

Treasury Bills Auction Scheduled for 5th February 2025

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	18.00%
182-Day	18.50%
364-Day	20.62%

Amount Allotted:

91-Day	NGN26.45bn
182-Day	NGN17.09bn
364-Day	NGN712.48bn

SUMMARY OF CURRENT AUCTION

Auction Date February 5, 2025

Settlement Date February 6, 2025

Auction Size

91-Day	NGN50.00bn
182-Day	NGN120.00bn
364-Day	NGN500.00bn

Maturing Instruments

91-Day	NGN14.00bn
182-Day	NGN32.62bn
364-Day	NGN908.75bn

Meristem's Advised Rate

91-Day	16.50% - 17.50%
182-Day	18.00%- 18.50%
364-Day	20.40%- 20.70%

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to conduct a Treasury Bills (T-Bills) Primary Market Auction (PMA) on February 5, 2025, marking the first auction in the month. A total of NGN670.00bn will be offered across the trio maturities, comprising NGN50.00bn in 91-day bills, NGN120.00bn in 182-day bills, and NGN 500.00bn in 364-day bills.

Outlook on Yields

At the auction conducted on January 22, 2025, the CBN offered a total of NGN530.00bn across three maturities, slightly higher than the NGN515.00bn offered at the previous auction on January 8, 2025. Investor interest was robust, with total bids reaching NGN2.54trn, a significant increase from NGN1.52trn in the prior auction. This surge in demand was supported by ample system liquidity of NGN219.18bn as of January 21, 2025.

At the conclusion of the auction, the CBN allocated NGN756.02bn, compared to NGN473.21bn awarded in the previous auction, resulting in a bid-to-cover ratio of 3.35x, slightly lower than the prior 3.83x. As expected, stop rates for the 91-day and 182-day instruments remained steady at 18.00% and 18.50%, respectively. However, the 364-day bill rate declined by 82bps to 21.80%, down from 22.62% in the previous auction.

At tomorrow's auction, we anticipate rates to maintain their downward trend, supported by an average system liquidity of NGN463.64bn over the past week, which is expected to drive strong demand and put downward pressure on stop rates. Furthermore, the maturity profile has expanded significantly, with NGN955.40bn in maturing obligations—marking a 302.99% surge from the previous auction's NGN237.08bn—potentially reinforcing the demand for reinvestment opportunities.

Additionally, the government's emphasis on managing borrowing costs could influence the CBN to adjust rates downward. On the other hand, the higher offer size of NGN670.00bn, which is significantly lower than the volume of maturing bills NGN955.40bn, could prompt CBN to consider reducing rates on the instruments. Overall, we anticipate that rates across all maturities could trend lower in the upcoming 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 23, 2025, the average T-Bills yield declined by 19bps to 24.40%, down from 24.59% shortly after the auction.

Ahead of Next T-Bills 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	16.50% - 17.50%
182-Day	120.00bn	18.00% - 18.50%
364-Day	500.00bn	20.40% - 20.70%

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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