

## Treasury Bills Auction Scheduled for 4<sup>th</sup> Sept. 2024

### SUMMARY OF PREVIOUS AUCTION

#### Stop Rate:

91-Day	18.20%
182-Day	19.20%
364-Day	20.90%

#### Amount Allotted:

91-Day	NGN41.89bn
182-Day	NGN52.00bn
364-Day	NGN197.14bn

### SUMMARY OF CURRENT AUCTION

Auction Date September 04 2024

Settlement Date September 05 2024

#### Auction Size

91-Day	NGN19.61bn
182-Day	NGN10.55bn
364-Day	NGN203.15bn

#### Maturing Instruments

91-Day	NGN19.61bn
182-Day	NGN10.55bn
364-Day	NGN203.15bn

#### Meristem Advised Stop Rates

91-Day	16.70%-18.10%
182-Day	17.50%-18.80%
364-Day	19.30%-20.60%

### Offer Summary

The Central Bank of Nigeria (CBN) is scheduled to hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on the 4th of September 2024. At the PMA, existing T-bills totalling NGN233.31bn (NGN19.61bn, NGN10.55bn and NGN203.15bn 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) in August, the CBN offered NGN409.98bn (vs NGN216.09bn at the previous auction), the largest offering since June 2024 (NGN508.98bn). On the demand side, total subscriptions surged to NGN1.02trn, a 110.96% increase from NGN486.87bn in the previous auction. This spike in demand can be attributed to the high liquidity during the period, amounting to NGN579.34bn, following the negative close of **NGN104.27bn** due to banks leveraging the CBN's standing lending facility. The 364-day instrument saw the most activity, accounting for 88.54% of total subscriptions, driven by investor anticipation of a yield curve normalization and the government's preference for spreading liabilities over a longer period. Consequently, the subscription-to-offer ratio rose to 2.51x (vs. 2.25x previously), while the allotment-to-offer ratio dropped to 0.71x from 1.00x, as the CBN allotted only NGN291.03bn of the NGN409.98bn offered. Reflecting the need to manage borrowing costs, stop rates declined across all instruments: 91-day, 182-day, and 364-day fell by 30bps, 30bps, and 99bps to 18.20%, 19.20%, and 20.90%, respectively, from 18.50%, 19.50%, and 21.89%.

At the upcoming auction, we anticipate a downward trend in rates, driven by the recent CBN circular on the standing lending and deposit facilities for deposit money banks. The policy offers 25.75% on deposits within the NGN3bn cap and only 19.00% for deposits above NGN3bn, creating conditions favourable for lower rates. We expect DMBs to shift focus towards the fixed-income market, particularly T-Bills, to capitalise on the elevated yield environment. This increased demand may push rates lower. Additionally, system liquidity remains robust, standing at NGN579.34bn as of September 2nd, 2024.

In the secondary market, where previously issued bills are traded, average yields have continued to decline, dropping to 21.22% as of July 22nd, 2024, from 23.01% on the last auction date.

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	NGN19.61bn	16.70%-18.10%
182-Day	NGN10.55bn	17.50%-18.80%
364-Day	NGN203.15bn	19.30%-20.60%

## 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](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

[nkechiyeluokoye@meristemregistrars.com](mailto:nkechiyeluokoye@meristemregistrars.com) (+234 803 526 1801)  
[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 2024.**