

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

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	7.00%
182-Day	11.00%
364-Day	16.75%

#### Amount Allotted:

91-Day	NGN4.52bn
182-Day	NGN5.44bn
364-Day	NGN487.24bn

### SUMMARY OF CURRENT AUCTION

Auction Date	Nov 22, 2023
Settlement Date	Nov 23, 2023

#### Auction Size

91-Day	NGN9.96bn
182-Day	NGN1.82bn
364-Day	NGN199.93bn

#### Maturing Instruments

91-Day	NGN9.96bn
182-Day	NGN1.82bn
364-Day	NGN199.93bn

#### Meristem Advised Stop Rates

91-Day	6.50%-7.00%
182-Day	9.50%-11.50%
364-Day	15.00%-16.00%

### Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 22<sup>nd</sup> of November 2023. At the PMA, existing T-Bills totalling NGN211.71bn (NGN9.96bn, NGN1.82bn and NGN199.93bn 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), the total subscription increased to NGN875.80bn (vs. NGN638.12bn at the previous auction in October). We attribute this upswing to the higher amount offered (NGN310.12bn vs NGN108.13bn at the previous auction), which positively influenced investor interest. We saw a NGN487.24bn (1.60x the amount offered) allotment at the auction, implying a bid-to-cover ratio of 1.76x (vs 1.72x at the previous auction). From our vantage point, the Government's commitment to maintaining attractive treasury rates played a pivotal role in influencing the stop rates at the auction. Thus, the stop rates on the 91-day, 182-day and 364-day instruments increased by 101bps, 200bps and 375bps to 7.00%, 11.00% and 16.75% respectively – marking the highest levels observed since February 2019.

In the forthcoming auction, we anticipate a further increase in rates for the 91 and 182-day instruments, with a slight decline on the longer end of the curve. Our firm assertion is that the Government remains committed to aligning rates with market dynamics. The monetary authority's strategy of utilising other unorthodox tools to manage liquidity, resulting in a negative balance of NGN97.71bn as of 21<sup>st</sup> November, supports the case for higher rates on shorter-term instruments. However, we anticipate a marginal decline on the longer end, driven by the lower bill offer for this auction (NGN211.71bn vs NGN310.12bn at the previous auction). Furthermore, we anticipate an influx of higher demand from the secondary market filter into this auction.

In response to the news of the MPC meeting postponement on Monday, the secondary market exhibited a shift towards a bearish sentiment across the yield curve. As a result, the average Treasury Bills yield fell to 12.45% as of November 20th (from 13.28% at the last auction). Although we await official guidance from the Monetary authorities, we expect that the persistent rise in inflation will keep real yield in the negative region.

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:

## Ahead of Next T-Bills Auction

---

Tenor	Offer Size	Advised Rates
91-Day	NGN9.96bn	6.50%-7.00%
182-Day	NGN1.82bn	9.50%-11.50%
364-Day	NGN199.93bn	15.00%-16.00%

## 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

---

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)  
[adaezeonyemachi@meristemng.com](mailto:adaezeonyemachi@meristemng.com) (+234 808 369 0213)  
[contact@meristemng.com](mailto:contact@meristemng.com)

### Investment Banking/Corporate Finance

[rasakisalawu@meristemng.com](mailto:rasakisalawu@meristemng.com) (+234 806 022 9889)  
[davidadu@meristemng.com](mailto:davidadu@meristemng.com) (+234 810 940 4836)

### Wealth Management

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

### Registrars

[oluseyiowoturo@meristemregistrars.com](mailto:oluseyiowoturo@meristemregistrars.com) (+234 802 321 0561)  
[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)

### Finance

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

### Group Business Development

[sulaimanadedokun@mersitemng.com](mailto:sulaimanadedokun@mersitemng.com) (+234 803 301 3331)  
[ifeomaanyanwu@meristemng.com](mailto:ifeomaanyanwu@meristemng.com) (+234 802 394 2967)  
[info@meristemng.com](mailto:info@meristemng.com)

### Client Services

[adefemitaiwo@meristemng.com](mailto:adefemitaiwo@meristemng.com) (+234 803 694 3034)  
[car@meristemng.com](mailto:car@meristemng.com)

### Investment Research

[praiseihansekhien@meristemng.com](mailto:praiseihansekhien@meristemng.com) (+234 817 007 1512)  
[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)

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: [meristem.com.ng/rhub](http://meristem.com.ng/rhub)

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)

**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.**