Charts signal Europe sector shift as rally stalls

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* Banking index signals end of 10-month rally

* Autos, consumer-related sectors also show signs of fatigue

* Beaten-down utilities gain technical momentum

* Trend seen lasting several months

By Blaise Robinson

PARIS, March 26 (Reuters) - Investors are starting to shift between European equity sectors as technical charts signal a 10-month rally in banks and auto stocks may be over while utilities could rise in a trend seen lasting several months.

The sector shift comes as benchmark European indexes such as the STOXX Europe 600 and the euro zone's blue chip Euro STOXX 50 are stuck in ranges, struggling to break through long-term resistance levels, leading investors to seek fresh sources of profit.

"The overall European market is showing signs of exhaustion," said Valerie Gastaldy, head of Paris-based technical analysis firm Day By Day, adding this was especially the case for relatively volatile sectors such as banks.

"I'm now negative on this particular sector," she said.

The STOXX Europe 600 banking index peaked in late January, and since then the gauge - which includes UK's Barclays , Italy's UniCredit and France's Societe Generale - has drifted lower in a series of five waves, which chartists see as raising the risk of a sharp fall for the sector in the coming weeks.

The recent break below 168.72 points, an important support level representing the 38.2 percent retracement of the rise from a pause in mid-November to the late January peak, further darkened the technical outlook for the sector, which also faces fundamental problems due to many banks' exposure to the rumbling euro zone crisis.

"This looks like the beginning of a downtrend for the banking sector," said Jose Antonio Gonzalez Ibanez, head of equity technical analysis at EuroStockScreener, in Zaragoza, Spain. "The weekly chart shows that the positive trendline started last summer has definitely been broken."

The cyclical auto sector - Europe's best performer in 2012 with a rise of 35 percent - has also shown signs of fatigue, with the STOXX Europe 600 auto index falling below its 50-day moving average last week, and the line of the average itself turning flat for the first time since last November.

LONG/SHORT HEDGES

In contrast, after being shunned by investors in the past six months mostly due to nagging worries about the outlook for Europe's electricity prices, utilities are starting to show signs of life.

The chart for the STOXX Europe 600 utility sector index has been reversing its negative trend with a W-shaped double -bottom pattern which took shape late last month. The index on Friday broke above a downward trendline started in September, sending another bullish signal.

"You can see money flowing back into the sector," Day By Day's Gastaldy said. "The rally could go on as this could be a longer-term trend reversal. The sector has been decorrelated from the broad market, so it could well climb while the broader indexes move sideways."

Gastaldy sees the revival of the utility sector as a good opportunity to set up long/short pair trades - a popular strategy among hedge funds which involves buying, or going long, a sector and selling (going short) another based on their expected relative performance in the future. Such bets can also create a hedge against a potential pull-back in the overall market.

Gastaldy favours a long position on the utilities sector index and a short position on the STOXX Europe 600 personal and household goods sector index, which includes luxury stocks such as LVMH, which has recently started to retreat.

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