

Long live the UK high street

Despite recent high street icons falling into administration, short sellers have covered positions across UK retailers which have pulled average short interest of the FTSE 350 lower. However key discretionary names have seen sharp increases in shorting levels this past month.

- Shorts sellers change habits and pivot into Marks & Spencer's as its clothing business hangs
- Costa coffee chain owner Whitbread sees a sharp jump in shorts as sales cool
- ASDA owner Walmart sees value of short positions surge to \$1.3bn

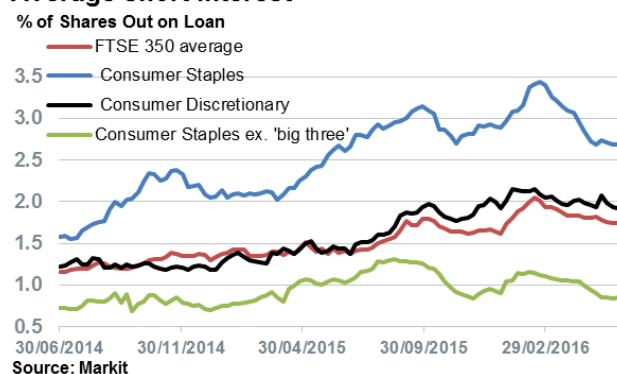
Previously **lifting** average short interest across UK stocks, retailers have seen short sellers cover recently, taking profits and shifting into key consumer discretionary names as stock prices slide. This perhaps indicates that the negative sentiment surrounding UK grocers may have a chance to turn.

However, fierce competition in the UK retail sector is not over as the battle for footfall and customer spend has seen the collapse of BHS and Austin Reed. Both of these have gone into **administration** with a potential business saving deal at BHS scuppered by **pension liability issues**.

Pension risks had previously been a concern among 'traditional' UK retailers however most are now **unshackled** from these obligations with even employee owned John Lewis **ditching** its salary based pension scheme. Shifting away, pension risks should increase future operational effectiveness and enable retailers to compete better - particularly against the **German discounters**.

Average short interest of the FTSE 350 has declined 14% from 2016 highs to reach 1.7% currently. Heavily Influencing the decrease has been cuts to positions in the 'big three' staple retailers; Morrisons, Sainsbury's and Tesco.

Average short interest



Average short interest of UK consumer staples has overall, declined by a quarter from recent highs. Excluding the above 'big three', the decline in short sentiment is more evident across the industry with average short interest declining by a third.

J Sainsbury Plc



Short interest in Sainsbury's has fallen back down below 16% but the largest change in

the past month though has been in Tesco, with short sellers closing a fifth of positions while the stock has declined 22% since mid-March.

Tesco Plc



Consumer staple stocks, led by the above grocers have actually performed relatively well year to date compared with discretionary peers. The top 10 most shorted discretionary retail stocks have fallen 15% on average, compared to a 4% gain for the staples stocks.

Marks And Spencer Group Plc



With an 88% increase in short interest in the past month rising to 4.9%, Marks and Spencer has the highest level of short interest seen in almost four years. The stock has fallen 20% year to date amid **profit warnings** as the firm's clothing department continues to struggle.

Online retailers Ocado and AO World lead short interest among consumer discretionary names with the former losing out to Morrisons

in an **Amazon tie-up** and its shares down 15% year to date. Short sellers have moderately covered in these two firms with a fifth of Ocado shares currently outstanding on loan, almost four times that of AO World.

Shorts have increased positions in the owner high street coffee chain Costa, Whitbread, with short interest spiking nine fold in the past six months to 4.3%. Whitbread which also owns Premier Inns (and now a 49% stake in Pure Food), has seen sales growth **start to cool** in the past year.

Whitbread Plc



Lastly, Walmart, owner of UK supermarket chain ASDA has seen a marked increase in short interest while the relative percentage of shares outstanding on loan is small, only at 0.79%, the value short sold of the US retailing giant has surged year to date, with currently \$1.46bn on loan.

Wal Mart Stores Inc



Markit Equities Commentary

ASDA reported sales declines amid strong competition in the first quarter with the UK CEO **departing** this week amid owner Walmart's **disappointment**.

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Top 10 Most Shorted FTSE 350 Consumer Discretionary (06 June 16)

Name	Ticker	Industry	Short Interest	Change over Month	Value on loan (m)	Price chg MOM	Price chg YTD
Ocado Group Plc	OCDO	Retailing	19.3	-2%	457	-5%	-15%
Ao World Plc	AO	Retailing	5.8	-2%	61	-4%	7%
J D Wetherspoon Plc	JDW	Consumer Services	5.5	6%	68	3%	-2%
Burberry Group Plc	BRBY	Consumer Durables & Apparel	5.3	-24%	374	-8%	-9%
Marston'S Plc	MARS	Consumer Services	5.1	-9%	66	5%	-9%
Marks And Spencer Group Plc	MKS	Retailing	4.9	88%	424	-12%	-20%
Berkeley Group Holdings Plc	BKG	Consumer Durables & Apparel	4.9	-7%	322	11%	-13%
Restaurant Group Plc	RTN	Consumer Services	4.5	17%	49	29%	-47%
Whitbread Plc	WTB	Consumer Services	4.3	69%	485	10%	-5%
Thomas Cook Group Plc	TCG	Consumer Services	4.2	215%	68	-18%	-41%
			6.4		2,373	1%	-15%

Top 10 Most Shorted FTSE 350: Consumer Staples (06 June 16)

Name	Ticker	Industry	Short Interest	Change over Month	Value on loan (m)	Price chg MOM	Price chg YTD
Wm Morrison Supermarkets Plc	MRW	Food & Staples Retailing	17.9	-4%	1,170	-2%	27%
J Sainsbury Plc	SBRV	Food & Staples Retailing	15.2	-2%	1,075	-7%	-5%
Tesco Plc	TSCO	Food & Staples Retailing	5.1	-20%	987	-2%	5%
Pz Cussons Plc	PZC	Household & Personal Products	4.3	0%	91	6%	18%
Dairy Crest Group Plc	DCG	Food, Beverage & Tobacco	3.5	1%	40	1%	-16%
Unilever Plc	ULVR	Household & Personal Products	0.9	56%	540	4%	10%
A G Barr Plc	BAG	Food, Beverage & Tobacco	0.8	4%	8	-2%	-1%
British American Tobacco Plc	BATS	Food, Beverage & Tobacco	0.7	-5%	872	2%	13%
Coca Cola Hbc Ag	CCH	Food, Beverage & Tobacco	0.6	-8%	48	2%	-3%
Associated British Foods Plc	ABF	Food, Beverage & Tobacco	0.6	75%	198	-5%	-12%
Source: Markit			5.0		5,030	0%	4%

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