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FTSE powers higher on growing Spain bailout hopes

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By [Tricia Wright](#)

LONDON (Reuters) - The FTSE 100 index notched up strong gains on Tuesday, and was on the cusp of breaking out of its recent trading range, as investors welcomed a media report saying Germany could adopt a softer approach towards financial aid to Spain.

The index was already firmly in positive territory, helped by solid U.S. corporate results and macro data, and a German ZEW survey pointing to a bigger than expected pick up in analyst and investor sentiment this month.

But it jumped higher when Bloomberg News reported that two German lawmakers said Germany is "open to Spain seeking a precautionary credit line from Europe's rescue fund."

A German lawmaker subsequently said the report had "overinterpreted" his comments.

"For me the real mover and shaker has been the shift towards getting even closer towards a Spanish bailout, and that's what the markets have been waiting for," Angus Campbell, head of market analysis at Capital Spreads, said.

"It's time to get back into risk assets."

Banking stocks were the best performers on Tuesday, led by a 6.1 percent rise in Lloyds Banking Group, with traders saying the bank was helped by reports late on Monday that Britain's financial regulator had given the green light for it to go ahead with a plan to bolster its finances by swapping assets with its insurance arm.

The FTSE 100 closed up 64.93 points, or 1.1 percent, at 5,870.54, adding to the previous session's 0.2 percent gain.

From a technical perspective, the prospects for the FTSE 100 are positive.

"We are on the verge of a breakout," Valerie Gastaldy, general manager of Paris-based Technical analysis firm Day by Day, said of the index, which has been stuck within a relatively narrow 200-point range over the past couple of months.

Gastaldy highlighted that throughout the consolidation seen since early August, the index has been subject to bullish pressure, with its troughs getting steadily higher.

"If we break above 5,932 (the Sept 14 high), that would be a clear signal - that would really confirm that the market is going to accelerate... and within a couple of days we'll be up at 6,100 (the 2011 high)."

GKN WEAK

While there appeared to be more optimism, the potential for downside risks was also illustrated, with GKN off 3.4 percent in hefty trading volume, after the car and plane parts maker said a sluggish European automotive market weighed on third quarter profit and that a continued slump could hurt the group for the remainder of the year.

Volume in GKN stood at 318 percent of its 90-day daily average, compared with 119 percent on the FTSE 100.

"Today's (update) alerts us to trends that are likely to deteriorate further in the fourth quarter and to spread to other geographies," Panmure Gordon said in a note downgrading its rating for GKN to "hold" from "buy".

"We have yet to see the word 'restructuring' but with strong comparables for first half 2013 earnings there is no let-up for GKN for at least another two quarters," the broker said.

(Reporting by Tricia Wright; editing by Ron Askew)



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