# Europe's resurgent pharma stocks ripe for retreat



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## * STOXX health care index up 18 pct in six weeks

* Index at levels not seen since 2007

* Momentum indicators show index strongly "overbought"

By Blaise Robinson

PARIS, Jan 9 (Reuters) - Europe's pharmaceutical stocks are ripe for a serious pull-back after an 18 percent jump in six weeks, chartists said on Monday, although the retreat would likely be a short-term correction rather than a change in trend.

The STOXX 600 health care index, home of bellwethers such as Sanofi, Roche and GlaxoSmithKline , on Monday hit a level not seen since mid-2007 after recently vaulting above a major resistance level representing a downward trendline formed by peaks in 2000 and 2006.

While fundamental factors such as strong pricing power, significant exposure to the U.S. and emerging markets and big dividend yields argue for a continuation of the rally, a batch of technical signals suggests a brief respite is more likely.

Among these, the index's 14-day relative strength index (RSI), a widely used momentum indicator, hit 80.7 last week -- an RSI of 70 and above is considered "overbought" -- and has since started to recede, sending a short -term negative signal.

"The sector has strongly outperformed the broad market lately and has become the biggest sector in terms of weight on the STOXX 600 index," TradingSat technical analyst Vincent Ganne said.

"It's been overbought since early December. It's now trading around key resistance levels from 2006 and 2007 ... it's clearly not good timing to buy these stocks in terms of risk/reward."

The chart's slow stochastic and moving average convergence-divergence (MACD), two short-term trend guides , also suggest a period of retrenchment .

Cracks were appearing on Monday, with the chart showing a bearish, engulfing pattern on the day's candlestick, when an index or stock rises higher than the previous session's high, loses momentum and closes lower than the previous session's low.

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During its bull run of the past six weeks, the sector index left a gap open on Dec. 30, which could become the first target for a potential pull-back of the sector, chartists said. This would represent a near-20 percent retracement of the recent rally.

A gap is a break between prices on a chart that happens when a stock makes a steep move, with no trading in between. Gaps left open will often be filled, with the stock price moving back to cover the empty trading range.

The potential retreat should be short-lived, however, as investors' appetite for healthcare stocks remains strong.

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