Deutsche Bank Head Of FX Research Says Euro Breakup Fears Overblown

SYDNEY (Dow Jones)--Fears of Greece exiting the euro zone and a break up of the single currency bloc are overblown, meaning the euro should rally by year end, Deutsche Bank's DBK.XE -1.12% global head of foreign exchange research, Bilal Hafeez, said Thursday.

Global markets were sent reeling this week after elections in Greece proved inconclusive, sparking worries the country will fail to implement the deep spending cuts needed to satisfy the terms of its international bailout.

That development is a clear near-term negative for the euro but Deutsche Bank isn't reviewing its forecast for a return to US$1.3500 by December as Athens will likely hammer out a new agreement with creditors, Hafeez said.

"We have to look at the track record of Europe over the past year or two, there have always been calls for a more apocalyptic scenario for the euro area--it's still intact," Hafeez told Dow Jones Newswires.

"It will probably take a month or two to get a new agreement then we will stabilize again," he said.

Deutsche Bank forecasts the euro to trade at US$1.2500 by the end of June, before recovering.

On the other major currencies the German bank is buying the pound, U.S. dollar and Canadian dollar but is a seller of the Kiwi as New Zealand's economy continues to suffer a slow recovery.

Known in the markets as the flows monster, Deutsche Bank held on to the number one spot for the eighth year running in the closely watched Euro money foreign exchange survey. In Australasia, the bank remains the clear leader, holding onto around 21% of market share.

On the Australian dollar, Deutsche Bank is sticking with its forecasts for the commodity currency to stay above parity against the greenback through to year end because of still strong underlying economic fundamentals, with a ceiling for the pair at US$1.0500.

"It's a good story but beyond US$1.0500, it's an expensive story," said John Horner, the bank's Sydney based FX strategist.

Globally the unit isn't being viewed as a safe haven currency even as central banks and others increasingly diversify into Australian government bonds, Hafeez said.

"When things don't look so good, then Australia is not viewed as a safe haven in that context. It's something that you sell," Hafeez said.

-By Enda Curran, Dow Jones Newswires; 61-2-8272-4687; enda.curran@dowjones.com