Latam FX Outlook 2026: Full metal jacket

It’s been a good year for Latam FX on the back of carry demand for the region’s high yielders and the boom in metals. Political risk from elections in Brazil and Chile will be present, and US-Mexico trading relations are far from settled. Still, we see the region’s currencies staying supported

We see the Latam region’s currencies staying supported despite trade uncertainty and political risk stemming from elections

Executive summary

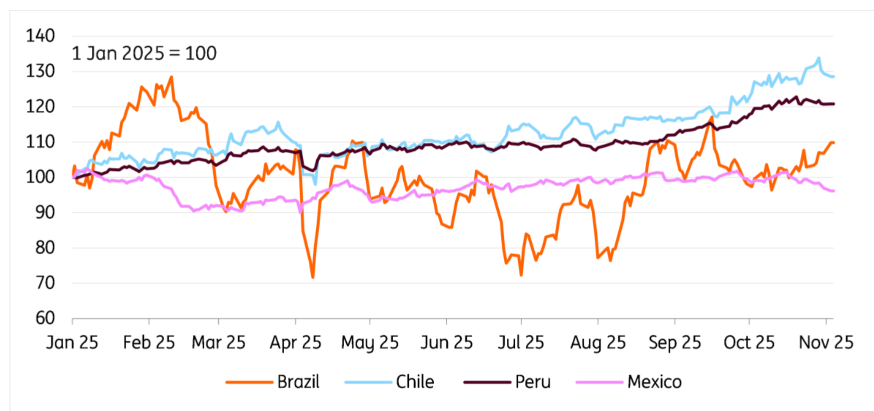
The region’s currencies have seen double-digit gains against the dollar this year, and local currencies have certainly benefited from the return to emerging markets from the global investor community.

The legacy of high inflation and a very hawkish Brazilian central bank has made the real the top YTD performer with spot gains of 15% against the dollar and a total return of a whopping 28%. So far, the central bank is showing no signs of easing policy soon. Banxico, on the other hand, remains confident that inflation can hit its 3% target next year and has cut rates by 400bp. Chile’s central bank turned dovish far earlier than its local peers, and Chile’s peso is certainly not a carry story.

The year ahead also has some big elections. Chile has an election this month, and Brazil will be preoccupied ahead of major elections next October.

Instead, one of the big drivers for the region is the metals story. Copper and gold are flying – which is a major tailwind for countries like Chile and Peru. Substantial terms of trade gains are a dominant theme and continue to favour the metal-backed currencies.

Latam's terms of trade in 2025



Source: ING

Focus on Latam commodities

Copper (Chile, Peru, Brazil)

The outlook for copper is now starting to look brighter, the balance tightening for 2026 amid supply challenges and rising trade optimism. The broader bullish narrative remains supported by structural demand from grid expansion, electrification, and renewable infrastructure, and, increasingly, from data centres and AI infrastructure.

Looking ahead to next year, copper is set to benefit from a supportive macro backdrop, falling US dollar, rate cuts and low inventories.

However, the risk of demand destruction shouldn't be overlooked. Chinese buyers are showing signs of price sensitivity, while US imports have slowed, which could put a ceiling on copper's upside.

In the near term, supply disruptions should keep a floor under prices around the $10,000/t level. However, for the rally to extend, stronger demand – particularly from China, the largest consumer, will be crucial. We see prices averaging $10,550/t in 2026.

Iron ore (Brazil, Peru, Chile)

We are more cautious on our iron ore outlook as demand momentum in China softens and new supply comes online. The startup of Rio Tinto's giant Simandou project in Guinea, which holds the world's biggest untapped iron ore reserves, will add significant new supply to the global market, with initial shipments scheduled to start this month.

Slower steel production growth in China – the world's largest iron ore importer – with more steel cuts likely, as well as a shift toward scrap-based output, will further limit upside potential.

China demand remains the driving factor for the iron ore outlook. Further metals-intensive stimulus could lift prices; however, concerns about oversupply and sluggish steel demand will likely limit any significant upside.

Overall prices are likely to trend lower as new supply enters the market and demand plateaus. We expect prices to average $95/t in 2026.

Gold (Peru, Chile)

We remain positive on our gold outlook, despite the recent pullback in prices, with key supports, including central bank and haven demand, still in place.

We view the correction as healthy rather than a trend reversal, with any further weakness likely to attract renewed interest from both retail and institutional buyers.

We expect ETF buying to continue as interest rates fall, with the pace of buying accelerating following the Fed's dovish pivot in August. We also expect central banks to continue adding gold to their reserves, with South Korea's central bank recently stating that it is considering adding gold to its reserves for the first time since 2013.

Downside risks include a major market sell-off, which could force investors to dump gold to raise cash. Other downside risks include easing safe-haven demand amid easing geopolitical tensions.

We expect gold's downside to be limited and see prices averaging $4,150/oz in 2026.

