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FX TALKING BRAZIL MEXICO

Latam FX Talking: A few clouds on the horizon

Latin America has been viewed as a bastion of FX stability so far this year. Yet a few wrinkles are emerging – from politics in Brazil to a trade re-negotiation in Mexico to the outlook for Chile's copper industry. Even so, Brazil's status as a high-yielding energy exporter should protect the real, and we remain bullish here



The outlook for the copper industry in Chile adds a wrinkle to Latin America's FX stability

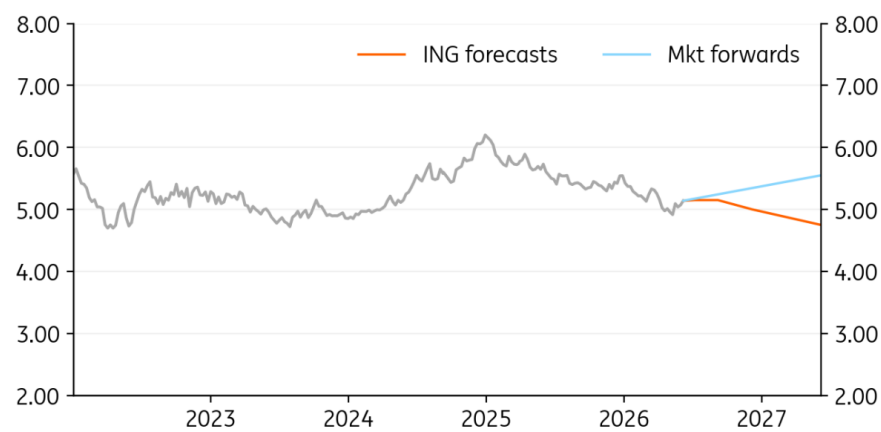
Main ING Latam FX Forecasts

	USD/BRL		USD/MXN		USD/CLP	
1M	5.15	↑	17.50	↑	925	↑
3M	5.15	↓	17.50	↑	925	↑
6M	5.00	↓	17.25	↓	925	↑
12M	4.75	↓	17.25	↓	900	↓

USD/BRL: A little underperformance comes through

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.1000	Neutral	5.15	5.15	5.00	4.75

- We’ve started to see some underperformance in the real over the last five to 10 days, driven mostly by local interest rates. Markets are now pricing roughly 125bp of tightening over the next year, which looks too aggressive to us.
- Fears of economic overheating — stoked by Brazil's strong 1.1% quarter-on-quarter GDP print in 1Q and the Lula administration’s loose fiscal stance — helped drive the recent rates-led sell-off. Additionally, Lula pulling ahead in presidential polling seems to have weighed on BRL.
- But with 13% implied yields, the BRL remains an expensive sell. And ultimately, high yields, Brazil’s energy exporter status and perhaps high crop yields on El Niño should keep BRL supported.

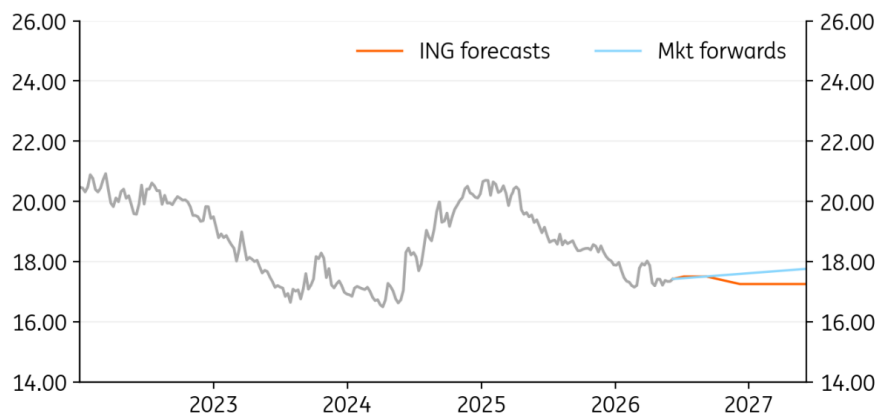


Source: Refinitiv, ING forecasts

USD/MXN: MXN interest rate protection is a little lean

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	17.2100	Mildly Bullish 	17.50	17.50	17.25	17.25

- The peso has been performing relatively well during this corrective period in risk assets. A 2.5% correction is not a bad outcome for a high-beta EM currency. The next couple of months could be a difficult period for EM assets; we see potential MXN weakness. And after a two-year, 475bp Banxico easing cycle, the Mexican policy spread over the US is now a lean 275bp. This is close to the lows over the last decade.
- The USMCA re-negotiation looks set to drag on, with the US pushing for stricter rules of origin. This uncertainty can weigh on the market.
- We don't think Banxico wants USD/MXN to trade too far under 17.00, which in any case looks unlikely this summer.

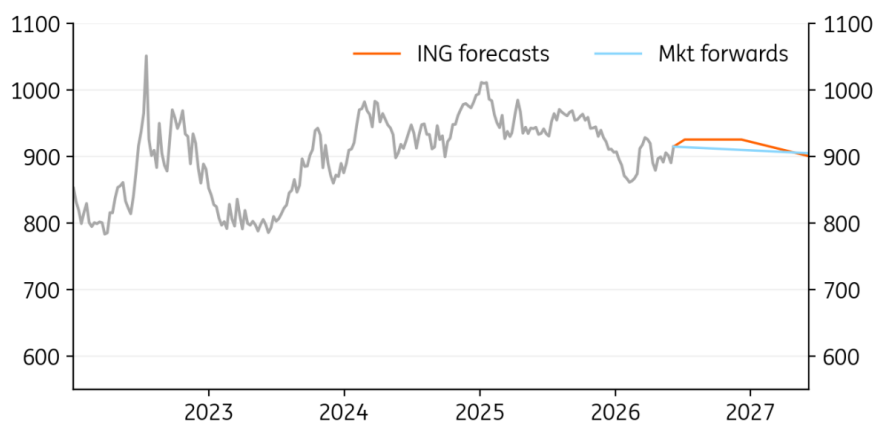


Source: Refinitiv, ING forecasts

USD/CLP: Copper story could prove problematical

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	905.0300	Mildly Bullish 	925.00	925.00	925.00	900.00

- Higher US rates have pushed USD/CLP toward the top of its broad 850–950 range. Another sharp rise in energy prices in the coming months would be particularly unwelcome for Chile. We're a little worried about Chile's copper production later this year, where more limited access to sulphuric acid, linked to Middle East-related supply disruptions, could hit activity.
- We're also waiting to hear about US tariffs on refined copper products – a decision is due by the end of June. A delay or a tariff could keep copper prices bid, while no tariffs could see copper prices give back some of their recent gains.
- Expect USD/CLP to continue trading in an 850-950 range, with a top-side bias given the current strengthening dollar story.



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