

European short interest surges, lifted by grocers

Short interest has increased across some of the largest stocks in Europe in 2016 as a weaker economic outlook persists and fears of deflation continue to stifle markets.

- Shorts target Europe’s retailers as companies turn to consolidation to drive growth
- Steinhoff bid motivates short sellers to increase long term campaign against Sainsbury’s
- Shorts suffer \$200m in losses in Morrisons as Amazon Pantry deal lifts shares

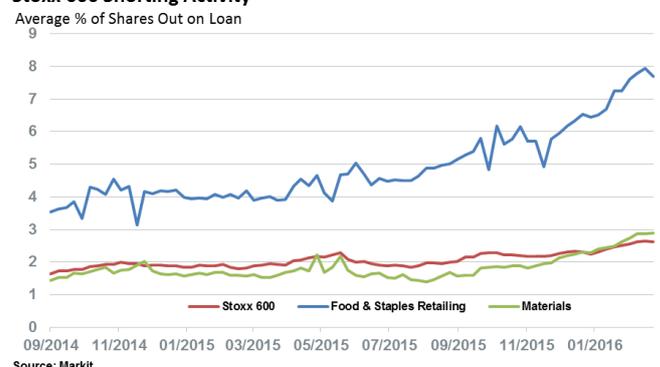
Only technology spared

With the exception of European Technology Hardware & Equipment, all other economic sectors in Europe have seen average short interest rise since the start of the year. This increase has lifted average shares outstanding on loan of index constituents by almost a fifth to reach 2.6%, the highest seen in almost two years.

10 Most Shorted Sectors	Short Interest as % of Shares	YTD % Change
Food & Staples Retailing	7.7	19%
Energy	5.7	9%
Health Care Equipment & Services	4.8	15%
Technology Hardware & Equipment	4.2	-17%
Software & Services	3.7	16%
Capital Goods	3.3	6%
Retailing	3.1	28%
Consumer Durables & Apparel	2.9	28%
Automobiles & Components	2.9	46%
Materials	2.9	29%

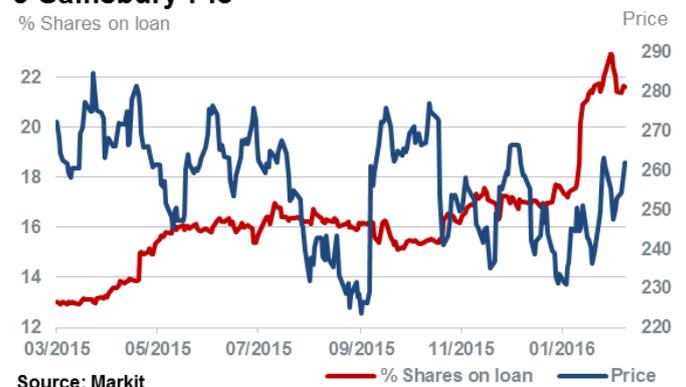
Leading the rise in shorting activity is Food & Staples Retailing firms which have been particularly targeted, with UK retailers featuring among the most shorted.

Stoxx 600 Shorting Activity



Battling deflation and increased local competition, a fierce fight for market share has seen earnings among UK retailers dwindle. Under pressure from German discounters **Aldi and Lidl**, Sainsbury’s and Morrisons have been particularly targeted by short sellers, with Tesco also coming under pressure.

J Sainsbury Plc



Sainsbury’s has seen a recent surge in shorting activity since it announced plans to acquire Argos (Home Retail) in January, reflecting market scepticism around the deal.

Adding to concerns, a subsequently higher and all cash offer from South African based **Steinhoff** complicated matters for Sainsbury's. Short interest has climbed 27% year to date with 21.6% of shares currently outstanding on loan. Shares in Sainsbury have remained largely unchanged even though the company looks to be priced out of the possible acquisition - however it recently announced that a hostile bid for Home Retail has still not been **ruled out**.

However the bidding war for Home Retail has been positive for the company's share price, spiking 80% year to date and sending short sellers covering. It highlights the limited growth prospects for incumbents and their weaker position compared to new entrants growing and or consolidating into the UK market.

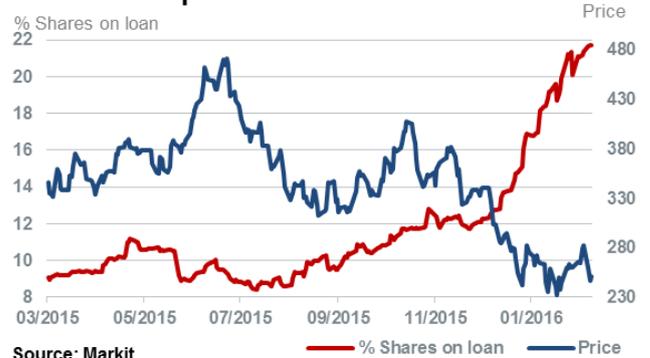
Home Retail Group Plc



Also searching for growth is US based online retailer Amazon, whose rumoured entrance into the UK food market sent shares of online grocer Ocado sliding in 2015 due to competition concerns.

Subsequently the rumours of a partnership to involve **Ocado** saw shares spike early in 2016. Eventually Morrisons and Amazon made a deal, with a flood of short positions in Ocado materialising thereafter.

Ocado Group Plc



Short sellers subsequently increased positions in Ocado by 70% with the stock falling by 12% year to date.

Wm Morrison Supermarkets Plc



Shares in Morrisons meanwhile have surged 38% year to date but short sellers continue to hold on despite weathering losses totalling an estimated \$200m.

Name	Ticker	Sector	Short Interest as % of Shares	YTD % Change
Swatch Group Sa	UHR	Consumer Durables & Apparel	29.0	12%
Wirecard Ag	WDI	Software & Services	23.9	26%
Carillion Plc	CLLN	Capital Goods	23.8	-3%
Ocado Group Plc	OCDO	Retailing	21.7	70%
J Sainsbury Plc	SBRY	Food & Staples Retailing	21.6	27%
Wm Morrison Supermarkets Plc	MRW	Food & Staples Retailing	20.0	-2%
Tgs Nopec Geophysical Company Asa	TGS	Energy	19.6	43%
Flsmith & Co A/S	FLS	North America Capital Goods	19.3	0%
Elekta Publ Ab	EKTA B	Health Care Equipment & Services	18.3	27%
Edenred Sa	EDEN	Commercial & Professional Services	16.3	61%
Sbm Offshore Nv	SBMO	Energy	15.6	6%
K&S Ag	SDF	Materials	15.5	40%
Anglo American Plc	AAL	Materials	14.9	74%
Arcelormittal Sa	MT	Materials	13.7	3%
Fiat Chrysler Automobiles Nv	FCA	Automobiles & Components	13.6	40%
Metso Oyj	MEO1V	Capital Goods	13.5	28%
Petrofac Ltd	PFC	Energy	13.1	4%
Kone Oyj	KNEBV	Capital Goods	12.2	18%
Ica Gruppen Ab	ICA	Food & Staples Retailing	12.1	32%
Casino Guichard Perrachon Sa	CO	Food & Staples Retailing	12.0	-11%

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Relte Stephen Schutte

Analyst

Markit

Tel: +44 207 064 6447

Email: relte.schutte@markit.com

For further information, please visit www.markit.com

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