Soybeans (Brazil)

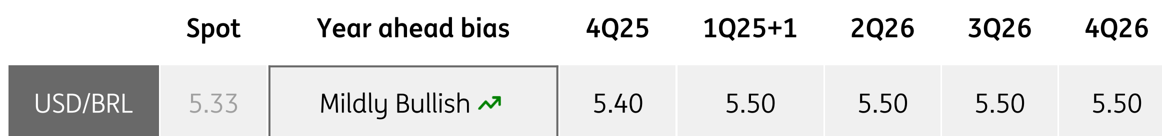
Global soybean stocks are expected to finish the 2025/26 season largely unchanged, which has provided support to prices. And the outlook is looking even more supportive following China's suspension of retaliatory tariffs on US farm products, amid a thawing in trade tensions between the US and China. This has seen and should continue to see Chinese buying of US soybeans picking up, offering relief to US farmers. In addition, US biofuel policy should prove constructive, with the EPA proposing larger volumes under the Renewable Fuel Standard when it comes to bio-based diesel, supporting domestic soybean demand. Furthermore, despite soybean prices strengthening this year (while corn prices have come under pressure), the soybean/corn ratio for the next marketing year (2026/27) suggests that US farmers should still favour planting corn over soybeans, which could tighten up the soybean market in the 2026/27 season. However, this ratio can move around quite a lot between now and the planting season in the spring.

The key beneficiary when it comes to trade tensions between China and the US has been Brazil, with China importing larger volumes of Brazilian soybeans – Chinese imports from Brazil between April and September 2025 were up 13% YoY. Obviously, with a suspension in retaliatory tariffs on US soybeans, this will mean some downside to demand for Brazilian soybeans, pressuring Brazilian soybean cash values. And with Brazil expected to produce yet another record soybean harvest in 2025/26, this should only put further pressure on Brazilian cash values. In addition, the view of broader USD weakness going into 2026 will eat into the competitiveness of Brazilian soybeans, relative to those from the US.

We are currently forecasting CBOT soybeans to average around $11.50/bu in 2026, although clearly much will depend on both trade and biofuel policy.

Currency sections

USD/BRL: Real staying supported into the election year



	Spot	Year ahead bias	4Q25	1Q25+1	2Q26	3Q26	4Q26
USD/BRL	5.33	Mildly Bullish	5.40	5.50	5.50	5.50	5.50

Loose fiscal and tight monetary policy keeps real bid: Investors in the Brazilian real have enjoyed a really good year. The central bank's response in late 2024 to the government's loose fiscal policy now means that the policy rate is at 15%. This compares to 2026 inflation expectations at 4.3% and generates a double-digit real policy rate. Listening to the central bank, it seems in no hurry to cut rates and instead publicly wonders whether a prolonged period of policy rates at 15% is enough to bring CPI back to its 3% target (+/- 1.5%). Running into an election year as well, it looks unlikely the government will be interested in tighter fiscal policy either. The 15% policy rate should mean, however, that GDP slows from the 3% area to the low 2% area through 2026 and 2027. Given our views of a carry-friendly 2026, we favour the real continuing to outperform the end-2026 forward (5.90) and consensus (5.70).

US trade threats prove weak: The summer increase of US import tariffs on Brazil to a rate of 50% has had little impact on Brazil. That's partly because quite a few products are exempt from the tariffs, including civil aircraft and industrial metals/ore. But it is also because the US is a relatively small trade partner for Brazil these days. 85% of Brazil's largest export, soybeans, goes to China. Most expect that China buying a few US soybean cargoes will not mean much for Brazil. And Brazil's current account deficit at around 2% of GDP looks manageable. Additionally, Brazil's FX reserve holdings at over $300bn look ample to deal with any real weakness. Recent IMF calculations suggest a 10% decline in the real could add 1.2% to inflation for lower incomes. Neither the central bank nor the government would welcome a weaker real in 2026.

Lula rides again: President Luiz Inácio Lula da Silva has once again nominated himself as the Workers' Party (PT) candidate for next October's presidential election. The right-wing candidate remains to be seen. Former president Jair Bolsonaro is currently under house arrest and appealing a 27-year prison sentence for an attempted coup d'etat. It's unclear whether his wife or son will run in his stead, or whether some of the other right-wing or centrist parties can muster a candidate. Polls currently suggest Lula would beat any of those potential candidates in the first round and in a run-off. The downside risk for the real in 2026 is that growth somehow disappoints and President Lula overreaches into government giveaways to improve sentiment. For example, his team are currently backpedalling from an idea to offer free public transport to all. The fiscal side has always proved to be the real's Achilles heel and should be monitored carefully.

