



Shorts eye further pain in the grocery aisle

Wednesday, August 30th, 2017

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

Average % of Shares Out on Loan



Source: IHS Markit

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



Source: IHS Markit

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



Source: IHS Markit

Contacts:

Simon Colvin

Analyst

+44 207 264 7614

Simon.colvin@ihsmarkit.com

For further information, please visit www.ihsmarkit.com

Disclaimer

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.