

Eurozone's rally not quite squeezing shorts

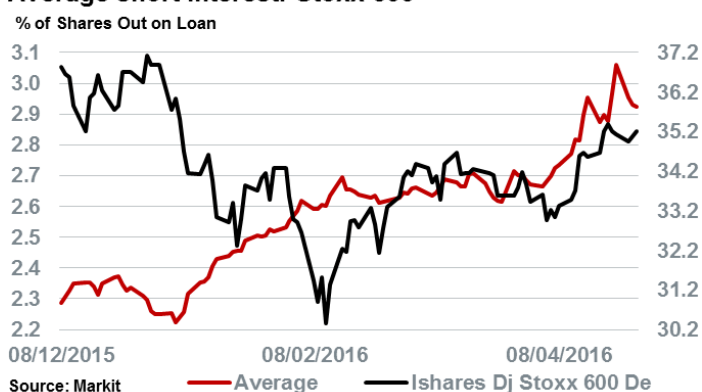
European equities have joined the global rally on the back of a recovery in energy and commodity prices, but short sellers are not yet fully covering positions to the extent that has been seen in the US.

- Short interest for energy sector declines 14% while broader market sees a significant rise
- Stoxx 600 surges 16% from lows but shorts hang onto positions in retailers
- Despite extensive covering and price declines, Seadrill remains a high conviction short

Average short interest across constituents of Europe's Stoxx 600 has rocketed 30% higher in 2016 despite the index staging a 16% recovery since February 11th.

While momentum in US equities this year has been in part fuelled by shorts sellers **covering positions**, Europe's largest firms have actually seen short interest levels trend higher on average. Across constituents of the Stoxx 600, short interest has risen 30%, reaching almost 3% on average.

Average short interest: Stoxx 600



As in the US, where significant covering has been seen as energy stages a comeback, European energy stocks have enjoyed an impressive 36% rally as oil prices continue to trend upwards. After touching 13 year lows in February, oil prices have now recovered by more than **70%**; underpinning a global recovery in equities.

However, while short sellers in European energy names within the Stoxx 600 have covered 14% of positions, the sector remains the second most short sold overall. Only software and services has seen material levels of short interest being covered by short sellers in the past few months.

Lundin Petroleum Ab



An example of the covering in energy names can be seen above in Swedish oil and gas firm Lundin Petroleum, with 7.3% of shares outstanding on loan. Short sellers have covered over a third of positions in the company in the last three months while shares have risen 25%.

Another example of recent covering in energy, but remaining in the top ten most shorted stocks across Europe, is Seadrill with 8.4% of shares outstanding on loan. Seadrill has fallen 41% in the last six months with shorts covering almost half of positions. However, demand to borrow the stock remains significant with high levels of conviction seen

among short sellers, indicated by the highest cost to borrow among energy names.

Seadrill Ltd



Source: Markit

On average, out of 24 sector groupings in Europe, only a quarter has seen covering of positions since February 11th, which is the current year to date low point of the Stoxx 600.

Stoxx 600: Sectors	% Shares Outstanding on loan			
	Price change	27 April 2016	% change	11-Feb-16
Food & Staples Retailing	11%	7.5	-2%	7.7
Energy	36%	5.5	-14%	6.4
Technology Hardware & Equipment	15%	5.2	16%	4.4
Health Care Equipment & Services	12%	4.7	1%	4.6
Capital Goods	18%	3.9	15%	3.4
Retailing	9%	3.8	28%	3.0
Consumer Durables & Apparel	8%	3.7	23%	3.0
Media	11%	3.7	118%	1.7
Software & Services	14%	3.4	-13%	3.9
Materials	27%	3.1	12%	2.8

Source: Markit

Remaining the shortest sold sector in Europe, short sellers have held onto positions in food & staples retailing stocks despite the sector moving higher by 11% on average. Average short interest has declined marginally but remains above at 7.5% currently.

Average short interest: Stoxx 600



Source: Markit

Positive price movements in European retailers may be related to recent increased M&A activity, with **bidding wars** unfolding for French and UK retailers.

Retailers in Europe continue to face intense competition and, perhaps highlighting the plight of the ECB, face stubborn price deflation exacerbated by recent lower energy prices.

Ocado Group Plc



Source: Markit

This has seen almost half of the top ten most shorted stocks belonging to the sector with the UK's Ocado Group currently in fourth place with a fifth of shares outstanding on loan.

Despite the covering seen in the energy sector and the recent rise in oil prices, three firms remain among the most shorted names in Europe currently.

Top 10 Most Shorted Stoxx 600 (27 April 16)

Name	Ticker	Sector	Short Interest	Change over Month	Quantity on loan (m)	YTD price change
Wirecard Ag	WDI	Software & Services	24.9	7%	31	-19%
Swatch Group Sa	UHR	Consumer Durables & Apparel	23.4	-2%	7	-6%
Carillion Plc	CLLN	Capital Goods	21.3	-2%	92	-3%
Ocado Group Plc	OCDO	Retailing	19.8	-5%	117	6%
Sbm Offshore Iv	SBMO	Energy	19.2	28%	41	1%
Wm Morrison Supermarkets Plc	MRW	Food & Staples Retailing	17.6	-2%	410	28%
Elekta Publ Ab	EKTA B	Health Care Equipment & Services	17.5	-10%	64	-17%
Technip	TEC	Energy	16.7	122%	20	14%
Tgs Nopac Geophysical Company Asa	TGS	Energy	15.1	-17%	15	-4%
J Sainsbury Plc	SBRY	Food & Staples Retailing	14.8	-23%	284	12%

Source: Markit

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