

## Quarterly Technical Outlook

January-March 2001

**Overall outlook mixed; focus on PSO and Hub Power**

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► The market is evenly poised in a sideways channel bound by 1400 and 1520. A high impact break-out followed by base-building above 1560 will be needed to take the market towards the 1600 ceiling level and beyond. A weak penetration will result in a relapse followed by a retreat towards 1520.

► We expect a mixed price behaviour from the pivotals. PSO is moving confidently towards the resistance level of 150.00. A convincing penetration will open the way for a rally towards 185.00. Hub Power has always struggled while approaching the resistance of 21.75. We hope that the current base-building pays off and Hub Power makes an upward break. Pak Telecom is in a defensive stance and should be accumulated near its support level of 18.85.

► There are some good opportunities in second tier stocks nearing break outs. Fauji Fertilizers is expected to move towards 55.00 if it holds the support level of 47.00 for a while. Investors should wait for a mid-move consolidation in Engro Chemicals above 85.00, which can propel the scrip towards the 95.00 ceiling level. After shrugging off the strong resistance level of 19.70, Ibrahim Fibres can swiftly rise towards 21.75.

► **We advise our clients to exercise strict trading discipline. An ideal trading strategy involves a buy entry on reversals near support levels, with protective stops and profit taking near resistances.**



	Price	Support		Resistance		Strategy
		S1	S2	R1	R2	
<b>KSE-100</b>	1485	1400	1275	1520	1600	Enter with stop loss discipline.
<b>Adamjee Insurance</b>	73.25	61.50	55.00	85.00	100.00	Book profits around 85.00.
<b>Dewan Salman</b>	23.25	22.00	19.20	26.10	30.00	Buy around 19.20.
<b>Engro Chemicals</b>	81.25	76.00	66.00	85.00	95.00	Book profits on rise.
<b>Fauji Fertilizers</b>	47.15	42.00	36.50	55.00	62.00	Buy Fauji with a stop loss below 42.00.
<b>Hub Power</b>	19.80	18.10	16.50	21.75	24.00	Buy Hub Power on consolidation above 20.0 with a stop loss below 20.00.
<b>Ibrahim Fibres</b>	20.35	18.25	17.15	21.75	23.00	Buy on high volume break out above 19.70.
<b>ICI Pakistan</b>	9.70	8.90	7.85	11.80	13.50	Accumulate around 8.90 to 7.85.
<b>MCB</b>	31.70	30.00	25.00	36.00	38.50	Book gains around 36.00.
<b>Pak Telecom</b>	20.65	18.85	17.50	23.25	26.00	Accumulate PTCL around support level of 18.85.
<b>PSO</b>	151.40	135.00	115.00	185.00	220.00	Buy PSO on penetration of 150.00.
<b>Sui Northern</b>	11.40	10.00	9.25	13.10	14.25	Buy on consolidation above 10.00.

Prices as of Feb 7 '01

## KSE-100 index@1485

**The market is evenly poised in a sideways channel bound by 1400 and 1520.** After falling from the 1600 level at the beginning of 4Q00, the market has never been able to regain lost ground and advances beyond 1520 have remained short-lived.

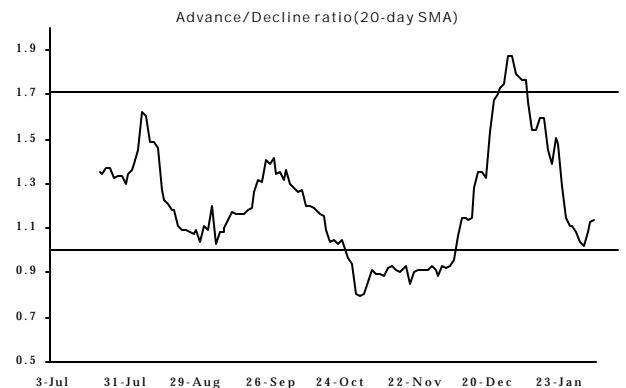
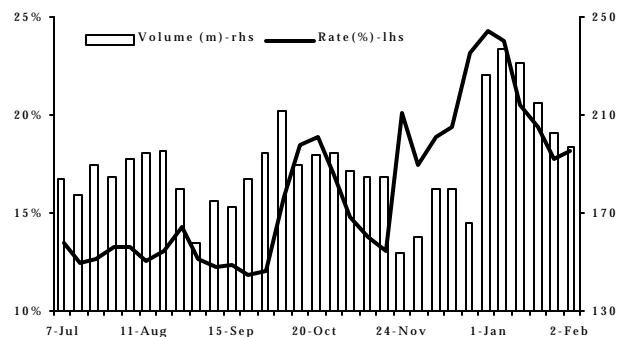
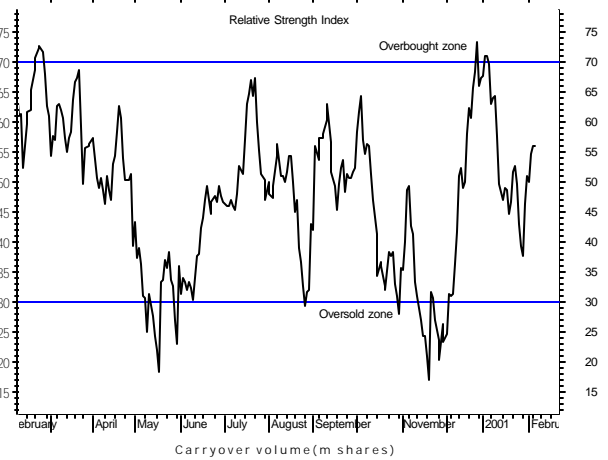
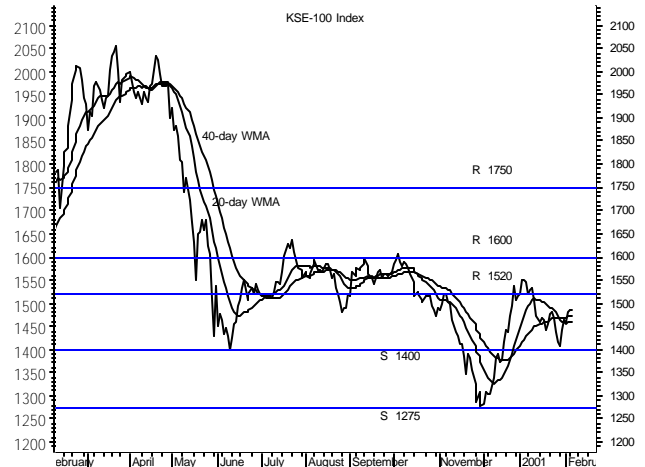
Although the market seems to be making a fresh advance towards 1560, **it lacks the momentum needed to penetrate deep into territory guarded by two strong barricades (of 1560 and 1600).** A high impact break-out (on high volume) followed by base-building above 1560 will be needed to take the market towards the 1600 ceiling level and beyond (upto 1750). A weak penetration (with low volumes) will result in a relapse followed by a retreat towards 1520.

