

## Treasury Bills Auction Scheduled for 26<sup>th</sup> June 2024

### SUMMARY OF PREVIOUS AUCTION

Stop Rate:		Offer Summary
91-Day	16.30%	The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on June 26, 2024. At the PMA, existing T-Bills totalling NGN228.72bn (NGN29.83bn, NGN30.67bn, and NGN168.21bn across the 91-day, 182-day, and 364-day instruments, respectively) will mature and be rolled over.
182-Day	17.44%	
364-Day	20.50%	

### Amount Allotted:

91-Day	NGN6.78bn	<b>Outlook on Yields</b> At the last Primary Market Auction (PMA), the CBN offered a total of NGN44.23bn across the trio instruments, lower than the NGN221.13trn offered at the previous auction. Similarly, the total subscription printed at NGN407.76bn (1.75x lower than the NGN713.88trn total bid at the previous auction). This can chiefly be attributed to the tighter market liquidity during the period, which may have dampened investors' demand. However, due to the lower offer amount, the subscription-to-offer ratio increased to 9.22x (vs. 3.23x at the previous auction). Meanwhile, the CBN also allotted lower at the auction, raising a total of NGN55.23bn (vs. NGN278.43bn in the previous auction). Consequently, the stop rates on the 91-day, 182-day and 364-day bills declined by 20bps, 1bps and 17bps to 16.30%, 17.44%, and 20.50% (vs 16.50%, 17.45%, and 20.67% at the prior auction).
182-Day	NGN8.36bn	
364-Day	NGN40.09bn	

### SUMMARY OF CURRENT AUCTION

Auction Date	June 26 2024	At the forthcoming auction, we expect rates to print slightly around the previous auction levels. In our view, the need to manage borrowing costs may continue to influence the direction of rates. Thus, we do not foresee any significant uptick in stop rates at the auction. However, the higher offer amount (NGN228.72bn) coupled with improved system liquidity may fuel investors' demand and spur a marginal increase in rates.
Settlement Date	June 27 2024	
<b>Auction Size</b>		
91-Day	NGN29.83bn	In the secondary market, where previously issued bills are traded, a blend sentiment has characterised the market since the last auction. Investors buying interest at the longer end of the curve drove yields lower to 21.02% as of 14 June (vs 21.47% as at the previous auction date). However, tighter liquidity conditions spurred a bearish bias afterwards, pushing the average yield up to 21.56% as of 24 June.
182-Day	NGN30.67bn	
364-Day	NGN168.21bn	
<b>Maturing Instruments</b>		Given the above, our rate guidance is informed by the need to strike a balance between maximising investment returns and having a successful bid. Thus, the recommended stop rates for the respective instruments are as follows:
91-Day	NGN29.83bn	
182-Day	NGN30.67bn	
364-Day	NGN168.21bn	
<b>Meristem Advised Stop Rates</b>		
91-Day	<b>15.70%-16.50%</b>	
182-Day	<b>16.70%-18.10%</b>	
364-Day	<b>20.40%-20.80%</b>	

Tenor	Offer Size	Advised Rates
91-Day	NGN29.83bn	15.70%-16.50%
182-Day	NGN30.67bn	16.70%-18.10%
364-Day	NGN168.21bn	20.40%-20.80%

## 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 CBN always makes the final decision 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 15.30% 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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