Stocks rally after China gives Europe its support

Gains welcome after 8 days of losses; volatile market tied to Europe

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NEW YORK — Stocks had another turnaround Thursday and rocketed higher after China reassured investors it doesn't plan to sell the European debt it holds.

The Dow Jones industrial average surged nearly 285 points, while Treasury prices tumbled as traders funneled money into riskier assets like stocks and commodities.

The show of confidence in Europe let the market resume a rally that stalled late Wednesday following a report that China was considering cutting its exposure to European debt. That would have signaled that China didn't think Europe would be able to contain the crisis. The agency that manages China's $2.5 trillion in foreign reserves denied the report.

Analysts also said some bounce has been expected after heavy selling that drove the Dow down 11 percent from its 2010 peak a month ago. Traders cautioned that this might not be a rally but merely a break in selling.

Some of the climb could be tied to what's called "short-covering." That occurs when traders are forced to buy stock after having earlier sold borrowed shares in a bet that the market would fall. Though it's difficult to determine how much lift it might be giving stocks, the rush to cover misplaced bets can add to a rally.

The steep gains Thursday were welcome after the Dow dropped eight of the last days. But trading has been volatile and recent weeks have shown that an early advance is no guarantee that stocks will end the day higher. Twice this week, stocks have climbed for much of the day only to see the advances erased in late slides. The Dow rose 135 points Wednesday morning, but ended the day down about 69.

Peter Tuz, president of Chase Investment Council in Charlottesville, Va., said the market has fallen too quickly. He contends that a break was due because there have been so many days with heavy selling.

"It's like a 100-year flood — having 3 of them in a year," Tuz said. "That to me was an indication that the market was clearly oversold."

Concerns about debt problems in Europe have pounded stocks around the world this month. Traders were initially worried that banks would be hit if weaker countries like Greece, Portugal or Spain defaulted on their debt. Now that a nearly $1 trillion European Union rescue plan is coming to-

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