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STOCKS NEWS EUROPE-Recent complacency could bring more losses

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The drop in implied volatility of the Euro STOXX 50 index, which saw it hit the lowest level since March last week, signalled high investor complacency and it could fuel the market's sell-off triggered on Friday, analysts say.

The Euro STOXX 50 volatility index - Europe's main gauge of anxiety known as the VSTOXX based on put and call options on the Euro STOXX 50 - had dropped 20 percent in July and hit a four-month low last Thursday, while stocks had been moving sideways, an unusual decorrelation.

"Investors had decided that they would be better off with less hedging than before, and this happened even though the stock index was not confirming strength. This is complacency," Valerie Gastaldy, head of Paris-based technical analysis firm Day By Day, says.

"Despite (the fact) that indexes have already moved down very fast over two days, we believe there is a risk to move further down after a very short consolidation or recovery. The market is now vulnerable to a violent setback."

The Euro STOXX 50 has tumbled 5.7 percent in 3 days, and charts show the index is not technically 'oversold', with its relative strength index (RSI) at 41.

It pierced through its 50-day moving average on Monday - a major support level - and was unable to move back above it on Tuesday, sending a bearish signal.

On Monday, the index also broke an upward channel started in late May, and has now retraced more than 50 percent of the last two months' rally.

"By surrendering half of the gains made in the rally, it invalidates it, and confirms that this has been yet another bear-market rally," a Paris-based chartist says.

The next support level for the index is at 2,158 points, which represents the 61.8 percent Fibonacci retracement of the May-July bounce, followed by 2,121 points, a low hit in late June.

A number of European indexes are already in a clear bearish trend, such as Spain's IBEX, which hit a nine-year low on Monday, and the STOXX euro zone banking index, which hit a record low on Monday.

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