

Ahead of Next T-Bills Auction

Treasury Bills Auction Scheduled for 25th September 2024

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

91-Day	16.63%
182-Day	17.00%
364-Day	18.59%

Amount Allotted:

91-Day	NGN10.84bn
182-Day	NGN2.52bn
364-Day	NGN148.52bn

SUMMARY OF CURRENT AUCTION

Auction Date	September 25 2024
Settlement Date	September 26 2024

Auction Size

91-Day	NGN28.15bn
182-Day	NGN25.58bn
364-Day	NGN173.82bn

Maturing Instruments

91-Day	NGN28.15bn
182-Day	NGN25.58bn
364-Day	NGN173.82bn

Meristem Advised Stop Rates

Offer Summary

As is the case at the end of every quarter, the Central Bank of Nigeria (CBN) is scheduled to hold its third Treasury Bills (T-Bills) Primary Market Auction (PMA) for the month on the 25th of September 2024. Existing T-bills totalling NGN227.54bn (NGN28.15bn, NGN25.58bn and NGN173.82bn) 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) on 11th September, the CBN offered a total of NGN161.88bn across the trio instruments, 30.62% lower than the amount offered at the previous auction. Also, the total subscription decreased significantly, printing at NGN563.17bn (vs NGN1.13trn at the previous auction), with the bulk of subscription (c.95%) directed to the 364-day instrument. This decrease is due to tight system liquidity (-NGN251.49bn) during the period. Consequently, the subscription-to-offer ratio decreased to 3.47x (vs 4.84x at the previous auction). Meanwhile, the CBN allotted the exact offer amount (NGN161.88bn), lower than the NGN233.31bn allotted at the previous auction and the lowest since June 2024. Consequently, the bid-to-cover ratio decreased to 3.47x (vs 4.84x at the previous auction). As expected, the stop rates on the 91-day, 182-day, and 364-day instruments declined by 37bps, 50bps, and 35bps to 16.63%, 17.00% and 18.59% (vs 17.00%, 17.50% and 18.94%, respectively).

Despite the monetary policy committee (MPC)'s decision to raise rates by 50bps to 27.25%, we anticipate rates to further moderate at tomorrow's auction, driven by the sustained efforts to manage borrowing cost and also gleaning from the recent trajectory of treasury yields in recent times. We also draw inference from the significant rate reduction at Monday's bond auction. The buoyant system liquidity (NGN40.38bn as of 24th September 2024), combined with coupon payments and FAAC inflows of NGN1.20trn, further supports the expectation of rate moderation at tomorrow's auction. Additionally, the MPC's decision to raise the cash reserve ratio by 500bps for commercial banks and 200bps for merchant banks, bringing them to 50.00% and 16.00% respectively, may incentivise banks to actively compete at the auction rather than face the prospect of higher reserve requirements with the CBN. More so, we acknowledge that the government has begun exploring alternative funding sources (FGN Dollar-denominated bond) to fund its budget deficit and finance ongoing capital projects.

In the secondary market, where previously issued bills are traded, activities have largely been bearish since the last auction. For context, the average T-Bills yield increased to 20.75% as of 23rd September (vs 20.00% at the previous auction).

Ahead of Next T-Bills Auction

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	28.15bn	16.00%-17.00%
182-Day	25.57bn	16.50%-17.50%
364-Day	173.81bn	18.40%-20.00%

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 not tax-exempt, so interest received is subject to withholding tax.* 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 is held twice a month (i.e. every other Wednesday). The above likely stop rates are our estimates and might not hold, 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 raise 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 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 them until maturity would mean the investor gets a fixed interest payment.

Benefits of T-bills

The biggest reason T-Bills are so popular is that they are one of the few money-market instruments affordable to individual investors. Other positives are that T-bills (and all treasuries) are considered risk-free investments because the full faith of the federal Government backs them. 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

nkechieluokoye@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.**