» **Print**

US budget pact sends European shares to 20-mth high

Wed, Jan 2 2013

* FTSEurofirst 300 up 2.1 pct to 20-month high

* U.S. budget deal allays recession risk, but new jitters expected

* Euro STOXX 50 "overbought" as it rises 2.9 pct

By Francesco Canepa

LONDON, Jan 2 (Reuters) - A last-minute U.S. budget deal sent European shares to 20-month highs on Wednesday, pushing some regional indexes into "overbought" territory and leaving them vulnerable to a pullback.

The agreement to avert steep austerity measures in the world's largest economy triggered a rally in assets that depend on economic strength, such as equities, but the deal was only a partial fix to the country's budget woes.

The pan-European FTSEurofirst 300 index closed 2.1 percent higher at 1,157.40 points in the first trading session of the year, led by shares in the cyclical basic resources sector.

The Euro STOXX 50 rose 2.9 percent to 2,711.25 while the Euro STOXX 50 Volatility Index, which measures option prices on euro zone blue chips and is regarded as a measure of stock market risk aversion, dropped 14 percent.

Further U.S. political showdowns are expected over the next two months, however, all of which could dent investor sentiment and result in increased share price volatility.

"We'll see a few more days of euphoria but then the reality will set in," said Mike Turner, head of global strategy and asset allocation at Aberdeen Asset Management, adding he would sell futures contracts on major indexes at the first sign of fresh political jitters.

The STOXX Europe 600 index, the euro zone Euro STOXX 50 and Germany's Dax moved into "overbought" territory on their 20-day Relative Strength Index, a momentum indicator, meaning that some short-term sellers may start to take profit on the indexes in the coming days.

Charts on the STOXX 600 also showed the pan-European gauge closed at a resistance level, 285, that capped the index twice in May 2011.

"If you're long, you should stay long and set a stop loss, but if you're not long it's pretty dangerous to buy now," Valerie Gastaldy, the head of Paris-based technical analysis firm Day-By-Day, said.

"If we consolidate now it will not be a very steep fall, but if we get to (the 2011 peak at) 292, that will be really overstretched."

She recommended setting a stop loss at 281, the higher end of a gap between Wednesday's open and the previous session's high.

STRONG START

Traders also said Wednesday's gains had to be taken with a pinch of salt because the first trading day of each year tends to produce share price rises as new money is put to work.

London's FTSE 100, up 2.2 percent on Wednesday, averaged a rise of around 1.2 percent on the first trading days of the last 12 years, according to Thomson Reuters data.

The new money was also visible in a pick-up in trading volume, which was broadly in line with the 90-day average on all major indexes after wafer-thin activity during the Christmas period.

The STOXX 600 rose 14.4 percent last year, outperforming its U.S. peer, the Standard & Poor's 500, as sentiment surrounding Europe improved thanks to bold promises by the European Central Bank to defend the shared currency.

U.S. funds invested in European shares raked in a net $5 billion in 2012, reversing sharp outflows since the start of the euro zone debt crisis, Lipper data showed.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to colleagues, clients or customers, use the Reprints tool at the top of any article or visit: www.reutersreprints.com.