

Treasury Bills Auction Scheduled for 21st August 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	18.50%
182-Day	19.50%
364-Day	21.89%

Amount Allotted:

91-Day	NGN20.75bn
182-Day	NGN32.62bn
364-Day	NGN162.72bn

SUMMARY OF CURRENT AUCTION

Auction Date	August 21 2024
Settlement Date	August 22 2024

Auction Size

91-Day	NGN60.69bn
182-Day	NGN66.25bn
364-Day	NGN283.04bn

Maturing Instruments

91-Day	NGN60.69bn
182-Day	NGN66.25bn
364-Day	NGN283.04bn

Meristem Advised Stop Rates

91-Day	17.00%-18.50%
182-Day	18.50%-19.50%
364-Day	20.50%-21.50%

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 21st of August, 2024. At the PMA, existing T-Bills totalling NGN409.98bn (NGN60.69bn, NGN66.25bn and NGN283.04bn 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 NGN216.09bn across three instruments, marking a reduction from the NGN277.96bn offered in the previous auction. Strong system liquidity, which stood at NGN469.99bn, fueled substantial investor demand, with total subscriptions reaching 2.25x the offered amount, a significant increase from the 1.35x recorded at the prior auction. In nominal terms, total subscriptions surged to NGN486.87bn (up from NGN373.95bn previously), with the 364-day instrument attracting the lion's share at 88.64% of total bids. The average bid-to-cover ratio also improved significantly to 2.25x, reflecting both robust liquidity and heightened investor appetite across all three instruments. Despite this strong demand, the CBN maintained the allotment at the offered amount of NGN216.09bn, resulting in an allotment-to-offer ratio of 1.00x. Due to the high demand, yields on the 91-day and 182-day instruments remained constant, while the yield on the 364-day instrument declined by 21bps to 21.89%, in line with expectations of easing borrowing costs.

At the upcoming auction, we anticipate that rates will remain around current levels, despite the tight liquidity conditions (-NGN104.27bn as of August 20, 2024). This expectation is supported by lower money market rates, as monetary authorities continue to prioritise managing borrowing costs. Additionally, Monday's bond auction, where rates trended lower, suggest a similar trajectory.

Meanwhile, in the secondary market, where previously issued T-Bills are traded, sentiment has been largely bullish. For context, the average yield on T-Bills dropped to 23.10% as of August 19, compared to 26.09% at the last auction.

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	NGN60.69bn	17.00%-18.50%
182-Day	NGN66.25bn	18.50%-19.50%
364-Day	NGN283.04bn	20.50%-21.50%

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 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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