European shares edge lower, led by banks, chemicals

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* FTSEurofirst 300 index off 0.1 percent
* Banks down, EU to make investors pay for bank failures
* Chemicals weaken on bearish JPMorgan note
* Subsea 7 dives; warns of Brazilian costs rising

By Tricia Wright

LONDON, June 27 (Reuters) - European share prices slipped back on Thursday following two days of sharp gains, led down by banks and chemical stocks, with many investors bearish about the near-term prospects for the market.

The FTSEurofirst 300 was down 0.1 percent at 1,148.36 by 1134 GMT, having gained 3.2 percent over the previous two sessions. The Euro STOXX 50 was down 0.1 percent at 2,599.14 points.

While policymakers have played down the prospect of the U.S. Federal Reserve beginning to wind down its bond-buying programme any time soon, after markets took fright at comments made last week, many investors remained cautious.

"I don't think there's any great rush (to buy equities). I think that the rally over the last couple of days, a large part of it was just that technicals had got quite oversold in the short term," said Ian Williams, market strategist at Peel Hunt.

"Earnings-based valuations have gone a long way without earnings really supporting ... some of the froth has come out of the market given the setback we've had ... but you need better bottom-up earnings momentum to drive valuations forward," he said.

Valerie Gastaldy, head of Paris-based technical analysis firm Day By Day, advised only buying the Euro STOXX 50 index for very short term horizons, saying that longer-term investors "should be quiet and wait for a buying opportunity".

"The problem I have is that I do not have standard signals for the end of the panic," she said.

The Stoxx Europe 600 banking sector index fell 1 percent, with traders citing the impact of a European Union agreement that investors and depositors should suffer in future bank bailouts.

"If you make unsecured bond holders and depositors liable for losses then it makes banks inherently more risky," Michael Hewson, analyst at CMC Markets, said.

Chemicals stocks were also pressured, with the Stoxx Europe 600 sector index down 0.8 percent after JPMorgan cut its recommendations on a number of firms.

Lanxess fell 4.7 percent, Solvay dropped 3.4 percent and BASF shed 3.1 percent after JPMorgan downgraded its ratings on the trio to "underweight" from "neutral", with materially reduced forecasts for 2014-2016.

But offshore engineer Subsea 7 was the stand-out faller, off nearly 16 percent, after the company cut its forecast for 2013 as it once again ran into cost overruns and delays at a large Petrobras project offshore Brazil.

In reaction, Exane BNP Paribas downgraded its rating on the company to "neutral" from "outperform". The stock saw hefty trading volumed - at more than eight times its 90-day daily average, against the FTSEurofirst 300 on around 30 percent.

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