European shares hit 5-month low on euro break-up fears

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* FTSEurofirst 300 down 1.2 pct, Euro STOXX 50 down 1.3 pct
* Spain's Bankia down 14.1 pct on deposit run fears
* Euro zone banks index down 2.7 pct to all-time low

By Francesco Canepa

LONDON, May 17 (Reuters) - European shares hit multi-month troughs and a key banking index its lowest mark ever on Thursday, falling for a fourth straight session as an escalating banking crisis in Spain fuelled broader concerns about a euro zone break-up.

Shares in nationalised Spanish bank Bankia fell 14.1 percent following a newspaper report - denied by the government - that customers had withdrawn 1 billion euros ($1.27 billion) from the lender over the past week, sparking speculation about a run on the troubled bank.

The El Mundo report added to fears that an expensive, government-led reform of the Spanish banking sector would push the country's financing costs - also driven higher by undimmed concerns that Greece could quit the euro - to unsustainable levels.

"The contagion risk exists and it is real," a London-based banking analyst said. "While the noise of the day is around a possible run on banks deposits, I think a run on the country has been going on for months in the debt markets and private capital is already exiting Spain."

Spain's benchmark Ibex 35 index fell 1.1 percent to its lowest level since 2003 and the country's medium-term borrowing costs rose sharply at a bond auction, while data confirmed the country had slipped back into recession during the first quarter.

The pan-European FTSEurofirst 300 closed 1.2 percent lower at 981.43 points while the Euro STOXX 50 index shed 1.3 percent to 2,146.91 points, hitting fresh five- and six-month closing lows, respectively.

The declines pushed more indexes into "oversold" territory on their 14-day Relative Strength Indexes and the valuation level of the euro zone blue-chip index fell to a near five-month low of 8.5 times 12-month forward earnings, Thomson Reuters data showed.

But chartists suggested there was scope for further falls.

"The market is taking us down very slowly, which shows there is no panic... and there are still people who are long," Valerie Gastaldy, head of Paris-based technical analysis firm Day-By-Day said.

"This means you don't have a big enough short base to fuel a major rebound and the decline is likely not over yet."

The Euro STOXX 50 index was facing technical support levels at around 2,065 and 1,936 points, corresponding to lows hit in November and September, respectively.

EURO STRESS

The euro zone blue chip index is down 3.6 percent since elections in Greece earlier this month delivered no clear majority and parties opposing the terms of an international bailout for the country gained popularity, raising the prospect of the country's exit from the euro zone.

Euro zone banks were regarded as most at risk in case of a Greek exit from the euro zone, suffering both from direct losses on their holdings of Greek debt and from tensions in the wholesale funding market and the risk of deposit runs.

The STOXX 600 Euro zone banking index fell 2.7 percent to an all-time trough of 79.41 points.

"Euro stress is back," Trevor Greetham, asset allocation director and portfolio manager at Fidelity Worldwide Investment, said in a note to clients. "A lack of policy coordination is raising fears of a Greek euro exit and contagion to other peripheral economies."

Fidelity's Investment Solutions Group, which manages $42.9 billion of assets, was very underweight continental European stocks as a "hedge" against a scenario in which an escalating euro zone crisis derailed economic recovery.

The strategy remained bullish on global equities, with "overweight" stances on North American and UK stocks, on hopes the economic cycle would continue to improve from last

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September's lows, albeit with underperformance in Europe.

While U.S. economic indicators have generally been upbeat recently, expectations of a steady recovery in the United States were dealt a blow on Thursday when data showed factory activity in the U.S. mid-Atlantic region unexpectedly contracted in May to its weakest in eight months, suggesting growth in the world's largest economy was still fragile.

U.S. stock indexes extended losses after the data and were trading between 0.5 percent and 0.6 percent lower by the European close.

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