**The moving averages are generating mixed signals:** the market has penetrated the 40-day WMA (see glossary for definitions), which will now act as a strong support for any upside move, but at the same time the 20-day WMA has crossed the 40-day WMA on the downside, which is slightly negative.

The 20-day SMA of the advances-to-declines ratio is reversing from the edge of the *oversold* zone. This indicates that the broader market has faced substantial erosion in prices and **the likelihood of further downside is very limited.**

The carryover (*badla*) volumes and rates are relatively high compared to the levels seen in 4Q00, but the trend shows a gradual decrease. **A purely leveraged rally from these levels is unlikely to go much beyond 1560.**

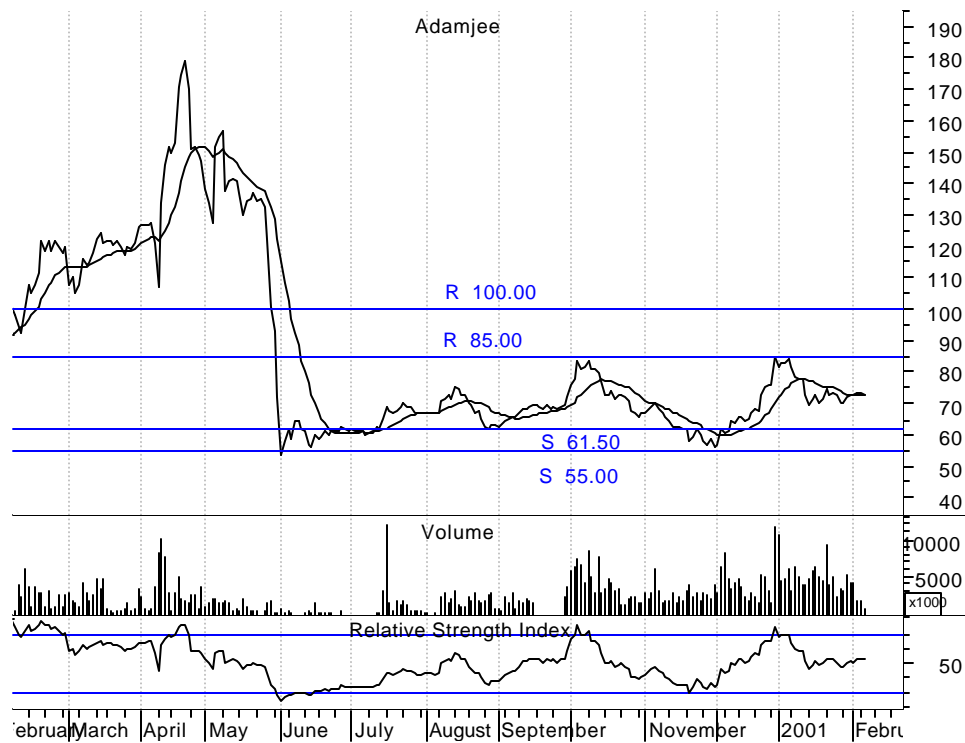
We believe that the chances of a breakdown of 1400 during the next quarter are minimal, **but if it happens, then it can send the market reeling towards the recent low of 1275, which is the lower bound of our expected trading range.**



# Adamjee Insurance@Rs73.25

Penetration of the 20-day moving average line can lead to a re-test of the 85.00 resistance level. 85.00 is a crucial resistance level for Adamjee as it has warded off two prior advances. **A convincing upward push through this level will signal a break out which can become a launching pad for an incursion towards the ceiling level of 100.00.** Immediate support lies at 61.50, which is likely to give Adamjee a sound footing. However, if 61.50 gives way then **the stock can sink towards the 55.00 level.**

