

# Ahead of Next T-Bills Auction

## Treasury Bills Auction Scheduled for 22nd January 2025

### SUMMARY OF PREVIOUS AUCTION

Stop Rate:	
91-Day	18.00%
182-Day	18.50%
364-Day	20.62%

### Amount Allotted:

91-Day	NGN21.30bn
182-Day	NGN20.49bn
364-Day	NGN473.21bn

### SUMMARY OF CURRENT AUCTION

Auction Date	January 22, 2025
Settlement Date	January 23, 2025

### Auction Size

91-Day	NGN50.00bn
182-Day	NGN80.00bn
364-Day	NGN400.00bn

### Maturing Instruments

91-Day	NGN13.14bn
182-Day	NGN6.40bn
364-Day	NGN217.53bn

### Meristem's Advised Rate

91-Day	17.00% - 17.50%
182-Day	18.00%- 18.50%
364-Day	21.80%- 22.40%

### Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to conduct a Treasury Bills (T-Bills) Primary Market Auction (PMA) on January 22, 2025, marking the second auction in the month. A total of NGN530.00bn will be offered across the trio maturities, comprising NGN50.00bn in 91-day bills, NGN80.00bn in 182-day bills, and NGN 400.00bn in 364-day bills.

### Outlook on Yields

At the most recent Primary Market Auction (PMA) on January 8, 2025, the CBN offered NGN515.00bn in new Treasury Bills across the three maturities. This represents a significant 54.87% increase compared to the NGN332.53bn in the last auction in December 2024. With system liquidity at a robust level of NGN632.98bn as of January 7, 2025, the auction attracted strong investor demand, pushing total subscriptions to NGN1.48trn, more than double the NGN607.83bn recorded at the previous auction. Furthermore, investor preference leaned heavily toward the longer-dated instruments, with 97.12% of bids concentrated on the 364-day bill, reflecting a strong appetite for longer-tenor bills. As a result, the subscription-to-offer ratio climbed to 3.83x, up from 2.26x in December. At the close of bidding, the Federal Government allotted NGN473.21bn, nearly doubling the NGN268.74bn allocated at the previous auction, pushing the bid-to-cover ratio higher to 3.83x, compared to 2.16x previously. As anticipated, stop rates for the 91-day and 182-day instruments remained unchanged at 18.00% and 18.50%, respectively. Meanwhile, the 364-day bill rate declined by 28bps to 22.62%, down from 22.90% at the prior auction.

At tomorrow's auction, we expect rates to trend lower, hinged on different factors. As of January 20, 2025, system liquidity stands at a deficit of NGN373.66bn. However, anticipated inflows from the FAAC allocation, FGN bond coupon payment of NGN281.95bn, and the Federal Savings Bond coupon payment of NGN0.56bn are set to bolster liquidity and sustain demand for bills at the auction.

Additionally, we believe the rebasing of the Consumer Price Index (CPI) and the potential moderation in inflation, alongside the government's focus on managing borrowing costs, could further influence the CBN to lower rates at the auction. Moreover, market participants have adopted a cautious approach to trading, pricing in macroeconomic expectations and the potential for future rate cuts. As a result, many may be inclined to lock in funds at current rates or slightly lower, in anticipation of continued reductions in subsequent auctions.

On the other hand, the higher offer size of NGN530.00bn, which significantly exceeds the volume of maturing bills NGN237.07bn, could prompt the CBN to consider raising rates to attract sufficient demand. On a balance of factors, we anticipate that rates at the shorter end of the curve are likely to hover around current levels, while rates on the longer end could trend lower in the upcoming auction.

## Ahead of Next T-Bills Auction

Activities in the T-Bills secondary market have been mixed, with a slight tilt toward a bullish bias following the recent auction. As of January 17, 2025, the average T-Bills yield declined by 18bps to 25.21%, down from 25.39% shortly after the 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	50.00bn	17.00% - 17.50%
182-Day	80.00bn	18.00% - 18.50%
364-Day	400.00bn	21.80% - 22.40%

## 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.

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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