

Treasury Bills Auction Scheduled for 23rd August 2023

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	5.00%
182-Day	5.90%
364-Day	9.80%

Amount Allotted:

91-Day	NGN4.52bn
182-Day	NGN1.31bn
364-Day	NGN148.15bn

SUMMARY OF CURRENT AUCTION

Auction Date August 23, 2023

Settlement Date August 24, 2023

Auction Size

91-Day	NGN9.96bn
182-Day	NGN10.21bn
364-Day	NGN283.04bn

Maturing Instruments

91-Day	NGN9.96bn
182-Day	NGN10.21bn
364-Day	NGN283.04bn

Meristem Advised Stop Rates

91-Day	4.20%-6.00%
182-Day	7.20%-8.00%
364-Day	10.50%-14.00%

Offer Summary

The Central Bank of Nigeria (CBN) is set to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 23rd of August, 2023. At the PMA, existing T-Bills totalling NGN303.22bn (NGN9.96bn, NGN10.21bn and NGN283.04bn across the 91-day, 182-day, and 364-day instruments, respectively), will mature and be rolled over.

Outlook on Yields

At the last Primary Market Auction (PMA), stop rates on the 91-Day, 182-Day and 364-Day instruments declined by 100bps, 210bps and 235bps to 5.00%, 5.90%, and 9.80%, respectively. We assert that the downward pressure on rates was driven by the high system liquidity ahead of the PMA. Thus, a total subscription of NGN836.30bn was recorded at the last PMA, far above the total amount offered of NGN153.98bn. Eventually, NGN153.98bn was allotted, bringing the overall bid-to-cover ratio to 5.43x.

Gleaning from the last FGN bond auction and the recent CBN OMO exercise, we expect that stop rates at the forthcoming auction will likely take a similar northward trend. To support this is the lower system liquidity (NGN58.05bn as of 22 August 2023) relative to the amount offered (NGN303.22bn). Hence, we expect an increase in the stop rates of the trio instruments.

The secondary market has remained bearish since the last auction as average treasury bills yields rose by 66bps to 7.37% as of August 22, 2023 (vs. 6.61% on the last auction date). In the near term, we expect this trend to continue.

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	NGN9.96bn	4.20%-6.00%
182-Day	NGN10.21bn	7.20%-8.00%
364-Day	NGN283.04bn	10.50%-14.00%

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)
 davidadu@meristemng.com (+234 810 940 4836)

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 www.meristemwealth.com www.meristemregistrars.com

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