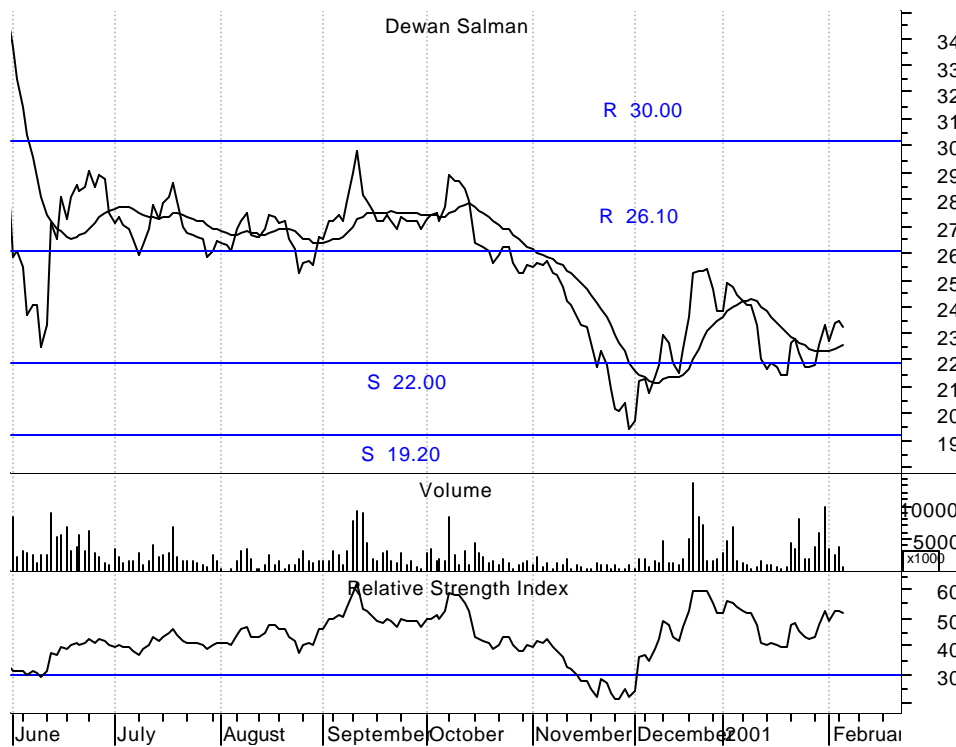
Support Levels	Resistance Levels	Moving Averages			
Major support 1	61.50	Major resistance 1	85.00	20-day	72.50
Major support 2	55.00	Major resistance 2	100.00	40-day	73.85



# Dewan Salman Fibres@Rs23.25

The slide starting with the failed penetration of the 26.10 resistance level has stabilized at the support level of 22.00. Although **the chances of a breakout above 26.10 are slim**, it will push Dewan Salman into the 26.00-30.00 trading channel with an upside target of 30.00. While we do not foresee a violation of the 19.20 floor level, if Dewan slips below that level then **the downside target is 16.00**. The 1QFY01 trading band is 19.20-26.10.

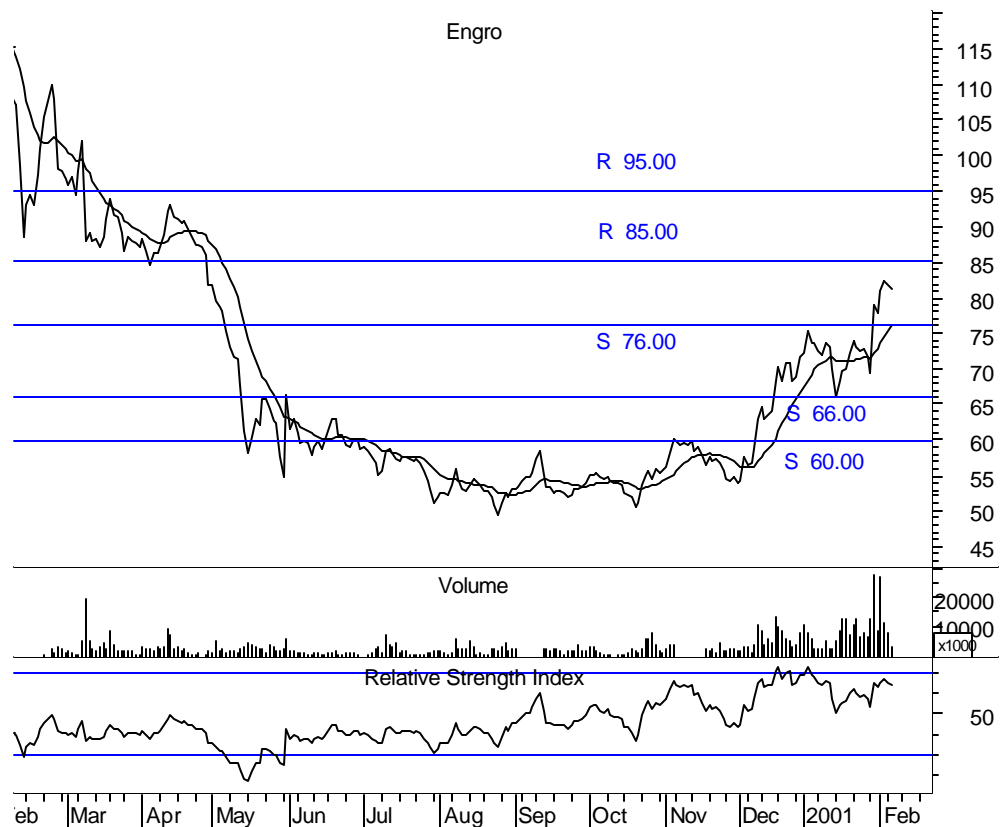
Support Levels		Resistance Levels		Moving Averages	
Major support 1	22.00	Major resistance 1	26.10	20-day	22.50
Major support 2	19.20	Major resistance 2	30.00	40-day	22.95



