

## Treasury Bills Auction Scheduled for 13<sup>th</sup> Apr 2022

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	1.75%
182-Day	3.00%
364-Day	4.45%

#### Amount Allotted:

91-Day	NGN13.88bn
182-Day	NGN20.35bn
364-Day	NGN139.96bn

### SUMMARY OF CURRENT AUCTION

Auction Date April 13, 2022

Settlement Date April 14, 2022

#### Auction Size

91-Day	NGN2.19bn
182-Day	NGN6.95bn
364-Day	NGN132.12bn

#### Maturing Instruments

91-Day	NGN2.19bn
182-Day	NGN6.95bn
364-Day	NGN132.12bn

#### Meristem Advised Stop Rates

91-Day	1.50%-1.75%
182-Day	2.50%-3.50%
364-Day	4.00%-5.00%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 13<sup>th</sup> of April 2022. At the PMA, existing T-Bills totalling NGN141.26bn (NGN2.19bn, NGN6.95bn and NGN132.12bn across the 91-day, 182-day, and 364-day instruments, respectively), will mature and be rolled over.

### Outlook on Yields

At the last PMA, stop rate on the 182-Day instrument remained unchanged while the stop rates on the 91-Day and 364-Day instruments increased by 1bp and 45bps respectively. Although, the Federal Government successfully raised more than the amount offered, we note that investors' appetite weakened as the average bid to cover ratio dipped to 1.42x from 2.11x.

At the next auction, we expect rates to increase across all instruments on offer. We note that the level of liquidity this quarter (feeding off incoming maturing bills and coupon payments), compared to the previous quarter has declined. We also consider that the Government is willing to raise higher amounts than it did in the preceding quarter, thus making a compelling case for increase in stop rates. However, we expect a marginal rate increase on the 91-day instrument relative to other instruments on offer. In our opinion, Federal Government is more tilted towards the medium and long term instruments. The Government's perceived preference for these instruments is indicative of increased pressure of high debt burden on government finances which is not expected to ease off any time soon.

Bearish sentiment reigned in the secondary market as average Treasury bills yield increased by 7.00bps to 3.35% as at April 11, 2022 (vs. 3.28% on the date of the previous auction). In the near term, we expect this bearish sentiment to persist as the expectation of higher rates at the PMAs provides justification for upward movement in yield. In addition, we think that the increased corporate commercial paper issuances observed lately (which offer relatively higher yields to investors) can trigger selloffs in the secondary market. Also, investors' cashflow needs for the festive season could trigger sell offs in the secondary market. Overall, we expect the secondary market to remain bearish over the near to medium term.

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	NGN2.19bn	1.50%-1.75%
182-Day	NGN6.95bn	2.50%-3.50%
364-Day	NGN132.12bn	4.00%-5.00%

## 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)  
[isaaconaolapo@meristemng.com](mailto:isaaconaolapo@meristemng.com) (+234 803 234 8275)  
[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)  
[trustees@meristemng.com](mailto:trustees@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

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

### Investment Research

[timchanggwatau@meristemng.com](mailto:timchanggwatau@meristemng.com) (+234 703 188 3322)  
[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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