

**SECTORWATCH | CORONAVIRUS | SECURITIES BROKERAGE**

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 200 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan's economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government's response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	SUB-SECTOR
CAPITAL MARKETS	SECURITIES BROKERAGE
SIZE	<ul style="list-style-type: none"> - Market Capitalization (end-March 20): USD ~36bln; PKR ~5,400bln - Market Capitalization as percentage of GDP: ~15% - Average daily trading volume Jan-Mar'20: KSE 100 ~157mln - Average daily traded value Jan-Mar'20: KSE 100 ~PKR 7,244mln
NUMBER OF PLAYERS	<ul style="list-style-type: none"> - 193 Securities Brokers (8 listed on PSX)
PACRA PENETRATION	<ul style="list-style-type: none"> - PACRA rates 7 Securities Brokers - PACRA rated Securities Brokers handle ~33% of average daily trading volume in Pakistan Stock Exchange (PSX)
IMPACT	<ul style="list-style-type: none"> - PSX, like other global equity markets, hit hard due to lockdown and uncertain economic prospects - KSE 100 index value eroded ~22% in March 2020 and hit a six year low of 27,229 on 25-March. The market has since recovered slightly and currently is trading over 30,000 mark - KSE 100 index: Average traded volume ~ 181mln during March 20 maintaining strong volumes. Foreigners are net sellers with local mutual funds, insurance companies and individuals taking positions - Recent proactive measures of SECP to halt trading for relatively longer period (60 minutes instead of 45 minutes) and at lower loss levels (4% vs. 5% movement in KSE 30) to stem losses within a day. Proposed Base Minimum Capital (BMC) requirements for Securities Brokers relaxed by SECP to lessen call for additional capital - Securities brokers running proprietary investment book to incur losses due to falling market. However, valuations may lure further investments, which, if leveraged, should be dealt carefully - Recent policy rate cut (425bps in last one month) and expectations of further monetary easing expected to route funds towards equity market. Certain conditions on short sales and relief package, if any, for capital markets to provide some respite - If lockdown and uncertainty regarding economic recovery persists, ensuing volatility may cast a shadow on volumes. Consequently, brokers may face lower commission income. This may lead to pressure on net worth of certain securities brokers affecting trading limits

DISCLAIMER

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