

Ahead of Next T-Bills Auction

Treasury Bills Auction Scheduled for 24th Jan. 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:		Offer Summary
91-Day	2.44%	
182-Day	4.22%	
364-Day	8.40%	

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 24th of January 2024. At the PMA, existing T-Bills totalling NGN231.82bn (NGN7.85bn, NGN6.44bn and NGN217.53bn across the 91-day, 182-day, and 364-day instruments, respectively) will mature and be rolled over.

Amount Allotted:		Outlook on Yields
91-Day	NGN2.78bn	
182-Day	NGN1.49bn	
364-Day	NGN52.29bn	

At the last Primary Market Auction (PMA), the total amount offered was NGN56.56bn, lower than the NGN67.02bn offered at the previous auction in December 2023. However, the total subscription increased to NGN1.14trn (vs. NGN1.04trn at the previous auction). We attribute this to the robust system liquidity during the period. Thus, the subscription-to-offer ratio increased to 20.16x (vs. 15.48x at the previous auction). Meanwhile, the amount allotted equalled the offer amount (NGN56.56bn) at the last auction (vs. NGN317.02bn at the previous auction), implying a lower allotment-to-offer ratio (1.00x vs. 4.73x at the previous auction). Consequently, the stop rates on the 91-day, 182-day and 364-day instruments declined by 456bps, 578bps and 384bps to 2.44%, 4.22% and 8.40%, respectively.

SUMMARY OF CURRENT AUCTION

Auction Date	Jan 24 2024
Settlement Date	Jan 25 2024
Auction Size	
91-Day	NGN7.85bn
182-Day	NGN6.44bn
364-Day	NGN217.53bn

Maturing Instruments	
91-Day	NGN7.85bn
182-Day	NGN6.44bn
364-Day	NGN217.53bn

In the forthcoming auction, we anticipate an uptrend in stop rates across the trio instruments. We believe the higher offer amount (NGN231.82bn) makes a case for higher instrument rates. Also, we expect the uptrend in the inflation rate, gleaned from the recent data released by the National Bureau of Statistics (NBS), to spur further investors' demand for higher rates at the auction. Furthermore, the negative liquidity balance of **NGN397.82bn** as of 23rd January 2024, chiefly impacted by the monetary authority's liquidity management strategy, is expected to push rates higher.

Meristem Advised Stop Rates	
91-Day	4.00%-7.00%
182-Day	7.00%-9.00%
364-Day	10.00%-13.00%

The secondary market has traded on a mixed note since the last auction, with the average T-Bills yield declining to 4.12% as of 15th January 2024 (vs. 5.02% as at the previous auction). However, the average yield rose to 5.44% as of 22nd January 2024.

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	NGN7.85bn	4.00%-7.00%
182-Day	NGN6.44bn	7.00%-9.00%
364-Day	NGN217.53bn	10.00%-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 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

nkechiokoye@meristemregistrars.com (+234 803 526 1801)
www.meristemregistrars.com
Tel: +23401-280 9250

Trust Services

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

Finance

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

Group Business Development

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

Client Services

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

Investment Research

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: meristem.com.ng/rhub

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

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 2024**.