

## Nigerian Treasury Bills (NTB) Auction Scheduled for 14 July 2021

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	2.50%
182-Day	3.50%
364-Day	9.15%

#### Amount Alloted:

91-Day	NGN2.26bn
182-Day	NGN3.31bn
364-Day	NGN158.04bn

### SUMMARY OF CURRENT AUCTION

Auction Date July 14, 2021

Settlement Date July 15, 2021

#### Auction Size

91-Day	NGN12.46bn
182-Day	NGN25.37bn
364-Day	NGN71.60bn

#### Maturing Instruments

91-Day	NGN12.46bn
182-Day	NGN25.37bn
364-Day	NGN71.60bn

#### Meristem Advised Stop Rates

91-Day	2.00%-2.50%
182-Day	3.00%-3.50%
364-Day	8.90%-9.20%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 14<sup>th</sup> of July 2021. At the PMA, existing T-Bills totalling NGN109.43bn (NGN12.46bn, NGN25.37bn and NGN71.60bn across the 91-day, 182-day, and 364-day instruments) will mature and be rolled-over.

### Outlook on Yields

At the last PMA, average stop rate declined further to 5.03% from 5.13% at the last auction driven by a decline on the rate offered on the 364 day instrument (to 9.15% from 9.40%). Rates on the short (91-Day) and medium (182-Day) term instruments remained unchanged at 2.50% and 3.50% respectively. The direction of rates continues to be influenced by strong investor subscription (particularly on the 364-day instrument), and the need to minimise the Federal Government's borrowing cost. Relative to the previous auction, the FGN's appetite for 364 day bills was significantly stronger, thus overall bid-to-cover ratio reduced to 2.73x (from 9.21x) despite increased subscriptions.

In the coming auction, we expect the rates on the 91- and 182-Day instruments to remain unchanged in line with recent trends. However, we expect a further moderation in the rate on the 364-Day instrument, due to sustained robust investor appetite. This is in addition to further pressure on debt service charge arising from the need to finance the deficit in the NGN982.84bn supplementary budget approved by the National Assembly last week.

Meanwhile, the sentiment in the secondary market has been largely bullish since the last auction, as investors turned to the secondary market to fill unmet demand at the PMA (especially on the long end of the curve). Furthermore, the market has been reacting to the downtrend in average stop rates at recent PMAs. Average T-bills yield thus fell to 6.23% as at 12<sup>th</sup> July 2021 (vs. 6.74% from the last auction date). Nevertheless, we maintain that over the near term, average yield will rise slowly.

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	NGN12.46bn	2.00%-2.50%
182-Day	NGN25.37bn	3.00%-3.50%
364-Day	NGN71.60bn	8.90%-9.20%

## 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 backed

## Ahead of Next T-Bills Auction

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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

[adefemitaibo@meristemng.com](mailto:adefemitaibo@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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