

## Treasury Bills Auction Scheduled for 19th February 2025

### SUMMARY OF PREVIOUS AUCTION

Stop Rate:	
91-Day	18.00%
182-Day	18.50%
364-Day	20.32%

### Amount Allotted:

91-Day	NGN31.94bn
182-Day	NGN18.69bn
364-Day	NGN619.36bn

### SUMMARY OF CURRENT AUCTION

Auction Date	February 19, 2025
Settlement Date	February 20, 2025

### Auction Size

91-Day	NGN80.00bn
182-Day	NGN120.00bn
364-Day	NGN500.00bn

### Maturing Instruments

91-Day	NGN35.41bn
182-Day	NGN52.00bn
364-Day	NGN1.19trn

### Meristem's Advised Rate

91-Day	15.50% - 16.00%
182-Day	16.50% - 17.00%
364-Day	16.50% - 18.00%

### Offer Summary

The Central Bank of Nigeria (CBN) is set to hold its second and last Treasury Bills (T-Bills) Primary Market Auction (PMA) of the month on February 19, 2025. At this auction, a total of NGN700.00bn will be offered across three maturities: NGN80.00bn for 91-day bills, NGN120.00bn for 182-day bills, and NGN500.00bn for 364-day bills.

### Outlook on Yields

At the Treasury Bills Primary Market Auction on February 5, 2025, the Central Bank of Nigeria (CBN) offered NGN570.00bn across three maturities, slightly exceeding the NGN530.00bn issued at the January 22, 2025 auction.

Investor demand was high, with total bids amounting to NGN4.06trn, a significant jump from NGN2.54trn in the previous auction. This marked increase in demand was driven by improved system liquidity, which stood at NGN201.55bn as of February 4, 2025, and prevailing investor sentiment. At the end of the Treasury Bills auction, the CBN allotted NGN670.00bn, lower than the NGN756.02bn in the previous auction. This led to a bid-to-cover ratio of 4.80x, which was higher than the 3.35x recorded in the earlier auction, supported by improved liquidity and investors' general expectations of lower rates. As anticipated, the stop rates for the 91-day and 182-day bills were unchanged at 18.00% and 18.50%, respectively. In contrast, the yield on the 364-day bill decreased by 148 basis points to 20.32%, down from 21.80% at the prior auction. This decline in the 364-day rate signals increased demand for longer-term securities, likely driven by investor strategies to secure higher yields amid expectations of continuous rate cuts in subsequent offers.

In tomorrow's auction, we expect rates to continue their downward trajectory, driven by a cautious outlook on inflation (considering the significant decline in inflation to 24.48% vs 34.80% in December) and prevailing market sentiment. The maturity profile has expanded significantly, with NGN1.27trn in maturing obligations—up 40.00% from NGN955.40bn in the previous auction—which could stimulate strong demand for reinvestment options. Additionally, the government's focus on managing borrowing costs may also prompt the CBN to lower rates, especially given that the NGN700.00bn offer size is considerably smaller than the maturing obligations, suggesting a potential strategy to maintain demand and balance debt rollover with market liquidity. Overall, we anticipate that rates across all maturities could trend lower in the upcoming auction.

The T-Bills secondary market has shown predominantly bullish performance after the latest auction. By February 5, 2025, the average yield on T-Bills fell by 115bps to 22.04%, compared to 23.19% following the auction. Additionally, following the release of the rebased inflation numbers for January, yields traded as low as c.18% on 18<sup>th</sup> February 2025.

## Ahead of Next T-Bills Auction

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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	80.00bn	15.50% - 16.00%
182-Day	120.00bn	16.50% - 17.00%
364-Day	500.00bn	16.50% - 18.00%

## 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.

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

[ifeomaanyanwu@meristemng.com](mailto:ifeomaanyanwu@meristemng.com) (+234 802 394 2967)  
[info@meristemng.com](mailto:info@meristemng.com)

### Client Services

[adefemitaibo@meristemng.com](mailto:adefemitaibo@meristemng.com) (+234 803 798 3762)  
[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)

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