European shares resume gains on stimulus hopes

Tue, Aug 14 2012

* FTSEurofirst 300 up 0.4 pct, Euro STOXX 50 up 0.6 pct

* Euro STOXX 50 tests long-term descending trendline

* Banks resume recovery, up 25 pct since Draghi's comments

* Risk appetite up; VIX hits 5-yr low, VSTOXX down 3.4 pct

By Blaise Robinson

PARIS, Aug 14 (Reuters) - European stocks rose in early trade on Tuesday, reversing the previous session's dip and resuming their three-week rise as tepid growth figures from Europe strengthened the case for further stimulus measures from the region's policymakers.

At 0916 GMT, the FTSEurofirst 300 index of top European shares was up 0.4 percent at 1,099.45 points, after losing 0.4 percent in the previous session.

Data showed on Tuesday that gross domestic product (GDP) in the euro zone shrank by 0.2 percent in the second quarter from the previous three months, and by 0.4 percent compared with a year earlier, in line with expectations. Earlier on Tuesday, data showed Germany had modest economic growth in the second quarter while France stagnated.

Banking stocks featured among the top gainers, with Banco Santander up 1.4 percent, UniCredit up 1.2 percent and Natixis up 0.9 percent.

The euro zone bank index, which was up 0.8 percent on the day, has jumped about 25 percent since European Central Bank President Mario Draghi said in late July the ECB was "ready to do whatever it takes to preserve the euro", triggering expectations of bold measures to help lower the borrowing costs of debt-stricken Spain and Italy.

"(Banking stocks) have initiated a reversal process, but we do not have the green lights yet," said Valerie Gastaldy, head of Paris-based technical analysis firm Day By Day.

"The sector is trying to cross a short-term resistance, testing the 50 percent retracement of the spring decline. This signal may be part of a slow medium-term reversal process."

The euro zone's blue chip Euro STOXX 50 index was up 0.6 percent on Tuesday, at 2,430.43 points, but was halted for a sixth day in a row by a strong resistance level, a long-term downward trendline formed by 2011 and 2012 highs.

FLAG PATTERN, LOW VOLUMES

Charts show the index has been forming a 'flag' over the past week, a technical charting pattern formed by swings within a narrow range in a mild consolidation trend.

The flag, one of the most reliable 'continuation' patterns, usually signals a pause in a rally with a drop in trading volume, before the index resumes its uptrend.

Volumes on the index have sharply dropped over the past two sessions to levels not seen since the holiday week in late December.

"Technically speaking, the trend has completely turned positive. We might get a 5-6 percent consolidation this week or next, but it won't change the broad picture. Buying the retracements has been a great strategy lately," said Riccardo Designori, financial analyst at Brown Editore, in Milan.

Despite the tight ranges for European and U.S. stock indexes over the past few days, investors' appetite for risky assets such as equities continued to recover. That was reflected in a 7 percent drop in the CBOE Volatility index, Wall Street's favorite measure of investor anxiety known as the VIX. It ended at 13.70 on Monday, its lowest closing level in more than five years.

The Euro STOXX 50 volatility index, Europe's main fear gauge known as the VSTOXX, was down 3.5 percent on Tuesday to a near four-week low of 22.60. It has tumbled about 40 percent since early June.

The lower the volatility indexes, the higher investors' willingness to invest in risky assets such as stocks.