# Engro Chemicals@Rs81.25

Engro has successfully broken upwards through the critical hurdle of 76.00 and now its upside target is the 85.00 resistance level. The risk of a relapse is minimal, as **Engro has established a new trading band of 66.00 to 95.00**. However, the RSI is gradually creeping towards the overbought zone. Investors should wait for **a mid-move consolidation above 85.00, which will propel Engro towards the 95.00 ceiling level. If the trend falters at 85.00 then we can see a retreat towards the 76.00 support level. Longs should tread carefully with tight stop losses.**

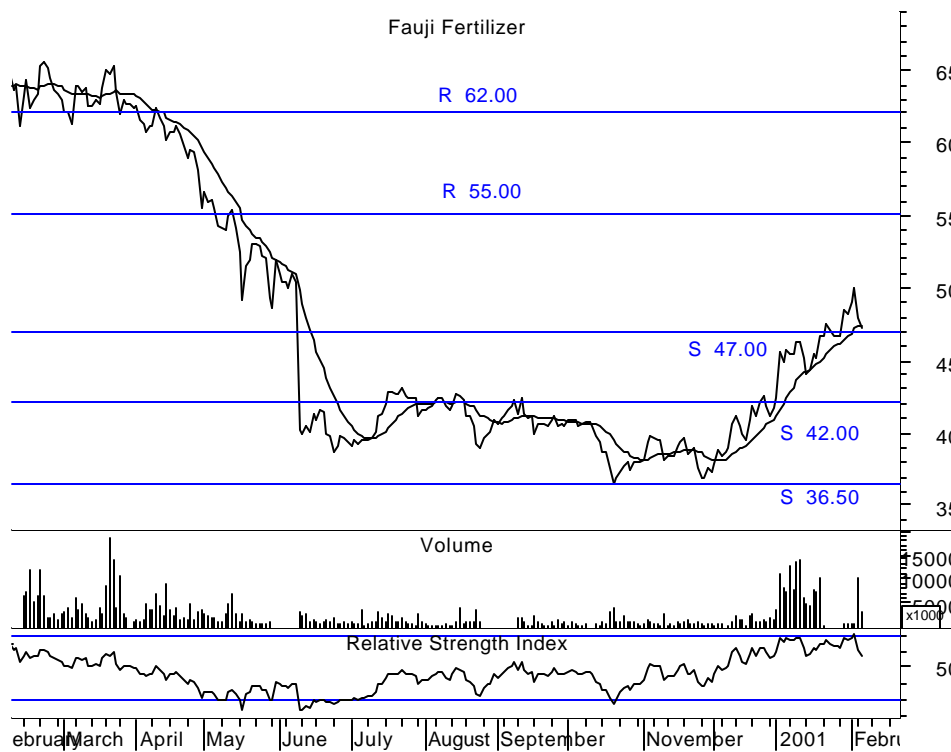
Support Levels	Resistance Levels	Moving Averages			
Major support 1	76.00	Major resistance 1	85.00	20-day	75.30
Major support 2	66.00	Major resistance 2	95.00	40-day	73.20



# Fauji Fertilizers@Rs47.15

**Fauji Fertilizers is on the verge of a break out:** it scaled the strong barrier of 47.00 on thin volume (during spot trading). We **expect a big upside move if Fauji holds this level for a while.** The next chart **resistance will come at 55.00. Immediate support below 47.00 is at 42.00.**

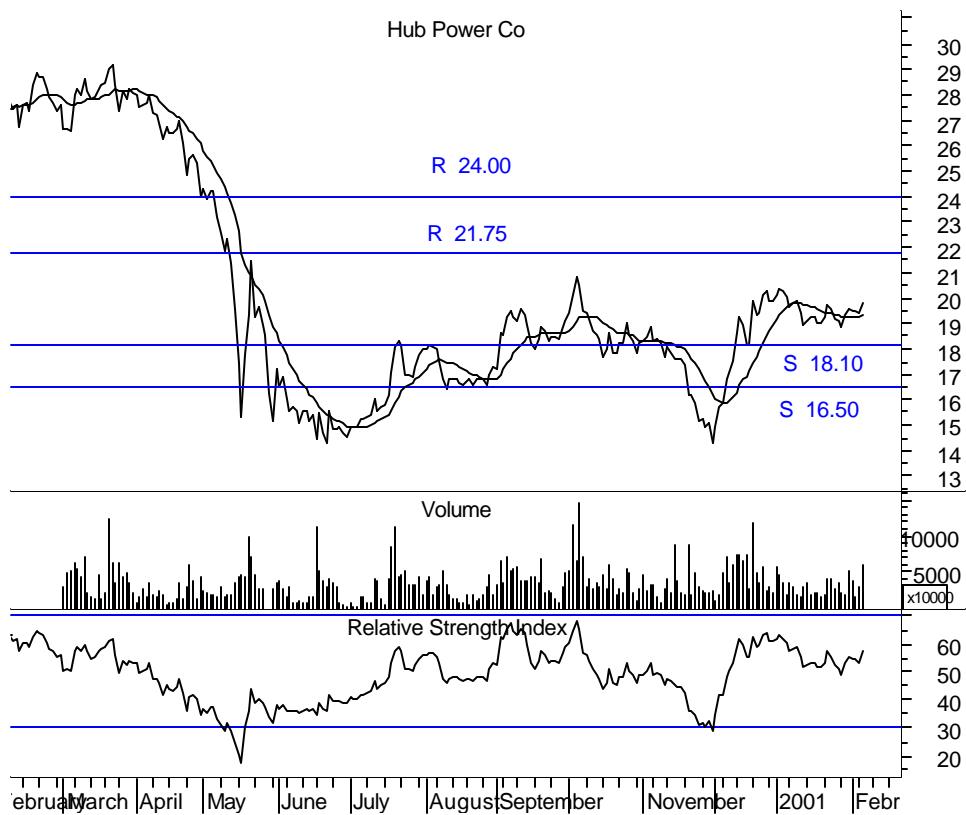
Support Levels	Resistance Levels	Moving Averages			
Major support 1	42.00	Major resistance 1	55.00	20-day	47.35
Major support 2	36.50	Major resistance 2	62.00	40-day	45.90



