

Treasury Bills Auction Scheduled for 09th October 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	17.00%
182-Day	17.50%
364-Day	20.00%

Amount Allotted:

91-Day	NGN27.35bn
182-Day	NGN23.09bn
364-Day	NGN177.10bn

SUMMARY OF CURRENT AUCTION

Auction Date October 09 2024

Settlement Date October 10 2024

Auction Size

91-Day	NGN28.47bn
182-Day	NGN22.67bn
364-Day	NGN30.76bn

Maturing Instruments

91-Day	NGN28.47bn
182-Day	NGN22.67bn
364-Day	NGN30.76bn

91-Day **16.50% - 17.00%**

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 9th of October 2024. Existing T-bills totalling NGN81.90bn (NGN28.47bn, NGN22.67bn and NGN30.76bn) 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) on 25th September, the CBN offered a total of NGN227.54bn across the three instruments, 40.56% higher than the amount offered at the previous auction (NGN161.88bn). Also, the total subscription decreased significantly, printing at NGN304.27bn (vs NGN563.17bn at the previous auction), with the bulk of subscription (c.82%) directed to the 364-day instrument. As a result, the subscription-to-offer ratio decreased to 1.34x (vs 3.48x at the previous auction). The CBN allotted the total amount of NGN227.54bn, higher than the NGN161.88bn allotted at the previous auction. Consequently, the bid-to-cover ratio decreased to 1.34x (vs 3.48x at the previous auction). Contrary to expectations, stop rates on the 91-day, 182-day, and 364-day instruments rose after four consecutive declines, by 200bps, 300bps, and 800bps, to 17.00%, 17.50%, and 20.00%, respectively.

We expect stop rates at tomorrow’s auction to hover around current levels, influenced by several factors. On one hand, maturing bills totaling NGN81.90bn—significantly lower than the previous auction’s NGN227.54bn—mark the lowest borrowing level since June 2024. This reduced supply could deter the DMO from offering higher premiums, in line with their ongoing efforts to minimize borrowing costs. On the other hand, tight system liquidity (-NGN694.60bn as of October 7, 2024) suggests investors may demand higher yields to compensate for the cash shortage. Additionally, recent CRR debits have further strained liquidity. Balancing these factors, we anticipate a slight increase in rates, particularly on the longer end of the curve, as investors seek higher premiums.

Activities in the secondary market on previously issued bills, have largely been bearish since the last auction. For context, the average T-Bills yield increased to 22.95% as of 7th October (vs 21.82% at the 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	28.47bn	16.00%-17.00%
182-Day	22.67bn	16.50%-17.50%
364-Day	30.76bn	18.50%-20.50%

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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