Banks lead 4th day of European share rally

Reuters, Thursday January 19 2012

* FTSEurofirst 300 ends up 1.1 pct
* Banks rally after debt auctions, US results
* Dax volume hits 4-month high

By Francesco Canepa

LONDON, Jan 19 (Reuters) - European shares advanced for a fourth straight session on Thursday as strong auctions of euro zone debt and encouraging results from top U.S. banks triggered a high-volume rally led by battered financial stocks.

Euro zone banks, which had fallen 38 percent last year on fears over their holdings of sovereign debt, rallied 7.4 percent after healthy demand for French and Spanish bonds, a sign of confidence in regional governments' ability to refinance their debt.

Also supporting the sector were fourth-quarter earnings from U.S. lenders Morgan Stanley, which beat market expectations, and Bank of America, which turned to a net profit from a loss the year before.

German lender Commerzbank jumped 14.8 percent after unveiling steps to plump up its capital cushion by the end of June, as demanded by European banking regulators as part of measures to protect banks from the debt crisis.

The lender led a rally on Frankfurt's Xetra DAX index , which ended up 1 percent on volume hitting a 4-month high in a sign investors were regaining appetite for German equities after particularly light trading over the Christmas period.

The trading surge on the Dax helped propel volume on the pan-European FTSEurofirst 300 index, which traded 137 percent its 90-day average, closing up 1.1 percent at 1,046.30 points.

The euro zone's blue-chip Euro STOXX index broke above a resistance level of 2,402 that it had been testing for three days, to close 1.9 percent higher at 2,435.04 points.

The euro zone gauge faces its next resistance level at 2,441 points, according to Valerie Gastaldy, head of Paris-based technical analysis firm Day By Day, who warns it would be premature to buy into the index until there are clearer signals of growing risk appetite on the euro-dollar rate, Germany's Bund and U.S. Treasuries.

"Stocks that have been weak, like financials, are going up and what has been strong is extremely overbought," Gastaldy said. "It's always risky to jump into such a move because there's a risk that the rebound among 'weak' stocks will not carry on for long."

DEFENSIVES TAKE HIT

Growing appetite for financials fuelled some profit-taking on defensive sectors such as utilities, healthcare and food & beverages, which tend to outperform when investors are more bearish.

Utilities were the worst performers, falling 0.5 percent, as investors steered clear of a sector characterised by limited earnings growth, high debt and possible tax increases as European governments try to increase their revenues to balance budgets.

"Utilities are very easy targets for politicians because they've got money and are perceived as monopolists," Vincent Gilles, an analyst with Credit Suisse, said.

"It's a very difficult picture for the sector and I don't think it's going to improve in the short term: the price environment is very hard in Europe and demand is weak, as the weather is warm and we're going into a more energy-efficient economy." (Additional reporting by Blaise Robinson, Harro Tenwolde; Graphics by Vincent Flasseur) (Editing by Erica Billingham)