FTSE 100 hits highest level since May 2008 on earnings optimism

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By Alistair Smout

LONDON (Reuters) - The FTSE 100 hit their highest level since May 2008 on Wednesday, with gains led by banking stocks and miners after a reassuring start to the U.S. earnings season boosted demand for riskier assets.

The FTSE 100 broke through a near two-year high at 6,105.77 in afternoon trade, following a strong opening on Wall Street, peaking at 6,112.27, before settling to close up 45.02 points, or 0.7 percent, at 6,098.65

Miners rose 0.8 percent, posting their first gains in a week, as investors welcomed news that Alcoa, the largest aluminium producer in the United States, saw improved revenues in the fourth quarter and offered a positive outlook for 2013 after the Wall Street close on Tuesday .

"The FTSE's got stronger as the day's gone on, and volume is better than it has been in the last week or so. The U.S. has been able to react to those Alcoa numbers fully, which has helped us out here," Will Hedden, sales trader at IG Index, said.

Banks added over 20 points to the index, with Lloyds Banking Group the best performer, up 4.9 percent as traders cited the impact of a UBS upgrade to "buy" from "neutral" with an increased target price of 60 pence.

"We think Lloyds will deliver rising margins, falling costs and falling provisions, which will provide a very strong upswing to profitability and EPS momentum over the next few years," UBS said in a note.

Before the Bank of England's monetary policy meeting tomorrow, traders cited rumours that the central bank may engage in further easing as sterling dropped to a near six-week low against the dollar.

A weaker sterling supports exporters and those with overseas business, such as miners and energy, whose main products are priced in dollars. Energy stocks added 11.3 points to the index.

However, speculation of further monetary stimulus reflects the weak state of the domestic economy, which is impacting UK retailers. J Sainsbury lost 2.9 percent and relinquished the previous session's advance as it issued a trading update which prompted Seymour Pierce to cut its rating on the stock to "reduce".

Britain's No. 3 supermarket met forecasts for underlying sales in the final quarter of 2012 but growth slowed from its first half in a highly competitive festive season market.

"We suspect Sainsbury will struggle to outperform in 2013 as Tesco continues its fightback and there is some margin vulnerability as momentum slows," Seymour Pierce said in a note.

BEARS NOT MUCH IN EVIDENCE

The FTSE resumed a rally that took it to its highest closing level since early February 2011 on Friday, having slipped on Monday and Tuesday of this week.

The index is now up 3.4 percent for 2013 only a week into the year, just over half the total 2012 gain of 5.8 percent.

Valery Gastaldy, who heads up Paris-based technical analysis firm Day By Day, said the strong close above 6,090 showed that the FTSE's uptrend was on track after a couple of days of consolidation.

"What is interesting is that we've reached an important resistance area for the index, at 6,100, but the market has not seen a strong reaction yet. We could have had a 2 percent drop immediately, but we're still seeing buying pressure even though it is at a strong resistance," she said.

"At this important resistance level, the bears don't seem to be taking over."

(Additional reporting by Tricia Wright; editing by Stephen Nisbet)