# Hub Power@Rs19.80

Hub Power is consolidating the gains of its last run-up from 14.25 which peaked at 21.75. A solid foundation above 19.25 can vault Hub Power towards the resistance level of 21.75. Previous forays into the hostile territory above 20.00 have not met with success and Hub Power has been repeatedly retreating back towards the support of 18.10. Therefore, we believe that the **21.75 resistance poses a major hurdle to upside movement. However, if this level is convincingly penetrated then Hub Power can take a leap towards 26.00.** The resistance level of **26.00** serves as the upper bound of our trading range while **support of 16.50** forms the base.

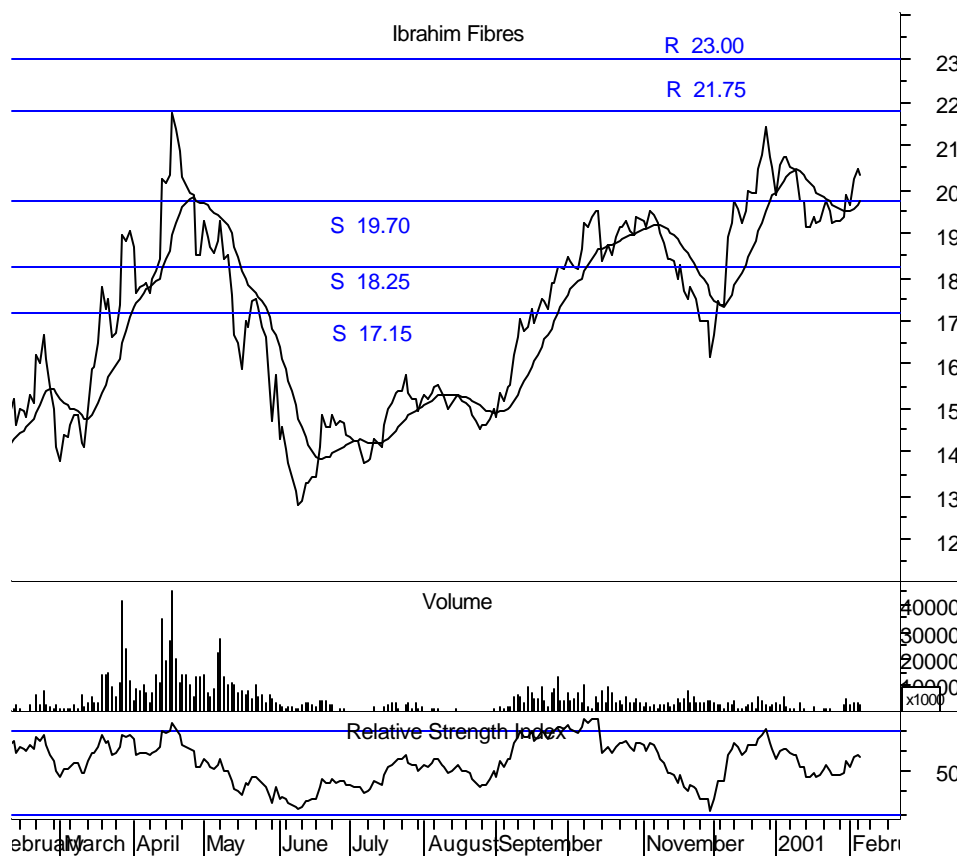
Support Levels		Resistance Levels		Moving Averages	
Major support 1	18.10	Major resistance 1	21.75	20-day	19.30
Major support 2	16.50	Major resistance 2	24.00	40-day	19.40



# Ibrahim Fibres@Rs20.35

Ibrahim Fibres has been gradually losing ground after it rose to its life-high of 23.00 in late December'00 on thin volume. Even though two recent attempts to push upwards through the resistance level of 19.70 had failed, Ibrahim has finally broken through this obstacle. **Volume support will be needed to cruise towards the 21.75 level.** Momentum is gathering pace which will be needed to open up a breach in the 21.75 ceiling. Failure to dislodge the resistance level of 21.75 will weaken Ibrahim and it will start searching for support. **Expected trading range for this quarter is 17.15-23.00.**

