

Ahead of Next T-Bills Auction

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	1.8000%
182-Day	2.0400%
364-Day	3.7460%

Amount:

91-Day	NGN2.00bn
182-Day	NGN2.00bn
364-Day	NGN10.61bn

SUMMARY OF CURRENT AUCTION

Auction Date	1 st July 2020
Settlement Date	2 nd July 2020

Auction Size

91-Day	NGN10.00bn
182-Day	NGN20.00bn
364-Day	NGN58.86bn

Maturing Instruments

91-Day	NGN10.00bn
182-Day	NGN20.00bn
364-Day	NGN58.86bn

Meristem Advised Stop Rates

91-Day	1.70% - 2.00%
182-Day	2.00% - 2.20%
364-Day	3.70% - 3.90%

Treasury Bills Auction Scheduled for 1st July 2020

Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 1st of July 2020. Existing T-Bills worth NGN88.86bn will mature, and an equal amount will be issued across the 91-day, 182-day, and 364-day tenors. The CBN is expected to auction NGN10.00bn, NGN20.00bn and NGN58.86bn in the 91-day, 182-day, and 364-day instruments, respectively.

Outlook on Yields

Once again, buying sentiments prevailed in the primary market for treasury bills, as all tenors on offer were oversubscribed at the last auction. Bid to cover ratios settled at 6.80x, 7.62x and 5.67x on the 91-day, 180-day, and 364-day instruments, respectively. We feel this might be the new normal, as the unwavering appetite for government securities have crystallized into even lower rates. At the close of the last auction, spot rates declined further across all tenors, with the 91-day instrument witnessing the largest decline, to settle at 1.80%.

Since the last auction, the bullish mood has been channeled to the secondary market, thus driving average T-bills yield lower by 35bps (from 2.73% at the last auction date). This was mainly on account of the current system liquidity surfeit, as investors remain constrained on alternative investment options.

More recently, the fear of a second wave of the corona virus has gradually taken hold of the global space. A notable rise in cases in China and some countries in Latin America could cost the global economy a reversal in gains made so far. This poses a threat to the Nigerian economy as another slump in crude oil prices would negatively impact the much-needed receipts from crude oil. A payout of this scenario would fuel a slowdown in the momentum of accretion to foreign reserves and heighten the risk of devaluation.

System liquidity opened at NGN80.27bn positive this week, indicating decent levels of liquidity in the money market. Thus, given the prevailing market dynamics, we expect participation to remain strong in the forthcoming NTB auction.

Advised Stop Rates

Based on the above expectations, we advise the following rates for this auction.

Tenor	Offer Size	Advised Rates
91-Day	NGN10.00bn	1.70% - 2.00%
182-Day	NGN20.00bn	2.00% - 2.20%
364-Day	NGN58.86bn	3.70% - 3.90%

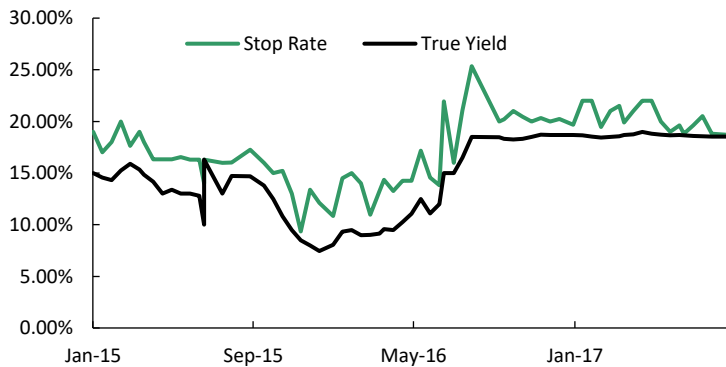
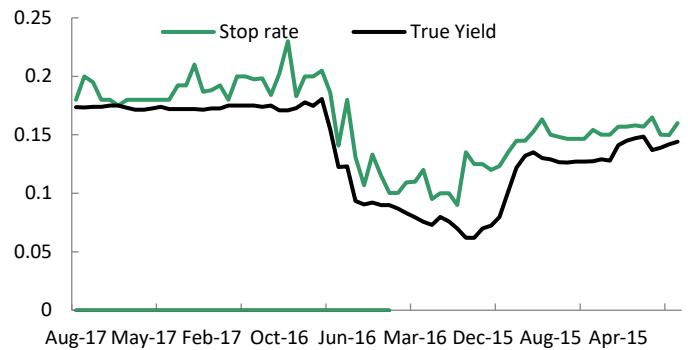
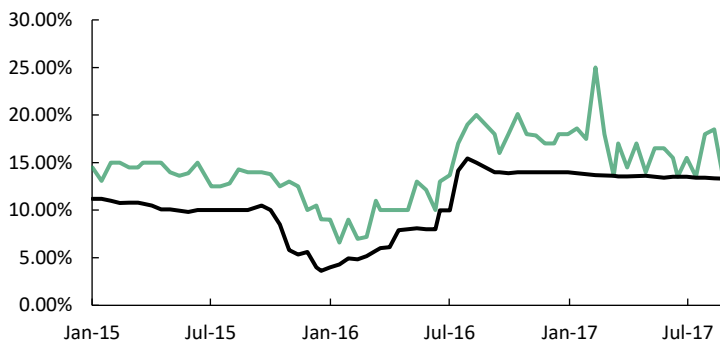
Investing through Meristem Wealth Management Limited

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 tax-free, so interest received is not subject to withholding tax and 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 holds twice in a month (i.e. every other Wednesday). The above likely stop rates are our estimates and might not necessarily hold true, as the final decision always lies with the CBN based on the auction process.

Recent Stop Rates on Past Auctions for 91-Day, 182-Day and 364-Day Instruments



Source: CBN, FMDQ, Bloomberg, Meristem Research

Ahead of Next T-Bills Auction

About Treasury Bills

Treasury Bills (T-bills) are marketable money market securities that serve the purpose of raising 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 that is 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.

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 it until maturity would mean that the investor gets a fixed interest payment.

Benefits of T-bills

The biggest reasons that T-Bills are so popular are that they are one of the few money-market instruments that are affordable to individual investors. Other positives are that T-bills (and all Treasuries) are considered to be risk-free investments because they are backed by the full faith of the Federal Government. 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”.

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
abisoyeoludipe@meristemng.com (+234 708 000 7861)
contact@meristemng.com

Investment Banking/Corporate Finance

seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

damilolahassan@meristemng.com (+234 803 613 9123)
www.meristemwealth.com
Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
martinaosague@meristemregistrars.com (+234 802 303 1783)
www.meristemregistrars.com
Tel: +23401-280 9250

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)

Client Services

omosolapeakinpelu@meristemng.com (+234 803 694 3034)
blissingogwuche@meristemng.com (+234 706 896 5173)

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: meristem.com.ng/rhub

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

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

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Disclaimer Notice:

Meristem and any of its associated or subsidiary companies or the employees thereof cannot be held responsible for any loss suffered by relying on the said information as this information as earlier stated, is based on publicly available information, analysts' estimates and opinions and is meant for general information purposes and should not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell securities or any financial instruments. The value of any investment is subject to fluctuations, i.e. may fall and rise. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of the investment to increase or diminish. Hence investors may not get back the full value of their original investment. Meristem Wealth Management Limited is licensed and registered with the Securities and Exchange Commission (SEC). Meristem Wealth Management Ltd's registered office is at 3, Norman Williams Street, South West, Ikoyi, Lagos, Nigeria. Website: www.meristemng.com; Email: crmwealth@meristemng.com, © **Meristem Wealth Management Limited 2020.**