European Stocks Climb as China Cuts Interest Rates

By Sarah Jones - Jul 5, 2012

European stocks advanced after China cut its benchmark interest rates for the second time in a month and the Bank of England restarted its bond-purchase program.

Rio Tinto Group paced a rally in mining companies, gaining 1.9 percent. Volkswagen AG (VOW) soared 6.5 percent after reaching an agreement with Germany’s tax authorities, allowing it to buy the 50.1 percent stake in Porsche SE that it doesn’t already own. GKN Plc (GKN) surged 11 percent after agreeing to buy Volvo AB (VOLVB)’s aircraft-engine unit.

The Stoxx Europe 600 Index (SXXP) gained 0.4 percent to 258.25 at 1:11 p.m. in London, its highest level since May 3. The equity benchmark has climbed 10 percent from this year’s low on June 4.

Stocks rallied as China cut interest rates and allowed banks to offer bigger discounts on their lending costs, intensifying its efforts to reverse a slowdown. China’s one-year lending rate will fall by 31 basis points and the one-year deposit rate will drop by 25 basis points with effect from tomorrow, the People’s Bank of China said. Banks can offer loans of as much as 30 percent less than benchmark rates, the central bank said.

The European Central Bank cut its deposit rate to zero from 0.25 percent and its benchmark interest rate to 0.75 percent today.

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