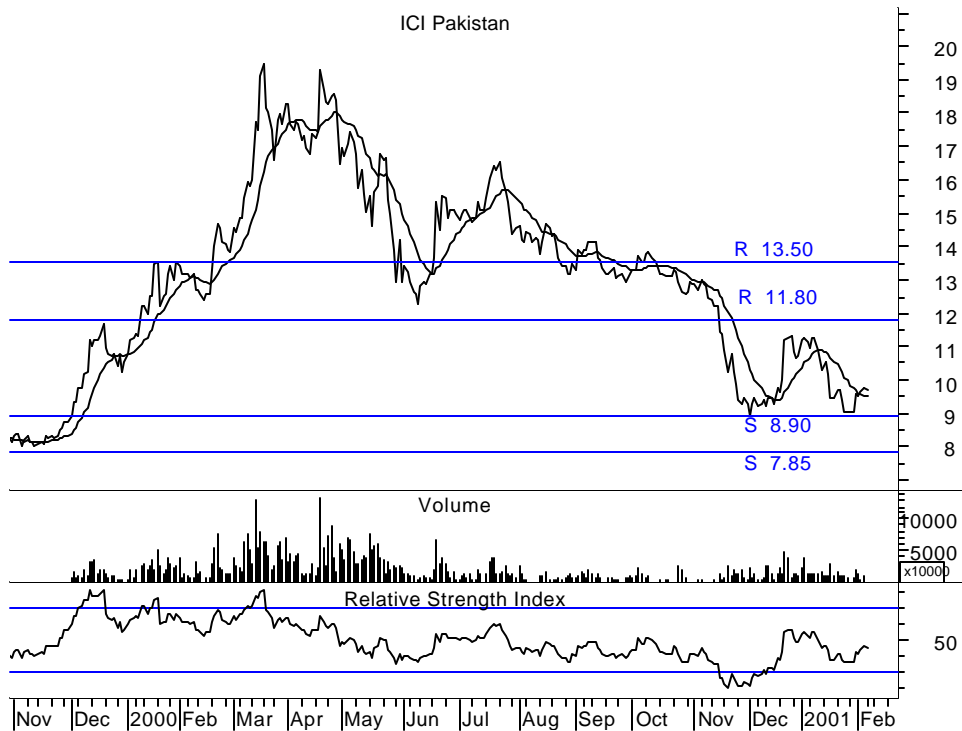
Support Levels	Resistance Levels	Moving Averages			
Major support 1	18.25	Major resistance 1	21.75	20-day	19.65
Major support 2	17.15	Major resistance 2	23.00	40-day	19.85



# ICI Pakistan@Rs9.70

ICI Pakistan is sliding in a bearish trading channel. The scrip has registered a continuous pattern of lower highs since it spiked to 20.00 in March'00. **If the downside move does not stall at the 8.90 support level, then ICI will hurtle towards its life low of 7.85.** Upside from present levels is firmly capped by the resistance level of 11.80. We expect ICI to **trade between 7.85 and 13.50 in the next three months.**

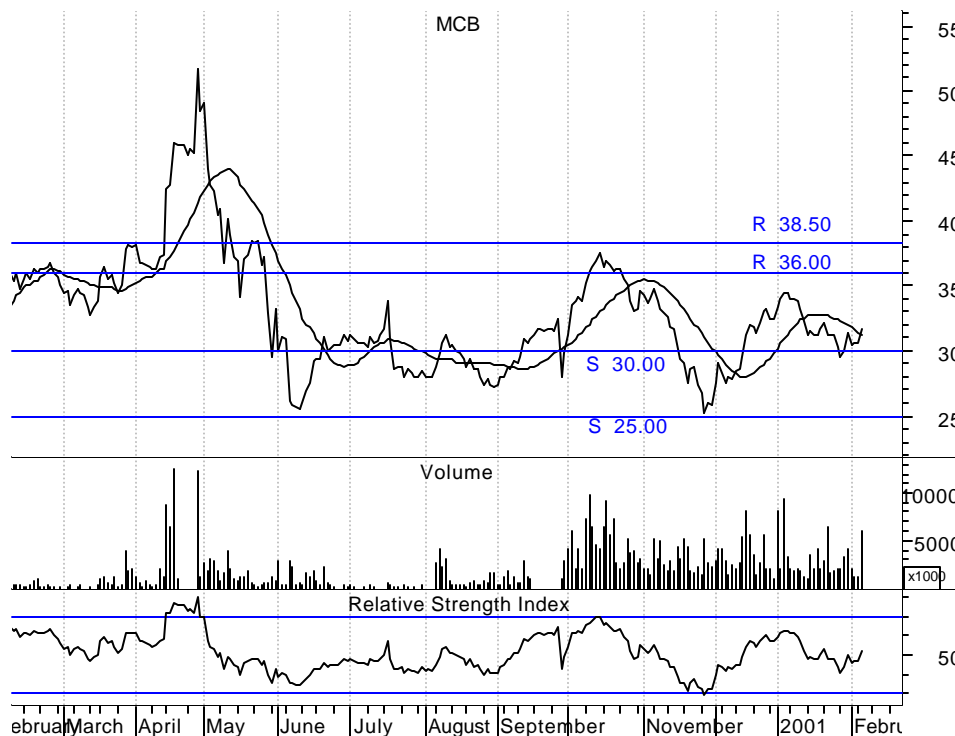
Support Levels	Resistance Levels	Moving Averages			
Major support 1	8.90	Major resistance 1	11.80	20-day	9.60
Major support 2	7.85	Major resistance 2	13.50	40-day	10.00



## Muslim Commercial Bank@Rs31.70

**Consolidation above the support level of 30.00 has stalled the slide**, which started with the failure to find cracks in the resistance area extending from 35.00-36.00. If MCB enters an upward channel, penetration of the 20-day moving average line will be the turning point for MCB which can culminate in the retracement of its earlier downward move from 36.00. If the support level of 30.00 gives way then the **lower bound of our MCB trading range for 1QFY01 is the support level of 25.00**, which has given some strong rebounds in FY00.

