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Europe stocks hit four-week high on Spain aid deal

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By Blaise Robinson

PARIS (Reuters) - European stocks leapt on Monday as a bigger-than-expected bailout deal for Spain's ailing banks prompted investors to scoop up financial shares, but the rally could be short lived as questions emerged on the structure of the package.

At 1021 GMT, the FTSEurofirst 300 .FTEU3 index of top European shares was up 1.4 percent at 995.59 points, while the euro zone's blue-chip Euro STOXX 50 .STOXX50E index surged 1.9 percent to 2,185.27 points, with both indexes hitting four-week highs earlier in the session.

Spain's banking shares led the rally, with Banco Santander (SAN.MC: Quote, Profile, Research, Stock Buzz) rising 3.9 percent and Bankia (BKIA.MC: Quote, Profile, Research, Stock Buzz) jumping 8 percent, while other euro zone banks also gained ground, with UniCredit (CRDI.MI: Quote, Profile, Research, Stock Buzz) up 1.5 percent and Credit Agricole (CAGR.PA: Quote, Profile, Research, Stock Buzz) up 3.7 percent.

Euro zone finance ministers agreed on Saturday to lend Madrid up to 100 billion euros for its bank rescue fund, more than an initial audit suggests it is likely to need.

The ministers were eager to shore up Spain's banking system before Greece's elections next weekend which could push Athens closer to a euro zone exit and spark a wave of contagion among the region's most indebted countries.

"The EU is selling this as a 'great victory', but when you look at the details, this is a loan, and we don't know yet where the money will be coming from. At the end of the day, it will increase Spain's debt-to-GDP ratio no matter what they say," said Steen Jakobsen, chief economist at Saxo Bank, in Copenhagen.

"The reaction in markets is due in part to people cutting short positions, and whether this rally will last 24 to 48 hours remains to be seen, with investors now bracing for Greece's elections. We're at midday and the euro and stocks are already trimming their gains."

Despite the brisk rally in early trade in banking stocks, the Euro STOXX 50 volatility index - Europe's main gauge of anxiety known as the VSTOXX - was down only 1 percent, hovering around 30, signaling cautiousness in the derivatives market.

The euro currency trimmed early gains, failing to remain above $1.26, and yields on Germany's safe-haven Bunds moving only slightly higher.

"European stock indexes' strong open has not been confirmed by the dollar nor the Bund. Bearish trends have been temporarily interrupted, but this is not a 'buy' signal yet for stocks," said Valerie Gastaldy, head of Paris-based technical analysis firm Day By Day.

Around Europe, UK's FTSE 100 index .FTSE was up 1 percent, Germany's DAX index .GDAXI up 2 percent, and France's CAC 40 .FCHI up 1.8 percent.

Spain's IBEX - by far the worst performer in 2012 among European indexes - was up 2.5 percent, after gaining as much as 6 percent in early trade.

Madrid's benchmark remains in 'bear territory', down 25 percent since early February.

(Reporting by Blaise Robinson; Editing by Robin Pomeroy)

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