

## Chinese ‘circuit break’ sends FTSE, S&P lower

Chinese markets collapsed by 7% on the first day of trading in 2016, sending European stocks sharply lower. Short sellers however look to have had a profitable start to the year with targeted names leading the selloff.

- Short sellers persistence in targeting FTSE 100 firms continues to pay off in the new year
- FTSE 100 in the red as Anglo American and Glencore suffer large falls
- Ocado shares slide as fears of Amazon’s fangs in the UK market drive shares lower

### Make way for bears

The **Caixin-Markit China Manufacturing PMI** released on January 4<sup>th</sup> 2016 fell to 48.2; a tenth consecutive month of the index remaining below the neutral 50 value. This level indicates that operating conditions faced by Chinese producers continued to deteriorate moderately during December 2015.

The negative PMI data, combined with an end to a **six month ban** on selling by major investors, sparked a new year equity sell off which triggered a new market **circuit breaker** introduced by authorities. The automatic 15min halt to trading when the CSI 300 index falls by 5% looks to have backfired as stocks continued to slide once trading resumed, triggering a full halt to trading once reaching a 7% decline.

### The bear runs west

The Shanghai Composite index ended down 6.9% while the Shenzhen Composite fell by 8.2%, with negative sentiment quickly spreading to Europe with the DAX falling 4.3% and the Stoxx50 down 3.3%. Close to the end of trade, the FTSE 250 had fallen by 1.9% and FTSE 100 by a significant 2.6%.

Short sellers have been **persistently** targeting FTSE 100 names since June 2015, when average short interest increased over 50% from 1.1% to above 1.7%, closing the gap on the FTSE 250 whose average has hovered above 1.5% for some time.

### Average short interest



Average short interest for both the FTSE 250, comprised of relatively smaller firms, and the FTSE 100 remained elevated above 1.5% heading into 2016.

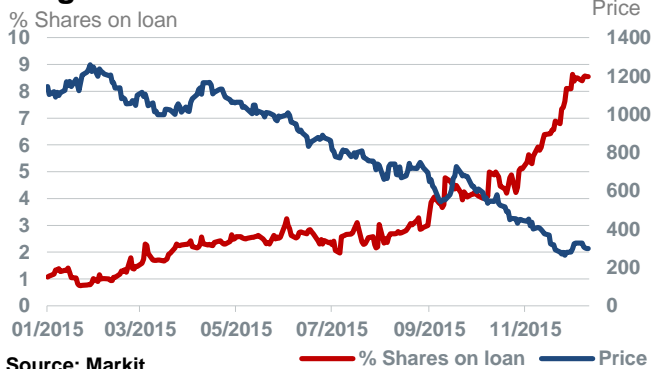
### Resources pain continues

Short sellers were well placed for a sell off on the first day of trading in the UK. Leading the price decreases were Anglo American and Glencore, which both fell by more than 5%, and are both in the top ten most shorted stocks of the FTSE 100 currently.

Top 10 Most Shorted FTSE 100 (01 January 16)

Name	Ticker	Sector	Short Interest	Change over Month	Quantity on loan (m)
J Sainsbury Plc	SBRY	Food & Staples Retailing	17.0	-.1%	327
Anglo American Plc	AAL	Materials	8.6	34%	120
Aberdeen Asset Management Plc	ADN	Diversified Financials	7.2	2%	94
Burberry Group Plc	BRBY	Consumer Durables & Apparel	6.6	30%	29
Rolls-Royce Holdings Plc	RR	Capital Goods	6.4	3%	117
Glencore Plc	GLEN	Materials	5.6	6%	805
Ashtead Group Plc	AHT	Capital Goods	5.3	-.11%	26
Tesco Plc	TSCO	Food & Staples Retailing	4.7	1%	379
Fresnillo Plc	FRES	Materials	4.5	.6%	34
Intu Properties Plc	INTU	Real Estate	4.4	-.11%	59

### Anglo American Plc



Source: Markit

Anglo American with 8.6% of shares outstanding on loan and Glencore with 5.6% have continued to suffer a rout in prices as a weaker demand outlook for commodities has now been compounded by the recent weak Chinese market data points.

### Glencore Plc



Source: Markit

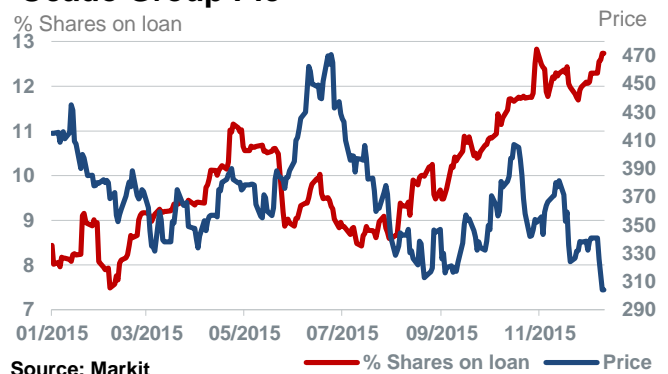
Other notable top ten shorts in the FTSE100 proving fertile ground for short sellers on the day were Burberry (-4%), Tesco (-4%) and Aberdeen Asset Management (-3%).

Top 10 Most Shorted FTSE 250 (01 January 16)

Name	Ticker	Sector	Short Interest	Change over Month	Quantity on loan (m)
Carillion Plc	CLLN	Capital Goods	24.6	-5%	106
Wm Morrison Supermarkets Plc	MRW	Food & Staples Retailing	20.5	-4%	478
Ocado Group Plc	OCDO	Retailing	12.7	4%	75
Petrofac Ltd	PFC	Energy	12.3	5%	43
Ashmore Group Plc	ASHM	Diversified Financials	10.5	0%	75
Hansteen Holdings Plc	HSTN	Real Estate	9.9	-1%	71
Home Retail Group Plc	HOME	Retailing	9.5	10%	77
Drax Group Plc	DRX	Utilities	9.0	-14%	37
Electrocomponents Plc	ECM	Technology Hardware & Equipn	8.2	-6%	36
Mitie Group Plc	MTO	Commercial & Professional Ser	8.0	1%	29

In the FTSE 250, one of the most successful shorts of 2016 so far is Ocado, which fell by 6% with 12.7% of shares outstanding on loan prior to trade opening.

### Ocado Group Plc



Source: Markit

Ocado shares have faltered recently due to news that Amazon plans to target UK grocery delivery market.

\*To receive more information on **Securities Finance, Research Signals, Exchange Traded Products, Dividend Forecasting** or our Short Squeeze model please **contact us**

To read this article on our commentary website please click [here](#).

### Relte Stephen Schutte

Analyst

Markit

Tel: +44 207 064 6447

Email: [relte.schutte@markit.com](mailto:relte.schutte@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.