

Treasury Bills Auction Scheduled for 12th Oct 2022

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	6.49%
182-Day	7.50%
364-Day	12.00%

Amount Allotted:

91-Day	NGN2.16bn
182-Day	NGN3.34bn
364-Day	NGN173.81bn

SUMMARY OF CURRENT AUCTION

Auction Date	October 12, 2022
Settlement Date	October 13, 2022

Auction Size

91-Day	NGN4.27bn
182-Day	NGN10.56bn
364-Day	NGN176.06bn

Maturing Instruments

91-Day	NGN4.27bn
182-Day	NGN10.56bn
364-Day	NGN176.06bn

Meristem Advised Stop Rates

91-Day	7.00%-7.25%
182-Day	7.85%-8.25%
364-Day	12.00%-13.00%

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 12th of October 2022. At the PMA, existing T-Bills totalling NGN190.89bn (NGN4.27bn, NGN10.56bn and NGN176.06bn 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 rates on the 91-day, 182-day, and 364-day instruments increased by 99bps, 150bps and 225bps to 6.49%, 7.45% and 12.00%, respectively. The increase was an immediate reaction to the Monetary Policy Rate (MPR) hike on the 27th of September, which prompted investors to demand higher rates. However, we observed a decline in investors' appetite across the trio instruments, as the total subscription-to-offer ratio declined to 1.69x from 2.55x at the previous auction. This can be attributed to the contraction in system liquidity due to deposit money banks' urgent need to comply with the new Cash Reserve Ratio (CRR) of 32.50%. Consequently, the total bid-to-cover ratio moderated to 1.33x from 2.55x at the previous auction.

At the next auction, we expect a marginal uptick in stop rates across all instruments. This is premised on investors' continued demand for higher rates to compensate for the diminishing real rate of return (due to surging inflationary pressures). Also, the consolidated effect of the several rate hikes is expected to support investors' quest for higher incentives. Furthermore, tighter system liquidity (following a higher CRR) could also be a contributing factor. Specifically, the overnight policy rate and overnight rate increased to 16.25% and 16.75% on the 11th of October 2022 (vs 14.00% and 15.00% as of the 27th of September 2022).

In the secondary market, the sentiment has been predominantly bearish, as the average Treasury bills yield increased by 262bps to 9.90% as of October 11, 2022 (vs. 7.28% on the date of the previous auction). In the near term, we expect this momentum to persist as investors demand higher yields to reflect the elevated stop rates in the PMAs. Overall, we expect bearish sentiment to prevail in the secondary market in the near to medium term.

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	NGN4.27bn	7.00%-7.25%
182-Day	NGN10.56bn	7.85%-8.25%
364-Day	NGN176.06bn	12.00%-13.00%

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

Ahead of Next T-Bills Auction

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)
isaaconaolapo@meristemng.com (+234 803 234 8275)
contact@meristemng.com

Investment Banking/Corporate Finance

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

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
crmwealth@meristemng.com
 Tel : +234 01 738 9948

Registrars

oluseyiowotuoro@meristemregistrars.com (+234 802 321 0561)
martinaosague@meristemregistrars.com (+234 802 303 1783)
www.meristemregistrars.com
 Tel: +23401-280 9250

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
trustees@meristemng.com

Group Business Development

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

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)

Investment Research

damilareojo@meristemng.com (+234 816 890 2771)
praiseihansekhien@meristemng.com (+234 817 007 1512)
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: research.meristemng.com

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 20A Gerrard Road, Ikoyi, Lagos, Nigeria. Website: www.meristemng.com; Email: crmwealth@meristemng.com, © **Meristem Wealth Management Limited 2022.**