

Shorts eye further pain in the grocery aisle

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US listed grocery stocks are coming under renewed scrutiny from short sellers since the Whole Foods acquisition by Amazon

- Average shorting activity across US grocers highest in more than 2 years
- United Natural Foods is most shorted with 15% of shares on loan
- Short sellers take aim at retail giant Target

The ink on the Whole Foods takeover deal is barely dry, but the changes implemented by the grocer's new parent company are already rewarding short sellers.

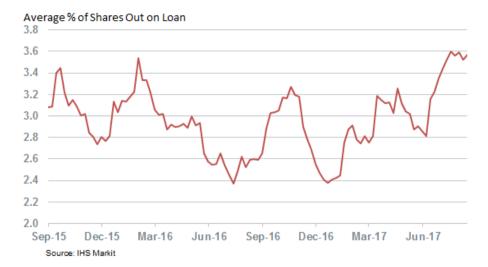
On its first day under the stewardship of Amazon, Whole Foods slashed prices across the board. Observers interpreted this as an attempt to aggressively capture market share in the hyper-competitive grocery sector.

The sector's incumbent players came out with bruises: shares of US grocers fell by 2% on average during Monday's trading. Amazon shares on the other hand were flat that day.

Monday's volatility marks the latest chapter of turbulence for US grocers. They have lost an average of 12% in share value since the Amazon deal was announced. Amazingly, all but one of the sector's stocks are now trading lower.

These recent headwinds have been painful for the sector, but there may be much more in store. Short sellers increased their positions in US grocers by 25% over the last few weeks. This surging tide of negative sentiment buoyed the sector's average short interest to 3.6% of shares outstanding, the highest in more than two years.

US Grocers



Short sellers have been handsomely rewarded by these contrarian bets – they generated around \$56m in paper profits on Monday alone.

Whether or not shorts pare back their trades remains to be seen. But a protracted price war against a well-capitalized disruptive competitor is the type of scenario that typically attracts short sellers.

Short interest rises across the board

Short sellers have been indiscriminate in targeting grocers since the Amazon-Whole Foods deal. Almost all of the 25 North American grocers have seen an increase in shorting activity since mid-June.

United Natural Foods, which is one of Whole Food's main suppliers, is the current high conviction grocery short. The company has seen a 43% jump in the demand to borrow its shares since the takeover came to light. And the news that Amazon is aggressively cutting costs sent its shares to a seven year low on Monday.

United Natural Foods Inc



Sprouts Farmers Market, which operates in the same organic niche, also attracted a fair share of shorting activity. More than 5% of its shares are now on loan.

The other developing short to watch in the sector is Target. Demand to borrow the retailer's shares doubled since June, and the retailer now has more than \$1.6bn of short positions.

Target Corp



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