

## Treasury Bills Auction Scheduled for 22<sup>nd</sup> Feb 2023

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	0.10%
182-Day	0.30%
364-Day	2.24%

#### Amount Allotted:

91-Day	NGN4.52bn
182-Day	NGN1.31bn
364-Day	NGN411.23bn

### SUMMARY OF CURRENT AUCTION

Auction Date	February 22, 2023
Settlement Date	February 23, 2023

#### Auction Size

91-Day	NGN11.68bn
182-Day	NGN10.21bn
364-Day	NGN241.61bn

#### Maturing Instruments

91-Day	NGN11.68bn
182-Day	NGN10.21bn
364-Day	NGN241.61bn

#### Meristem Advised Stop Rates

91-Day	0.05%-0.10%
182-Day	0.20%-0.30%
364-Day	1.50%-2.00%

### Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 22<sup>nd</sup> of February, 2023. At the PMA, existing T-Bills totalling NGN263.50bn (NGN11.68bn, NGN10.21bn and NGN241.61bn across the 91-day, 182-day, and 364-day instruments, respectively), will mature and be rolled over.

### Outlook on Yields

At the last PMA, the stop rates on the 91-Day, 182-Day, and 364-Day instruments further declined to 0.10%, 0.30%, and 2.24% (vs 0.29%, 1.80%, and 4.78% at the previous auction), respectively. Like the previous PMA, the robust system liquidity (which spurred higher subscriptions) was the primary driver of the lower rates. For context, the interbank liquidity reported by the CBN stayed at c. NGN650bn as of the auction date. Consequently, the total subscription (NGN1.06trn) was 4.87x the amount offered (vs 4.73x at the previous PMA). Contrary to the previous auction, total allotment – especially on the 364-Day instruments – was higher than the amount offered. Thus, the bid-to-cover ratio declined significantly to 2.53x (vs 4.73x at the previous auction).

At the forthcoming auction, we estimate that the stop rates across instruments would hover around the last auction's range. Our expectation is premised on the Federation Account Allocation Committee's January distribution (NGN750.17bn as stipulated) and OMO maturities (NGN70.00bn). With these inflows, liquidity - a significant determinant of the market mood – gets a boost and could pressure stop rates further. In addition, the evident efforts by the Government to manage its borrowing costs support this outlook.

In the secondary market, notable selloffs have been witnessed. As a result, the average Treasury bills increased significantly by 139bps to 3.10% as of February 20, 2023 (vs 1.71% on the date of the previous auction). Overall, the sentiment has been predominantly bearish, and we expect this to persist in the near term owing to heightened political risk.

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	NGN11.68bn	0.05%-0.10%
182-Day	NGN10.21bn	0.20%-0.30%
364-Day	NGN241.61bn	1.50%-2.00%

## 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

## Ahead of Next T-Bills Auction

---

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)  
 adaezeonyemachi@meristemng.com (+234 808 369 0213)  
 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

oluseyiowoturo@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)  
 ifeomaanyanwu@meristemng.com (+234 802 394 2967)  
 info@meristemng.com

### Client Services

adefemitaivo@meristemng.com (+234 803 694 3034)  
 car@meristemng.com

### Investment Research

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

### Finance

olasokomubo@meristemfinance.com (+234 803 324 7996)  
 matthewawotundun@meristemfinance.com (+234 802 390 6249)

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

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: [research.meristemng.com](http://research.meristemng.com)

Bloomberg: MERI <GO>

Capital IQ: [www.capitaliq.com](http://www.capitaliq.com)

ISI Emerging Markets: [www.securities.com/ch.html?pc=NG](http://www.securities.com/ch.html?pc=NG)

Reuters: [www.thomsonreuters.com](http://www.thomsonreuters.com)

FactSet: [www.factset.com](http://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](http://www.meristemng.com); Email: [crmwealth@meristemng.com](mailto:crmwealth@meristemng.com), © **Meristem Wealth Management Limited 2023.**