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*** Sell-off wipes 400 bln euros off European stocks**

* FTSEurofirst 300 down 3.3 pct, worst week since May 2010

* Volatility index's surge to continue

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By [Blaise Robinson](#)

PARIS, Aug 4 (Reuters) - European stocks tumbled on Thursday, with a key index of blue chip companies from the euro zone dropping to a two-year low, as investors dumped equities across the board in response to sluggish global growth and Italy's debt troubles.

Banking stocks were hammered, with Barclays losing 7.8 percent, UBS down 6.4 percent and UniCredit down 9.33 percent.

Mining and industrials stocks, which had shown resilience over the past few months while the broad market drifted lower, took a serious beating, with global miner Xstrata dropping 8.5 percent and Airbus maker EADS sinking 6.1 percent. Carmaker Fiat ended down 10 percent.

The euro zone's blue chip Euro STOXX 50 index fell 3.3 percent to 2,414.97 points, its lowest since mid-2009.

The FTSEurofirst 300 index of top European shares closed 3.3 percent lower at 993.35 points, plunging below the 1,000 mark for the first time in 12 months.

"The fact is: we don't see big volumes in the options market with people buying protection. Investors are massively getting out of stocks, period. And it might take a while before they come back," said Jean-Yves Dumont, head of asset allocation strategy and funds, Dexia Asset Management.

"People are realising that the peripheral euro zone crisis hasn't been properly addressed yet, and today's European Central Bank press conference has done nothing to reassure the market. We're facing the risk of another confidence crisis like the one we got when Lehman collapsed."

The buying of Portuguese and Irish bonds by the European Central Bank on Thursday did little to ease the fears about the health of the euro zone, with the Italian 10-year government bond yield premium over German benchmarks rising to a euro lifetime high.

MASSIVE WIPEOUT

The sell-off in European equities this week has wiped more than 400 billion euros (\$566 billion) off the market capitalisation of German, British, French, Italian, Spanish and Dutch blue-chips indexes.

This is bigger than Switzerland's GDP last year and almost the size of the 440 billion euro capacity of the rescue fund set up by the European Union.

The euro zone's main benchmark indexes, including the industrials-heavy DAX have fallen between 8 and 11 percent so far this week, on track to post their worst weekly losses since May 2010.

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On Thursday, Italy's blue chip FTSE MIB ended down 5.16 percent, according to Reuters data, its lowest close since April 2009.

The Euro STOXX 50 volatility index, Europe's main barometer of anxiety known as the VSTOXX index, surged 17 percent to a near-five month high at 34.6, but remained well below a peak of 54.6 hit in May 2010 during the first wave of the Greek crisis.

The VSTOXX could continue to surge, said Valerie Gastaldy, head of Paris-based technical analysis firm Day By Day.

"Implied volatilities have been very quiet in recent months, despite the intense agitation of equity markets. Inter-market arbitrages are clearly under way: between the CDS, bonds and equities, and especially on the Euro STOXX 50," she said.

"Some argue that the relative calm (of the VSTOXX) is due to arbitrage. But people forget that in arbitrage, nothing is stable when the markets shift, especially in volatility arbitrage. The Euro STOXX 50 breaking below the major support of 2495 points would unbalance the books." (Reporting by Blaise Robinson. Editing by Jane Merriman)

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 +0.77%

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 97.58
 -0.11%

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