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# China stimulus talk lifts European shares

Thu, Sep 27 2012

* FTSEurofirst 300 up 0.4 pct, Euro STOXX 50 up 0.3 pct

* China stimulus expectations spur rebound in mining shares

* Uncertainty about Spanish reforms keep gains in check

* Bearish E-STOXX 50 chart points to 1.6 pct downside

By Francesco Canepa

LONDON, Sept 27 (Reuters) - European shares closed a touch higher in thin trade on Thursday, lifted by expectations of economic stimulus in China, but uncertainty about Spain's fiscal reforms kept gains in check and investors braced for new market jitters.

Heavyweight basic resources stocks rose 1.1 percent after China's central bank injected cash into its money markets and traders speculated it may also take steps to boost the country's weak stock market.

China is the world's largest consumer of metals and a key source of demand for the basic resources sector, which fell 2.6 percent on Wednesday. It is down 1.9 percent year to date on concerns about the scale of the country's economic slowdown.

Trading in the broader market was choppy throughout the day, however, as the Spanish government repeatedly postponed a press conference aimed at unveiling economic reforms to help reduce its budget deficit.

Traders were looking for any sign the Spanish government was taking steps to meet conditions for an international bailout, which would pave the way for monetary support from the European Central Bank.

"I'm on tenterhooks. We're not going to find out the details of what (the Spanish government) says for three or four days, when the big budget document comes out," Oliver Wallin, investment director at Octopus Investments, said.

Wallin added Octopus had been increasing its exposure to European shares since the ECB's pledge to aid struggling countries earlier this month, but the firm put any buying on hold in a week marked by violent anti-austerity protests in Madrid and more soggy economic data.

"This week has been a bit of a reality check. We've had the central banks doing their bit, but the euro crisis still has some way to go and we still have global growth as a problem."

Grim economic conditions were also cited by the world's second-biggest clothing retailer, Hennes & Mauritz, which reported disappointing third-quarter results on Thursday, sending its shares down 5.8 percent.

Volume on the stock was brisk at more than 4 times its 90-day average.

The pan-European FTSEurofirst 300 index closed 4.35 points, or 0.4 percent, higher at 1,103.26, recouping a fraction of the 20.78 points dropped in the previous session after largely weak U.S. data caused gains to be trimmed late in the session.

The index had traded a mere 80 percent of its 90-day daily average volume by the close.

"There has been very little human volume today, it's all been done by high frequency trading machines," a pan-European, Milan-based broker said.

"You can see that in how the index dropped just as the U.S. data came out and how entire sectors, like banks, moved at exactly the same time."

High-frequency trading allows investors to trade shares quickly, based on algorithms using factors such as economic data, asset correlations and technical analysis charts.

Charts on the euro zone blue-chip Euro STOXX 50, up 0.3 percent at 2,506.06 points, suggested the recent declines, which saw the index shed 3.7 percent since Sept. 14, were likely to continue in the short term.

On Wednesday the index had broken below support at 2,509, corresponding to its most recent low on Sept. 11 and extending a bearish technical pattern known as a 'head and shoulders', where a rally - known as the 'head' - is between two smaller rises, or 'shoulders'.

"It's just a correction within the medium-term trend, which remains positive," Valerie Gastaldy, head of Paris-based technical analysis firm Day-By-Day, said.

She added the target of the head and shoulder pattern should provide support in the 2,466-2,470 area but warned the correction may extend further if the U.S. Standard & Poor's 500 index, up 0.9 percent to 1,445.75 at 1644 GMT, broke below the trendline started in June at 1,397.

"If we go below that level, that would take us before August in terms of valuation, which means before (ECB chairman Mario) Draghi talked."

Draghi's comments spurred a rally in global equities in late July, when he said he was ready to do whatever it took to save the euro.