

Shale oil spilling over into regional banks

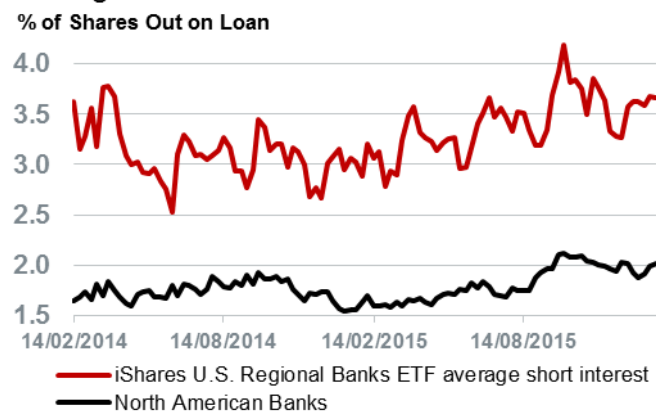
Signs of pressure are emerging in North American Banks who financed the boom in shale oil. Sustained low oil prices are forcing banks to cut credit lines and make provisions which are in turn attracting short sellers.

- Regional banks attract 30% higher levels of shorting activity in 2016, led by Texas
- 10% of Texan bank Cullen/Frost sold short as energy provisions take toll ahead of earnings
- Short sold Oklahoma based Bok financial, underestimates credit losses ahead of earnings

Last week saw US credit rating firm **Moody's** downgrade 175 oil and mining firms as prices of crude and other commodities continued to hover at decade lows. Credit downgrades immediately impact financing costs at a time when these companies can least afford it. This resurfaces old questions around the uncertain impact of credit exposure faced by the US banking sector both directly through loans to oil firms and **indirectly** through slowing economic activity.

While major US banks recently **disclosed** the damage caused to date by their respective exposure to US Energy as they provisioned for bad loans, questions still **circle** over the mark-to-market standards in the wake of oil's decade low slump. This has seen short sellers circle banking institutions with regional banks leading the negative sentiment.

Average short interest



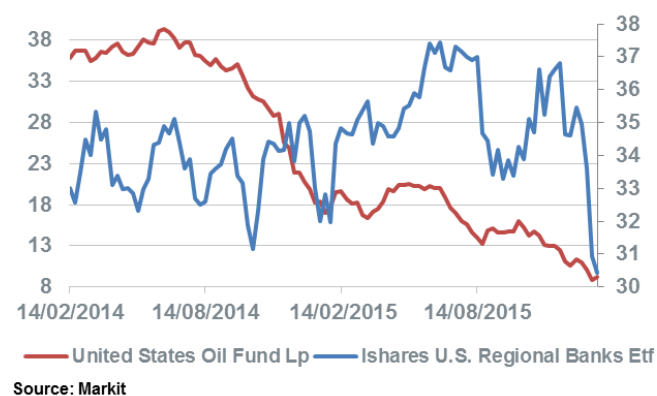
Source: Markit

Since the beginning of 2015, average short interest across North American banks has

increased by 30%, reaching 2% of shares outstanding on loan. Regional banks have led the surge forward with the firms that make up the iShares US Regional Banks ETF now seeing 3.5% of their shares out on loan, up from 2.5% in early 2015.

The link between these institutions and sliding oil prices is evidenced by the recent selloff in the iShares U.S. Regional Banks ETF. The ETF has fallen 13% year to date roughly in line with the US Oil Fund ETF which is down almost 16% year to date.

US regional banks vs oil: ETFs



Shorts bank on Texan shale shorts

Texas regional banks are leading the rise seen in shorting activity. Average stock on loan across the 13 banks that are domiciled in the state over the past 12 months showed an average of 3.6% of shares outstanding on loan.

The most shorted regional Texan bank is San Antonio based Cullen/Frost. Short sellers

have built up \$246m in positions as the bank's shares have started to show signs of weakness. The bank recently **announced** 2015 loss provisions for the fourth quarter of \$34m due to energy sector exposure. The firm is expected to release earnings this week.

Cullen/Frost Bankers Inc



Texas Capital Bancshares which reported earnings last week has seen its stock fall 32% with earnings rising **despite** "significant additional provisions from the adverse credit migration primarily in the energy portfolio". Short sellers have trimmed positions in the stock lower to 4.1% of shares outstanding on loan.

Texas Capital Bancshares Inc



Shale troubles extend outside of Texas

Oklahoma based Bok Financial **cited** "credit grade migration and increased impairment in our energy portfolio" when updating shareholders on their underestimation of

credit losses, totalling \$22.5m on January 13th 2016. Shares in Bok have dived 32% in 2016.

Bok Financial Corp



The recent nosedive by shares in Bok Financial has seen short sellers increase their positions, with shares outstanding on loan rising to 6.5% ahead of earnings which are expected on January 27th 2016.

Top 10 Most Shorted North American Regional Banks (22 January 16)

Name	Ticker	Short Interest	Change over Month	Quantity on loan (m)	YTD change
Canadian Western Bank	CWB	33.2	20%	27	-8%
Westamerica Bancorp	WABC	16.6	24%	4	-11%
People'S United Financial Inc	PBCT	16.2	-2%	50	-14%
Cullen/Frost Bankers Inc	CFR	10.8	5%	7	-26%
First Financial Bankshares Inc	FFIN	10.2	5%	7	-13%
Bank Of Hawaii Corp	BOH	9.0	-7%	4	-9%
United Bankshares Inc	UBSI	8.8	-3%	6	-10%
Ofg Bancorp	OFG	8.7	-16%	4	-25%
Hancock Holding Co	HBHC	7.7	-4%	6	-11%
Bok Financial Corp	BOKF	6.5	23%	4	-21%

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

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