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European shares edge up in thin trade, led by Credit Agricole

Fri, Nov 29 2013

- * FTSEurofirst 300, Euro STOXX 50 both up 0.1 pct
- * Credit Agricole firms; UBS adds to 'key call' list
- * Euro STOXX 50 seen rising to 3,170 by end-2013

By Tricia Wright

LONDON, Nov 29 (Reuters) - European stocks edged up on Friday, led by French lender Credit Agricole on a bullish UBS note, as traders bet the rally which has propelled a leading index to five-year highs would continue into year end.

Credit Agricole advanced 4.1 percent as UBS added the company to its 'key call' list, with an increased target price of 10.80 euros.

"(It) is one of the most compelling self-help stories in the European banking sector," UBS wrote in a note. "Depressed valuation reflects continued market concerns about low capital and high leverage at the listed-entity level, in our view. We think these concerns are overplayed."

Volume on the stock was already around its full-day average for the past three months by 1143 GMT, against thin trade on the broader FTSEurofirst 300 at just a quarter of its average, with many investors sidelined around the U.S. Thanksgiving holiday.

The FTSEurofirst 300 was up 0.1 percent at 1,305.92 points, having posted its highest closing level in five years the previous day. The euro zone's blue-chip Euro STOXX 50 also rose 0.1 percent, to 3,093.96 points.

European stocks have posted steep gains since late June, with the Euro STOXX 50 jumping nearly 25 percent on global central bank stimulus and as investors have moved out of safe bonds and into higher-yielding assets, such as stocks.

OPTIMISM

While this has lifted valuations above their long-term averages, traders take the view that the rally has further to run. The STOXX Europe 600 trades on a 12-month forward price/earnings ratio of 13.5 times against its 10-year average of 12 times, Thomson Reuters Datastream shows.

"A lot of institutions seem to have a lot of cash still parked on the sidelines so there will be an element of funds looking to put money to work ... into the year end," said Matt Basi, head of sales trading at CMC Markets.

"On that basis I think we could go higher."

In a sign of optimism, the Euro STOXX 50 Volatility Index which reflects options pricing and demand to protect against falls in the underlying cash market index, while up on Friday, is trading around levels not seen since early 2007.

Valerie Gastaldy, head of technical analysis firm Day By Day, targeted 3,170 on the Euro STOXX 50 for December or the first days of January, seeing scope for any near-term downward movement to be limited to 3,060.

The market showed little reaction to an acceleration in euro zone consumer inflation to 0.9 percent in November, up from 0.7 percent in October and ahead of market expectations for 0.8 percent, easing pressure on the ECB to add more stimulus.

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