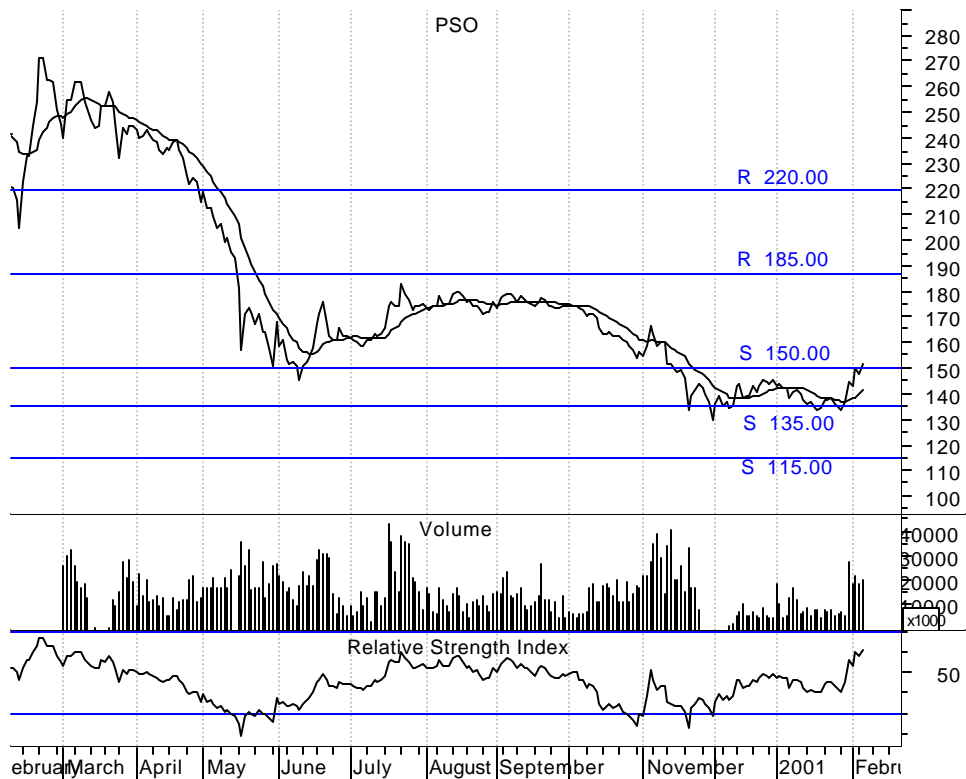
Support Levels	Resistance Levels	Moving Averages			
Major support 1	30.00	Major resistance 1	36.00	20-day	31.45
Major support 2	25.00	Major resistance 2	38.50	40-day	31.65



# Pakistan State Oil@Rs151.40

PSO depicted an increasingly range-bound price behavior in the last quarter barring a few days of wild swings. However, the stock recharged itself on breaking out of the narrow range of 135.00-142.00 and has overrun the next significant resistance level of 150.00. **Our ceiling level for the next quarter is 185.00, which is expected to remain intact. The downside floor level is 115.00.**

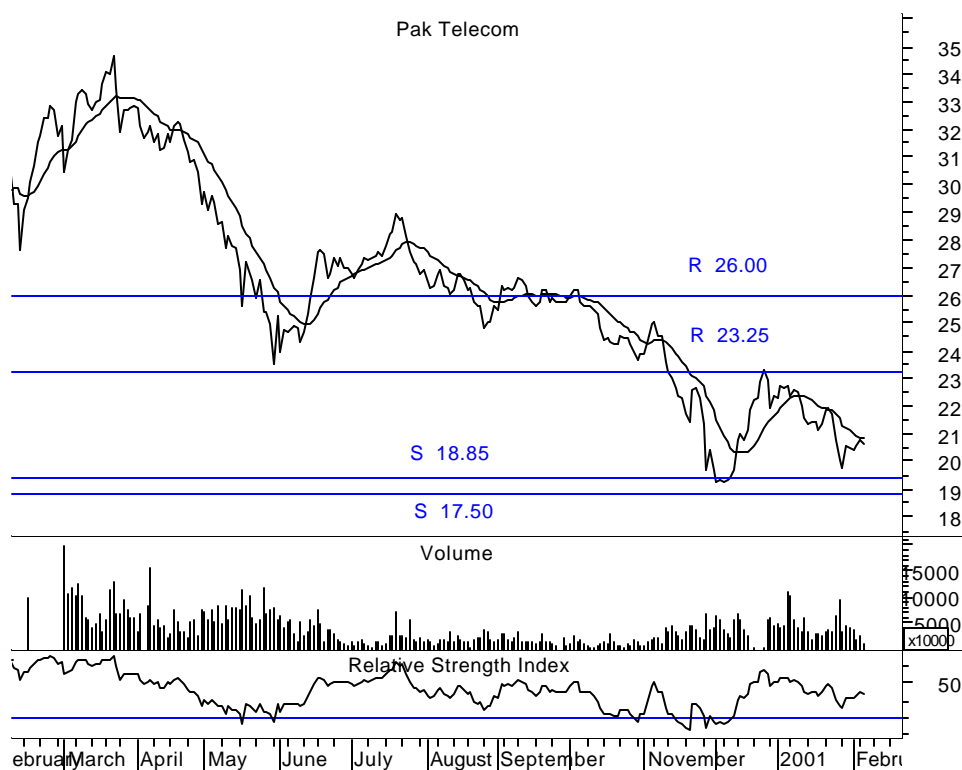
Support Levels		Resistance Levels		Moving Averages	
Major support 1	135.00	Major resistance 1	185.00	20-day	139.75
Major support 2	115.00	Major resistance 2	220.00	40-day	139.90



# Pak Telecom@Rs20.65

Trading just above its long-term support zone (stretching from 18.85-17.50), **Pak Telecom is on firm ground albeit its stance is still defensive.** The stock can come out of the long-term pattern of lower highs if it overcomes the strong resistance level of 23.25. If it continues to slip then **the floor level for the downside will be 18.85.** The RSI is hovering close to oversold territory indicating limited potential for further sharp losses. We **expect Pak Telecom to trade within the band of 17.50 to 26.00 over the next three months.**

