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Markit Commentary

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Shorts target shipping amid rate collapse

The shipping industry dynamics have gone from bad to worse as freight rates, oil and dry, continue to plummet; attracting short sellers to ship fleet operators.

— Maersk sees short interest double to levels not seen since financial crisis
— Short sellers most active in energy exposed names as contango trade loses steam
— North American Tanker sees record high short interest despite better than expected results

Chinese data adds to shipping woes

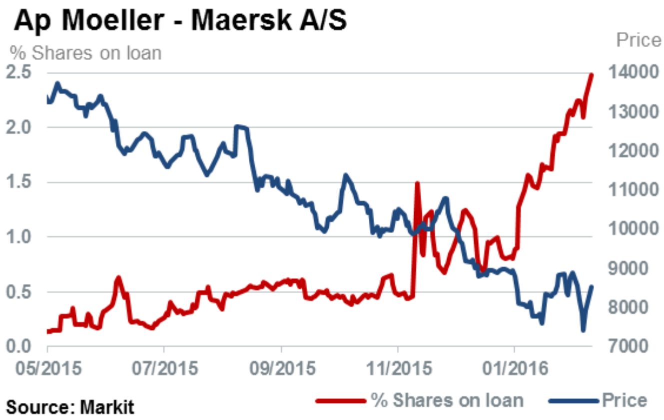
Weak trading data out of China this week highlights continued falling demand within and from the most important nation in global trade. Weak demand from China has seen freight rates continue to hit **new lows**, something which is starting to take a toll on **ship owners**.

The bad news is also starting to seep into oil tanker firms, which have been sheltered from the worst of the industry's slump due to demand to charter ships as floating storage in **contango trades**. However sustained weaker commodities and energy markets has created **volatility** in rates, squeezing margins on the one industry bright spot.

This worsening industry outlook has seen short sellers circle with short interest across the sector surging to new recent highs.

More ships due, déjà vu

The world's largest shipping group Maersk stands as a good example of the industry's current woes. Its fleet represents ~15% of the world's shipping fleet - **almost 600 ships** and 3Mn twenty-foot equivalent units (TEU). The firm recently reported that the conditions it currently faces are worse than during the financial crisis. Maersk shares are down 45% over the last 12 months and short interest is at the highest levels seen since 2009 with 2.5% of shares out on loan, rising 200% year to date.



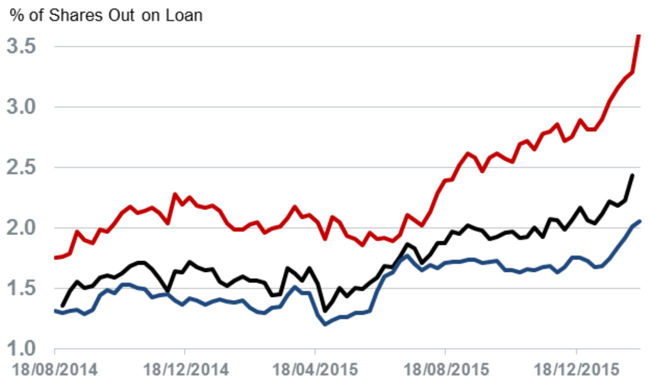
Maersk's container shipping business is expected to perform "significantly below last year as a consequence of the significantly lower freight rates into 2016" - however the company still expects "seaborne container transportation to increase by 1-3%". The firm's recent quarterly loss of $2.5bn was heavily impacted by **write downs in its oil assets**. The downturn looks to have caught the firm off guard as it has yet to take delivery of 27 new ships on order.

Energy shipping shorts breakout

The surge in Maersk short interest is representative of the wider demand to sell shipping firms short across the world. The ~140 global shippers with a market cap greater than $100m cap have seen average short interest rise to new highs.

Most of the recent surge has been driven by shipping firms in the energy sector as these firms have seen demand to borrow their shares rise to 3.6% on average, twice the levels seen before oil prices started to collapse 18 months ago. 'Industrial' shippers have however seen average short interest rise to just above 2% of shares outstanding on loan, below the average for global shippers of 2.5% despite the fact that the collapse in shipping rates predated that of the contango trade.

Average short interest: shipping



Source: Markit

Most shorted shippers

Hornbeck Offshore Services was among the most shorted ahead of earnings **last week** with almost a quarter of its shares sold short, and is due to report fourth quarter results on the February 17th 2015. The company has 'stacked' (temporarily decommissioned) half its fleet as these served the oil and gas exploration activities, which have been curtailed.

Hornbeck Offshore Services Inc

Source: Markit

With a high cost to borrow, short sellers are currently prepared to pay more than 10% to short Nordic American Tanker which has 17% of its shares outstanding on loan. This is despite the company, which benefited from increased transport of oil, posting its **strongest full year cash flow** to date.

Nordic American Tanker Ltd

Source: Markit

Reporting an **extraordinary** loss for the fourth quarter of 2015, Japanese shipper Mitsui Osk has seen short seller's double positions in the shipper over the last 12 months as freight rates **continue to dive**.

Mitsui Osk Lines Ltd

Source: Markit

Year to date short interest has risen almost fourfold in Kirby Corp with 8% of shares outstanding on loan. The operator of the largest inland and offshore tanker barge fleet in the US has seen shares sell off by a third as the firm posted its first revenue decline since the financial crisis.

Source: Markit

Top 10 Most Shorted Global Shipping 15 February 16)

Name	Ticker	Sector	Short Interest	Change over Month	Quantity on loan (m)	YTD change
Hornbeck Offshore Services Inc	HOS	North America Energy	23.9	6%	9	-42%
Nordic American Tanker Ltd	NAT	North America Energy	16.7	5%	15	-20%
Pacific Basin Shipping Ltd	2343	Asia Transportation	10.6	13%	206	-26%
Gaslog Ltd	GLOG	North America Energy	10.3	1%	8	-15%
Mitsui Osk Lines Ltd	9104	Japan Transportation	9.9	7%	119	-34%
Ship Finance International Ltd	SFL	North America Energy	9.0	14%	8	-29%
China Cosco Holdings Co Ltd	1919	Asia Transportation	8.7	-5%	225	-24%
Hyundai Merchant Marine Co Ltd	011200	Asia Transportation	8.2	1%	18	-37%
Kirby Corp	KEX	North America Transportation	7.9	278%	4	2%
Kawasaki Kisen Kaisha Ltd	9107	Japan Transportation	7.4	84%	70	-30%

Source: Markit

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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