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Banks, miners set up European shares for weekly gain

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Fri Apr 20, 2012 7:43am EDT

* FTSEurofirst 300 up 0.4 pct, poised for 1st weekly gain in a month

* Euro STOXX 50E up 1.2 pct, boosted by banks

* Dax outperforms after lfo

By Francesco Canepa

LONDON, April 20 (Reuters) - European shares were heading for their first weekly gain in nearly a month on Friday, boosted by a rebound in financial and basic resources stocks.

The pan-European FTSEurofirst 300 index was up 0.4 percent at 1,044.98 points by 1046 GMT, while the euro zone blue-chip Euro STOXX 50 index rose 1.2 percent to 2,311.58.

The FTSEurofirst 300 was up 17.6 points from last Friday's close, although this offset just a fraction of the 79 points shed in the previous four weeks, when concerns about Spain's deficit raised fears of a resurgence of the euro zone debt crisis.

"I think the selloff is overdone ... all the fundamentals still look very good," said Daniel McCormack, a strategist at Macquarie Securities. "Spain will generate a little bit of volatility over the next six months but the pressure on the market is really forcefully up."

McCormack sees 16 percent upside on European shares over the next 12 months, based on improved earnings momentum and a resilient global economy, which he saw as a more important driver for European earnings than domestic troubles.

A Reuters poll forecast global growth at a relatively modest 3.3 percent this year. However, average 12-month forward earnings estimates for global equities stopped falling in January after 7 months of steady downgrades, Thomson Reuters Datastream data showed.

McCormack said his biggest "overweight" was on mining stocks, expecting them to benefit from an economic soft landing in China, the world's largest metals consumer.

Analysts also saw bullish short-term technical momentum on European equities after the pan-European STOXX 600 index, up 0.4 percent at 257 points, bounced off support in the 250 area.

"A breach of the 250 support would trigger a sharp fall as the channel would mute into a flag pattern (very bearish)," Valerie Gastaldy, managing director of Paris-based technical analysis firm Day-By-Day, said in a note. "But if we do not see this strong sell signal, the current shape is one of a short-term recovery."

Euro zone banks drove the rebound on Friday, jumping 2.6 percent led by France's BNP-Paribas and Societe Generale, up 4.5 percent and 5 percent, respectively

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Shares in the French majors, which had fallen 19.7 percent and 23.9 percent since the start of the month, were boosted by upgrades from BofA Merrill Lynch.

"We believe that the valuation ratios are factoring in the uncertainties on business model and profitability related to the upcoming French elections as well as elevated sovereign risks," BofA-ML said in a note on BNP Paribas.

A factor to watch going into the weekend was this weekend's International Monetary Fund meeting this weekend, with [Brazil](#) demanding more power at the Fund for emerging economies as a condition for lending it extra cash to handle the repercussions of the euro zone debt crisis.

DAX STRENGTH

Around Europe, Germany's Dax, up 1 percent, was the best performer among core European national indexes after data showed German business sentiment rose unexpectedly for the sixth month in a row in April, in a sign that Europe's largest economy continues to outpace peers.

The Dax has been the best euro zone performer year to date, helped by exporters benefitting from growth in the emerging markets and the United States, such as Daimler and BMW, up around 20 percent and 30 percent year to date, respectively.

"The DAX is likely to continue its outperformance unless there is a sharp slowdown in emerging markets (China in particular)," BNP-Paribas Corporate and Investment Banking said in a note to clients. "The recent easing measures in Asia are likely to support further growth."

The bank added German banks were in a better shape than their peers in the Euro STOXX 50 index, facing less pressure to de-leverage and benefitting from a stronger domestic economy.

It recommended using derivatives to bet on a 5 to 10 percent Dax outperformance versus the euro zone gauge by July.

NOKIA

Shares in Nokia were down 4.5 percent, among the worst performers in Europe excluding stocks affected by ex-dividend factors, which included Norway's largest insurer Gjensidige, down 6.3 percent.

The struggling Finnish cell phone maker was hit by a string of price target cuts by brokers and banks including UBS, Bernstein and Natixis after the group unveiled a first-quarter net loss of 1.6 billion euros on Thursday.

"The company is in a much worse situation than we thought ... a few weeks back," Bernstein said in a note.

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