

# PMI data reveals global financials in a bind

Distressing Chinese trade data agrees with Markit PMI data which contradicts the recent market rally.

- Financials register the first decline in activity since 2012
- Short interest in US and UK financials rises ytd, yet Chinese financials experience falls
- LendingClub among the most shorted financial stocks globally above \$2bn in market cap

## Financial activity declines

Data released from **China** this week indicates that exports plunged in February at the fastest rate since 2009. Coupled with weak Global Sector PMI data which indicates further evidence of waning economic growth in 2016 – the past week’s rally may be short lived.

Negative signals coming out of the financial sector, specifically emanating from Asia and the US are of particular concern as financial institutions continue to come under pressure with central banks struggling to stimulate economic growth.

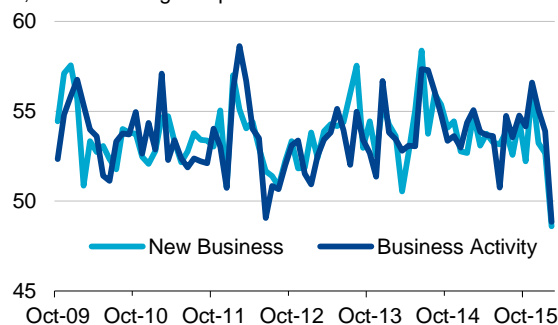
Contrasting scenarios exist however, where margins are being squeezed by NIRP in Europe and Japan squeezing paper thin margins. However, in the US the prospect of a rise in interest rates might cause an unexpected spike in defaults at overextended regional banks.

## Broad financial weakness

The drop registered in financial activity according to PMI data is only the second such fall seen since the data series began in October 2009. Despite the data showing that new business declined for the first time financial services employment remained strong.

## Global Financials PMI

sa, 50 = no change on previous month



Source: Markit

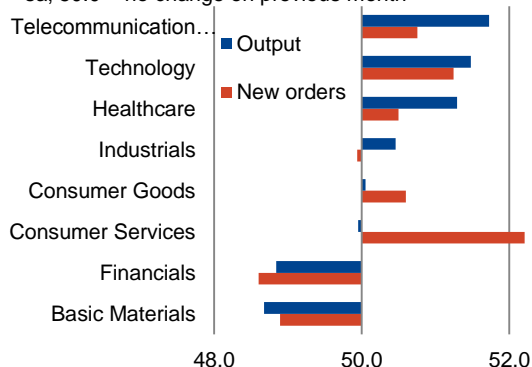
The sharpest fall in financial PMI data was registered in other financials which includes consumer financial services, investment services and speciality financials.

## Shorts increase positions in financials

The deteriorating PMI activity data has been accompanied with a rise in shorting activity across the sector globally. Average short interest for global financials has increased by 16% ytd with approximately 1.4% of shares out on loan on average.

## Global Sector PMI: broad sector groups

sa, 50.0 = no change on previous month



Source: Markit.

**Global financials average short interest**



Source: Markit

According to PMI data, financial activity in Asia signalled is fastest rate of decline in over four years. Interestingly, however, across Chinese financials, short sellers have largely cut positions by 20% on average ytd. This is while increased positions are seen in the UK and US financials, rising by 36% and 12% respectively. Together with Japan these four countries represent over 50% of the listed financial stocks with more than \$2bn in market cap.

It seems that short sellers are in step with PMI activity data as the top ten most shorted financials globally are crowded by US regional banks and consumer finance firms.

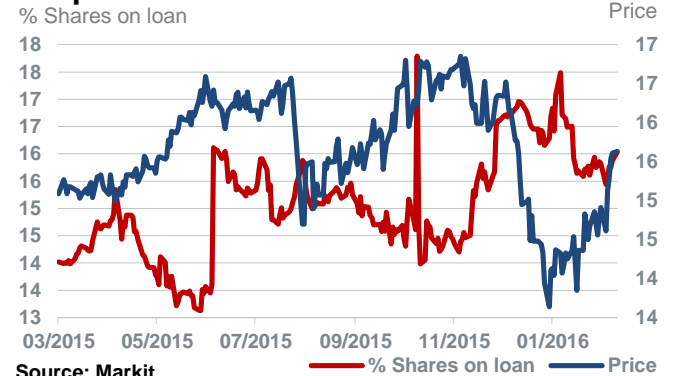
Most shorted global financials 07 March 16

Name	Ticker	Sector	Short Interest	Change over Month	Quantity on loan (m)	YTD price change
People'S United Financial Inc	PBCT	Regional Banks	16.0	-3%	50	-3%
Cullen/Frost Bankers Inc	CFR	Regional Banks	14.9	10%	9	-3%
Lendingclub Corp	LC	Consumer Finance	13.9	-4%	53	-15%
National Bank Of Canada	NA	Diversified Banks	13.4	15%	45	-1%
Bank Of Hawaii Corp	BOH	Regional Banks	10.6	8%	5	8%
Bolsas Y Mercados Espanoles Sociedad	BME	Specialized Finance	10.1	-1%	8	-6%
Credit Acceptance Corp	CACC	Consumer Finance	9.6	-6%	2	-2%
Aberdeen Asset Management Plc	ADN	Asset Management & Custody Bai	9.5	10%	125	-3%
Bank Of The Ozarks Inc	OZRK	Regional Banks	8.4	45%	8	-14%
Bank Of Montreal	BMO	Diversified Banks	8.4	9%	54	-2%

Source: Markit

The most shorted financial stock across this universe is People's United Financial, a savings loan and wealth services company with 16% of shares outstanding on loan.

**People's United Financial Inc**



Source: Markit

With exposure to fall out due to **possible energy exposure**, Texas based regional bank Cullen/Frost continues to attract short sellers with 15% of its shares outstanding on loan.

**Cullen/Frost Bankers Inc**



Source: Markit

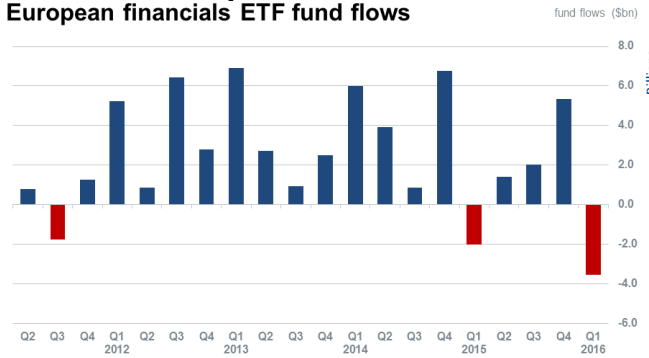
With 14% of shares outstanding on loan alternative lender LendingClub has attracted increasing levels of short interest since mid-2015.

**Lendingclub Corp**



Source: Markit

**ETF investors pull funds from financials**  
**European financials ETF fund flows**



Source: Markit

The largest quarterly outflow from financial ETFs was recorded in 2016 as investors pull funds from the sector. However, with some strong weekly inflow since the end of February, ETF investors may be buying on recent weakness.

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