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European shares sell off as US outlook worsens

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Fri May 4, 2012 12:49pm EDT

* FTSEurofirst 300 down 1.7 pct, Euro STOXX 50 down 1.7 pct

* Weak U.S. jobs data cast shadow on recovery

* Miners lead cyclical selloff in afternoon

* Nokia down 10.5 pct after chairman change

By Francesco Canepa

LONDON, May 4 (Reuters) - European shares fell sharply on Friday and looked poised for further hurdles after worse-than-expected jobs data from the United States dealt a fresh blow to recovery expectations for the world's largest economy.

Cyclical stocks led a selloff in the afternoon, when data showed U.S. employers cut back on hiring in April, raising further doubts about economic momentum in Europe's largest export market after an already weak services sector report on Thursday. (ID:nL1E8G414Y)

"The current slowdown in employment is consistent with the soft trend in the economy," Claudia Panseri, a strategist at Societe Generale in Paris said.

"We were expecting a slowdown in the second quarter and now we're expecting slower corporate profit growth, as well."

Panseri expected U.S. corporate earnings to be nearly flat in the United States and contract by 12 percent in Europe this year.

This compares to forecasts for 6 percent earnings growth in Europe and 12 percent on the other side of the Atlantic, according to Thomson Reuters Starmine data.

Against a bearish macroeconomic backdrop, Panseri was "negative" on equities, especially in the euro zone, and had an "underweight" stance on the basic resources sector, which is heavily dependent on the global economy and was the worst performer on Friday, with a 3.9 percent fall.

It weighed on the pan-European FTSEurofirst 300 index, which closed down 17.24 points, or 1.7 percent, to 1,027.15 points, while the Euro STOXX 50 index fell 38.76 points, also 1.7 percent, to 2,248.34.

Having dropped 95.68 points in the past five sessions, the Euro STOXX 50 largely wiped out gains accrued in the previous two weeks and was close to a four-month low hit in April.

Charts pointed to further downside on the euro zone blue-chip index after it breached a bullish technical pattern known as 'reversed head and shoulders', formed by a major drop - known as a head - between two smaller falls, or shoulders, according to Valerie Gastaldy, head of technical analysis firm Day-by-Day.

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The breach meant the index was now heading towards a minor support at 2,238, equivalent to April's low, followed by a major support at 2,131, which was last hit in November, before the European Central Bank's cash injection drove equity markets higher.

BANKS BEAT

Corporate earnings provided some respite, with France's largest bank, BNP Paribas, and UK State-backed Royal Bank of Scotland both beating analyst estimates with their first-quarter reports.

Improved capital markets in the first three months of the year allowed the two banks to step up their asset shrinking programmes in a bid to comply with new regulatory requirements.

(ID:nL5E8G44DH)

But a race to deleveraging by banks across Europe was raising concerns that institutions were cutting lending to enterprises and households and choke recovery attempts in a region already suffering from austerity measures.

Europe's drive to cut government spending hit the first quarter results of Wacker Chemie, the world's second-biggest maker of polysilicon, a key component needed to make solar cells.

The German group saw its margins fall in the first three months of the year due to reduced government incentives for solar power as well as cheap competition from Asia, sending the shares down 6.1 percent in volume nearly twice the average on Friday. (ID:nL5E8G40I2)

Struggling handset maker Nokia was Europe's biggest fallers, shedding 10.5 percent on its first day of trading after the company's annual general meeting on Thursday elected Risto Siilasmaa to replace Jorma Ollila as chairman of the board.

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