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European equities cheered by US data, caution remains

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* FTSEurofirst 300 up 1 pct, Euro STOXX 50 up 1.8 pct

* U.S. jobs data boosts miners, autos

* Muted volumes, put appetite underscore caution

By Toni Vorobyova

LONDON, Oct 5 (Reuters) - European equities powered higher on Friday, propelled by a strong U.S. jobs report which reassured investors about the health of the global economy and opened the door for a further short-term rise in miners and industrials.

The U.S. unemployment rate unexpectedly dropped to its lowest in nearly four years in September, welcome news for European corporates increasingly looking abroad for profits as their own region faces recession.

That helped the pan-European FTSEurofirst 300 provisionally finish 1 percent higher at 1,111.65 points, while the EuroSTOXX 50 index of euro zone blue chips gained 1.8 percent to 2,531.21 points.

"The figures were better than expected and it's carrying markets up. Equities can still rally in the short term, ... maybe a couple of percent more," said Peter Garnry, equity strategist at Saxo Bank.

But he added that a run of strong economic data - and not just from the United States - would be needed to change the longer term outlook for equities:

"We think we are in the upper range ... You should take advantage of the volatility compression to buy some put options to hedge the downside risk."

Put options give the right to sell the underlying asset at a pre-set price, and are used to insure equity portfolios from a market retreat or as straight downside bets. Trade in such contracts on the EuroSTOXX 50 outnumbered calls, which bet on the upside, by 13 percent on Friday on the Eurex exchange.

The lack of conviction was underlined by relatively mute volumes. Activity levels on EuroSTOXX 50 reached 87 percent of their 90-day daily average. For a U.S. non-farm payrolls Friday, a typically very active day due to the importance of the data release, activity was the lowest seen this year.

FUNDAMENTAL RISKS, POSITIVE CHARTS

One longer term risk for the risk-on sentiment seen on Friday is that the stronger economic data could, in time, prompt the U.S. Federal Reserve to scale back its quantitative easing stimulus programme, anticipation and announcements on which were key in the equity markets' June to September rally.

The crisis in the euro zone, where Spain is holding back from seeking a bailout that would open the way for help from the European Central Bank, and the risk of weakness in the upcoming earnings season also kept investors in a relatively cautious mood.

Underscoring such risks, shares in Metro dropped 9 percent, the top faller on the FTSEurofirst 300, after the world's fourth largest retailer cut its earnings outlook for 2012 blaming the situation in the euro zone.

As a result, retailers were the only sector to finish the day in the red, down 0.3 percent.

On the flipside, autos, banks and basic resources were among the top gainers thanks to their sensitivity to risk appetite and global economic health.

In a mildly positive technical signal, their gains helped push the EuroSTOXX 50 through the 2,500 level, above which it had failed to close for the previous five sessions.

"We've had consolidation, and it's a strong base for the market to start growing again in the coming days," said Valerie Gastaldy, technical strategist at Day By Day, highlighting 2,580 as the next key resistance level on the upside.

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