USD/MXN: Praying that Trump leaves USMCA alone

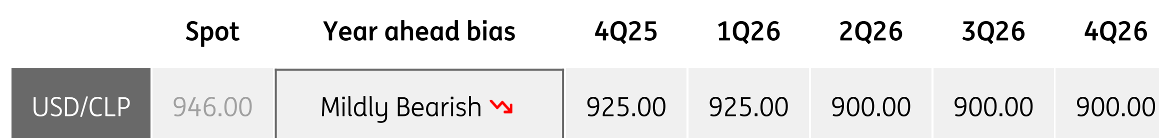
	Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/MXN	18.38	Mildly Bearish	18.25	18.25	18.25	18.00	18.00

Major focus on the auto sector: Mexico's economy has understandably been sluggish this year, given all the uncertainty north of the border. Though still benefiting from the tariff-free USMCA trade deal, which covers 50% of its exports to the US, Mexico's auto industry is still exposed. Here, 40% of its auto content is thought to be non-US, leaving Mexico with an average tariff rate of around 15% on its exports. And having seen GDP grow in the 3-4.5% area in 2021-2023, 0.5% growth this year is seen as a poor outcome. One extra source of uncertainty comes from whether remittances from the US to Mexico stand to be taxed. This flow still creates some $5bn+ of peso demand each month. But the US Congress is now debating whether these flows should be taxed at 3.5%. And Mexican politicians will be praying that Washington does not want to open up the USMCA trade deal for discussion again ahead of its review in July 2026.

Banxico thinking of cutting rates to 6.50%: Unlike its counterpart in Brazil, Banxico has no qualms about cutting rates further. Headline CPI is estimated to hit its 3% target around the third quarter of 2026, and Banxico looks like it will track the Fed with rate cuts. Our house call is for three more 25bp Fed cuts. If matched, Banxico would bring its policy rate down to 6.75% – slightly below what's priced in money markets at the moment. Some estimates put the Mexican real neutral policy rate in the 2.00-3.50% area. Working off a 3% inflation target, a neutral policy rate for Banxico could be near 6.50%. Further rate cuts from Mexico would lessen its carry appeal (especially relative to Brazil), and this is one of the reasons we see USD/MXN struggling to break below 18.00 next year.

Local politics in focus: President Claudia Sheinbaum is seen to have had a successful first year in office. Her approval ratings remain above 70% – largely since she is seen as having deftly handled negotiations with President Trump. Global markets have largely moved on from the story of judicial reform, which rocked the peso in summer 2024. Looking ahead into 2026, her plans will be to progress 'Plan Mexico', aiming to shift Mexico from the 12th to the 10th largest global economy – largely through investment and reducing dependency on Asian imports. The ability to progress on any of this will be welcomed by markets, particularly if it can raise anaemic growth levels. Any shift away from this and fiscal responsibility towards social spending ahead of the 2027 mid-term elections would alternatively weigh on the peso.

USD/CLP: Time for peso to play catch-up



	Spot	Year ahead bias	4Q25	1Q26	2Q26	3Q26	4Q26
USD/CLP	946.00	Mildly Bearish	925.00	925.00	900.00	900.00	900.00

Time to reconnect with copper: Supply factors have sent copper sharply higher this year, and Chile's terms of trade have surged a huge 35% from April's low point. Ongoing demand for Chile's copper – used in many parts of the energy transition story – should remain a big plus for the local peso. Remember as well that 99% of Chile's copper exports to the US are refined cathodes, which enter the US tariff-free. In theory, then, 2026 should be a good one for Chile. Real interest rates are down to around the 1.5% area now, and solid growth near 2.5% is expected in 2026 and 2027. The central bank is still holding off on one final rate cut from its current 4.75% level, but the market expects the policy rate to end next year at 4.50%. Chile's current account deficit is wide-ish at 2%+ of GDP and bears watching.

Treasury buys peso, central bank sells: USD/CLP historical volatility is now down to levels last seen in 2019. The 900-1000 range seems well-worn. On one side, Chile's Finance Ministry sells $300m each week as it converts proceeds from FX bond auctions and other incoming FX. On the other side, Chile's central bank is buying $25m per day to achieve $18bn of growth in FX reserves over the next three years. This is seen as a way for Chile to ease itself off a two-year IMF Flexible Credit Line without impacting its sovereign ratings. We also note that Chile's FX reserve adequacy is low relative to its peers – i.e., with an IMF ARA metric near 80% compared to the recommended 100-150%. Recall that Chile lost about one-third of its FX reserves in 2022 when pandemic pension reforms blew out the current account deficit and prompted a defence of the peso. We think central bank FX intervention would step up should USD/CLP look to trade sub-900.

16 November election could surprise: Chile goes to the polls on 16 November to vote for a new president. Polls this year have widely favoured the market-friendly, centre-right candidate of Antonio Kast. He would be replacing the current socialist President Gabriel Boric. The communist party candidate, Jeannette Jara, is seen well behind in the polls. However, running up fast on the rails is libertarian candidate Johannes Kaiser. Amongst many of his eye-catching plans to shrink the state, one is to nationalise the state copper miner, Codelco. It's safe to say there would be no shortage of international buyers for such a prized asset, and presumably the peso would get a strong lift were it to look like Kaiser were ever to take office. We would also want to see what would happen with pension reform. The decision to give citizens access to pensions early in 2022/23 triggered a consumption boom and weighed heavily on Chile's sovereign risk and the peso.

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