

## Nigerian Treasury Bills (NTB) Auction Scheduled for 30 June 2021

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	2.50%
182-Day	3.50%
364-Day	9.40%

#### Amount Alloted:

91-Day	NGN1.61bn
182-Day	NGN1.10bn
364-Day	NGN27.87bn

### SUMMARY OF CURRENT AUCTION

Auction Date June 30, 2021

Settlement Date July 1, 2021

#### Auction Size

91-Day	NGN2.88bn
182-Day	NGN20.00bn
364-Day	NGN58.86bn

#### Maturing Instruments

91-Day	NGN2.88bn
182-Day	NGN20.00bn
364-Day	NGN58.86bn

#### Meristem Advised Stop Rates

91-Day	2.00%-2.50%
182-Day	3.00%-3.50%
364-Day	9.10%-9.40%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Primary Market Auction (PMA) on 30<sup>th</sup> of June 2021 for NTB. At the PMA, Existing NTB totalling NGN81.74bn (NGN2.88bn, NGN20.00bn and NGN58.86bn across the 91-day, 182-day, and 364-day instruments) will mature and be rolled-over.

### Outlook on Yields

At the last PMA, rates on the 91-Day (2.50%) and 182-Day (3.50%) instruments remained flat while the rate on the long end (364 days) reduced further by 24bps (to 9.40% from 9.64%). Investors' interest (indicated by average bid-to-cover of 9.21x vs 1.82x at the previous auction) was strong across all tenors. The significantly high bid-to-cover ratio was however due to the borrower's relatively low appetite (as only 17% of the amount raised at the previous PMA was raised, despite strong demand). In line with recent trends, demand was strongest on the long-end instruments, hence, the incentive to reduce the rate on it.

In the coming auction, we do not expect higher rates relative to the previous rates as there has not been any significant change in market dynamics since the last auction. Investor appetite remains robust particularly on the long end of the curve which the Federal Government will continue to exploit given its precarious revenue position. Noteworthy is the impact of the potential increase in fiscal deficit by NGN760.84bn (to NGN6.36trn) on debt service due to the NGN895.84bn supplementary budget recently forwarded to the National Assembly by the Budget Office for consideration and approval.

Meanwhile, sell-offs in the secondary market for T-Bills have persisted across all tenors. Consequently, average T-bills yield increased to 6.23% as at 28<sup>th</sup> June 2021 (from 5.65% as at the last auction date). The high rate of inflation continues to spur negative sentiment in the secondary market despite the dearth of relatively safe alternative investment assets. Our view is that the bearish sentiment will persist in the near term, however, the relatively slower growth (or even plateauing) of PMA rates is a material risk to this outlook.

In view of the above, our rate guidance is informed by the need to strike a balance between the goals of 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	NGN2.88bn	2.00%-2.50%
182-Day	NGN20.00bn	3.00%-3.50%
364-Day	NGN58.86bn	9.10%-9.40%

## 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 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.

## 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.*

## 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 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

## Ahead of Next T-Bills Auction

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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](mailto:topeoludimu@meristemng.com) (+234 905 569 0627)  
[abisoyeoludipe@meristemng.com](mailto:abisoyeoludipe@meristemng.com) (+234 708 0007861)  
[contact@meristemng.com](mailto:contact@meristemng.com)

### Investment Banking/Corporate Finance

[rasakisalawu@meristemng.com](mailto:rasakisalawu@meristemng.com) (+234 806 022 9889)  
[seunlijofi@meristemng.com](mailto:seunlijofi@meristemng.com) (+234 808 536 5766)

### Wealth Management

[funmilolaadekola-daramola@meristemng.com](mailto:funmilolaadekola-daramola@meristemng.com) (+234 803 355 0008)  
[crmwealth@meristemng.com](mailto:crmwealth@meristemng.com)  
Tel : +234 01 738 9948

### Registrars

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

### Trust Services

[damilolahassan@meristemng.com](mailto:damilolahassan@meristemng.com) (+234 803 613 9123)  
[crmwealth@meristemng.com](mailto:crmwealth@meristemng.com)

### Group Business Development

[saheedbashir@mersitemng.com](mailto:saheedbashir@mersitemng.com) (+234 802 454 6575)  
[ifeomaogalue@meristemng.com](mailto:ifeomaogalue@meristemng.com) (+234 802 394 2967)  
[info@meristemng.com](mailto:info@meristemng.com)

### Client Services

[adefemitaio@meristemng.com](mailto:adefemitaio@meristemng.com) (+234 803 694 3034)  
[blessingogwuiche@meristemng.com](mailto:blessingogwuiche@meristemng.com) (+234 706 896 5173)  
[car@meristemng.com](mailto:car@meristemng.com)

### Investment Research

[ahmedjinad@meristemng.com](mailto:ahmedjinad@meristemng.com) (+234 809 183 9487)  
[research@meristemng.com](mailto:research@meristemng.com)

Corporate websites: [www.meristemng.com](http://www.meristemng.com) [www.meristemwealth.com](http://www.meristemwealth.com) [www.meristemregistrars.com](http://www.meristemregistrars.com)

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