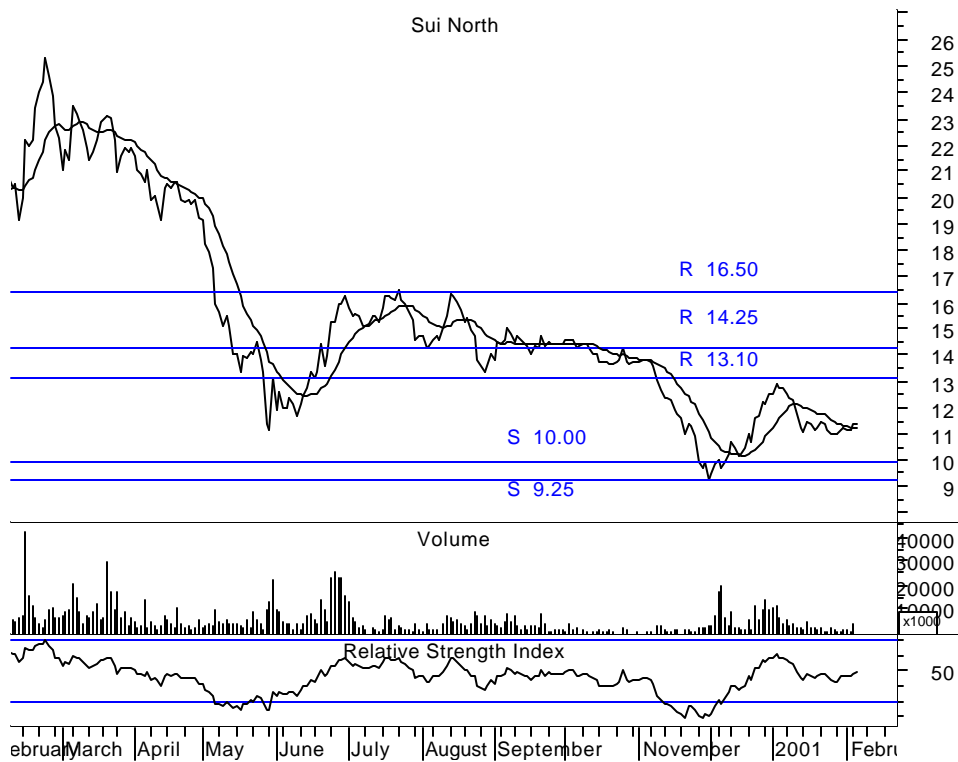
Support Levels	Resistance Levels	Moving Averages			
Major support 1	18.85	Major resistance 1	23.25	20-day	20.90
Major support 2	17.50	Major resistance 2	26.00	40-day	21.40



# Sui Northern Gas Pipelines@Rs11.40

Sui North is building a base above the support area stretching from 10.00 to 9.25. This consolidation is likely to be followed by an attempt at the 13.00 resistance level. **If this assault succeeds then the stock will trend towards the ceiling level of 14.25.** Although, at present, Sui North is far from making a break out, a steady upward drive coupled with penetration of successive resistances will pave the way for a strong uptrend aimed for the long term (6-12 month) resistance level of 16.50. **We expect Sui North to trade between 9.25 and 14.25 over the next three month period.**

Support Levels		Resistance Levels		Moving Averages	
Major support 1	10.00	Major resistance 1	13.10	20-day	11.25
Major support 2	9.25	Major resistance 2	14.25	40-day	11.50



# Glossary

## *Support level*

A price, or price zone, beneath the current market price, where buying power is sufficient to halt a price decline. A previous reaction low usually forms a support level.

## *Resistance level*

The opposite of support. Resistance is marked by a previous price peak and provides enough of a barrier above the market to halt a price advance.

Resistance is the area over the market where selling pressure overcomes buying pressure and a price advance is turned back.

## *Moving averages*

A trend following indicator that works best in a trending environment. It smoothes out price action but operates with a time lag.

A simple 10 day moving average of a stock adds up the last 10 days' closing prices and divides the total by 10. This procedure is repeated each day. Any number of moving averages can be employed, with different time spans, to generate buy and sell signals.

When only one average is employed, a buy signal is given when the price closes above the average. When two averages are employed, a buy signal is given when the shorter average crosses above the longer average.

## *Relative strength index (RSI)*

RSI is plotted on a vertical scale from 0 to 100. Values above 70, and below 30, indicate *overbought* and *oversold* conditions respectively. When the RSI value is over 70 or below 30, and diverges from price action, a warning is given of a possible trend reversal.

## *Bollinger bands*

This indicator plots trading bands two standard deviations above and below a 20 day moving average. Prices will often meet resistance at the upper band and support at the lower band. Narrowing Bollinger bands are indicative of an end to range bound trading, but do not give any indication of the direction of the break out.

## *Momentum*

Momentum measures the velocity of price changes. To construct a 10 day momentum line, the latest closing price is divided by the close 10 days ago. The resulting value is multiplied by 100 and plotted above or below a 100 line. The 100 line becomes the midpoint line.

## *Stochastic oscillator*

Stochastic oscillator uses two lines that fluctuate in a vertical range between 0 and 100. Readings above 80 are *overbought*, while readings below 20 are *oversold*.

## Abbreviations

WMA-weighted moving average

SMA-simple moving average

R-resistance

S-support

RSI-relative strength index

We have used 20-day WMA and 20-day RSI in this report

# Notes

## Notes

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