56 basis points, reaching 21.24%.

At tomorrow's auction, our analysis suggests an upward trajectory for rates. This expectation is underpinned by the recent monetary policy committee decision, which saw a modest 50bps increase in the MPR. However, the more significant development was the expansion of the upper band of the MPR from +100bps to +500bps, signaling a potential for tighter system liquidity. The widened upper band of the MPR opens the door for more aggressive liquidity management, potentially driving rates higher. This is attractive for investors, particularly FPIs, as the prospect of higher yields could incentivise foreign exchange inflows, bolstering forex reserves and supporting currency stability. On the other hand, the modest increase in the MPR indicates a measured approach to monetary tightening, with the aim to manage borrowing costs.

In the secondary market, where previously issued bills are traded, the average yield has dropped further since the auction. As of July 22nd, 2024, yields rose to 24.26% compared to 22.01% on the last auction date.

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	NGN16.48bn	16.00%-16.90%
182-Day	NGN6.44bn	17.20%-17.80%
364-Day	NGN255.04bn	19.50%-21.90%

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 not tax-exempt, so interest received is 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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