

Treasury Bills Auction Scheduled for 7th August 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	18.50%
182-Day	19.50%
364-Day	22.10%

Amount Allotted:

91-Day	NGN13.14bn
182-Day	NGN6.40bn
364-Day	NGN258.42bn

SUMMARY OF CURRENT AUCTION

Auction Date	August 7 2024
Settlement Date	August 8 2024

Auction Size

91-Day	NGN16.59bn
182-Day	NGN51.35bn
364-Day	NGN148.15bn

Maturing Instruments

91-Day	NGN16.59bn
182-Day	NGN51.35bn
364-Day	NGN148.15bn

Meristem Advised Stop Rates

91-Day	17.00%-18.50%
182-Day	18.50%-19.50%
364-Day	20.50%-22.50%

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 7th of August, 2024. At the PMA, existing T-Bills totalling NGN216.09bn (NGN16.59bn, NGN51.35bn and NGN148.15bn 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) in July, the CBN offered a total of NGN277.96bn across the trio instruments, 67.34% higher than the amount offered at the previous auction in July. On the demand side, the total subscription remained subdued, printing at NGN373.95bn, although slightly higher than the N308.66bn at the previous auction. We attribute this to the tight liquidity condition during the period. As such, the subscription-to-offer ratio declined to 1.35x (vs 1.85x at the previous auction). Notably, the CBN allotted the exact offer amount – NGN277.96bn (vs NGN207.27bn at the previous auction). As a result, the allotment-to-offer ratio stood at 1.00x (vs 1.25x at the previous auction). At the auction, we observed that the 50bps MPR hike days before the auction date spurred investors' demand for higher rates across the offered instruments. Consequently, the stop rates on the 91-day, 182-day and 364-day instruments increased by 220bps, 206bps, and 81bps to 18.50%, 19.50% and 22.10%, respectively.

At the forthcoming auction, the lower offer amount (NGN216.09bn) and the constrained system liquidity (NGN469.99mn as of 5th August 2024) could significantly dampen investors' demand for the offered instruments. While we anticipate investors' range of bids to remain elevated, we note that the government's need to manage borrowing costs presents a weaker incentive for an uptick in stop rates.

In the secondary market, where previously issued bills are traded, the mood has been largely bearish since the last auction. For context, the average T-Bills yield rose to 24.12% as of August 5th (vs 23.79% at the last previous 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	NGN16.59bn	17.00%-18.50%
182-Day	NGN51.35bn	18.50%-19.50%
364-Day	NGN148.15bn	20.50%-22.50%

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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