

Treasury Bills Auction Scheduled for 8th January 2025

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	18.00%
182-Day	18.50%
364-Day	22.90%

Amount Allotted:

91-Day	NGN25.54bn
182-Day	NGN25.47bn
364-Day	NGN281.53bn

SUMMARY OF CURRENT AUCTION

Auction Date January 08 2025

Settlement Date January 09 2025

Auction Size

91-Day	NGN50.00bn
182-Day	NGN80.00bn
364-Day	NGN385.00bn

Maturing Instruments

91-Day	NGN12.96bn
182-Day	NGN9.16bn
364-Day	NGN52.29bn

Meristem's Advised Rate

91-Day	17.00% - 17.50%
182-Day	18.00%- 18.50%
364-Day	21.00%- 22.60%

Offer Summary

The Central Bank of Nigeria (CBN) is set to conduct its first Treasury Bills (T-Bills) Primary Market Auction (PMA) for the year 2025. The auction will involve the issue of new bills on the 91-day (NGN50.00bn), 182-day (NGN80.00bn), and 364-day (NGN385.00bn) instrument, with a total worth of NGN515.00bn.

Outlook on Yields

Following the Christmas celebrations, the CBN held its final T-Bills auction for the year on December 27, 2024. The auction saw NGN332.53bn offered across three maturities, marking an increase of NGN56.82bn compared to the NGN275.71bn offered in the preceding auction. Despite negative system liquidity as of December 24, 2024, investor interest was robust, with total subscriptions nearly doubling the offer size at NGN663.18bn. This resulted in a subscription-to-offer ratio of 1.99x, with total allotments equaling the offer size, maintaining the bid-to-cover ratio at 1.99x. Stop rates for the 91-day and 182-day tenors remained unchanged at 18.00% and 18.50%, respectively, for the third consecutive auction. However, the stop rate for the 364-day tenor rose by 10bps to 22.90%, up from 22.80% in the prior auction.

At the upcoming T-Bills Primary Market Auction (PMA), the government plans to raise NGN515.00bn, significantly exceeding the NGN74.41bn maturing. Stop rates for the offered instruments, particularly on the shorter end of the curve, are expected to remain relatively stable, with a potential downward adjustment. The robust system liquidity of NGN797.66bn as of January 7, 2025, supports the case for lower stop rates. Furthermore, yesterday's CRR refund is likely to increase banks' participation in the auction. Coupled with the government's emphasis on managing borrowing costs, these factors point to a higher probability of stable or marginally reduced stop rates at tomorrow's auction.

The secondary T-Bills market has shown a slight bullish sentiment since the most recent auction, marked by a reduction in yields. As of January 6th, yields fell to 25.41%, up from 25.49% recorded shortly after the previous auction on December 27th.

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	NGN50.00bn	17.00%-17.50%
182-Day	NGN80.00bn	18.00%-18.50%
364-Day	NGN385.00bn	21.00%-22.60%

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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ISI Emerging Markets: www.securities.com/ch.html?pc=NG

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