

Latam FX Talking: Hit by the global growth downgrade

The Latam FX complex remains under pressure on what the trade war means for global demand and industrial commodities. Brazil and especially Chile look more exposed here. Mexico is hoping to reach an early deal with Washington, but sliding US growth may well keep the peso under pressure



Guanabara Bay and Rio de Janeiro. Brazil and Chile are among those most vulnerable to trade war-related risks

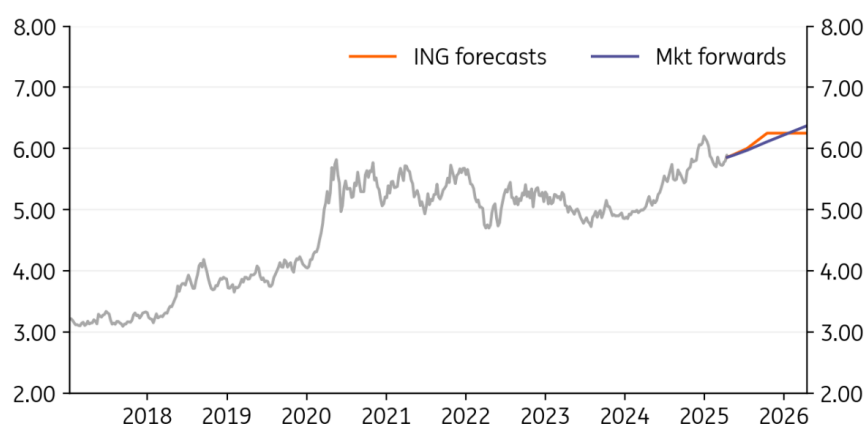
Main ING LATAM FX Forecasts

	USD/BRL		USD/MXN		USD/CLP	
1M	5.90	↑	20.50	↑	1000	↑
3M	6.00	↑	21.00	↑	1000	↑
6M	6.25	↑	22.00	↑	1025	↑
12M	6.25	↓	22.00	↑	1050	↑

USD/BRL: Policy rate reaching the peak at 15.00% soon

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.8551	Mildly Bullish 	5.90	6.00	6.25	6.25

- Despite world trade volumes and growth being revised down on the tariff war, Brazil is still struggling with unanchored inflation expectations. It has already raised rates some 375bp since last September (now 14.25%) and should complete the tightening cycle with a move close to 15% this summer. Clearly the Brazilian real is now an expensive sell!
- But the macro picture looks worrying in that Chinese growth is slowing and energy and metal prices are softer. Let's see whether Chinese demand for Brazilian soybeans can help.
- Expect fiscal to remain the Achilles Heel, where any looser policy later this year could send USD/BRL back to 6.10/20.

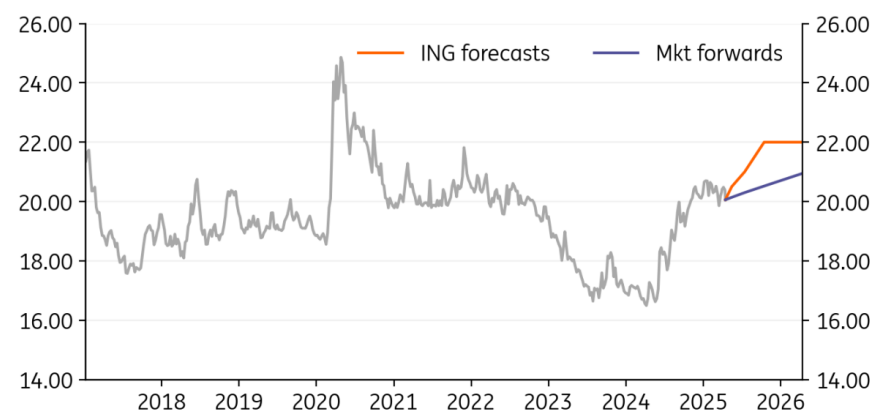


Source: Refinitiv, ING forecasts

USD/MXN: Banxico to keep cutting, peso stay vulnerable

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	20.0500	Mildly Bullish 	20.50	21.00	22.00	22.00

- Banxico forecasts Mexican growth at just 0.6% this year with downside risks. Politicians are working at speed to try and get carve-outs for tariffs, which currently hit through the steel and aluminium sector and any goods trade not conducted on USMCA terms. Banxico looks ready to cut rates further from 9% - potentially all the way to 7.50% later this year.
- The peso has managed to hold steady over the last month, largely as tariffs dropped elsewhere in the world. But owning the MXN remains a high-risk proposition until trade settles.
- President Claudia Sheinbaum says automakers have no plans to relocate from Mexico yet – let's watch this story and what it means for FDI.

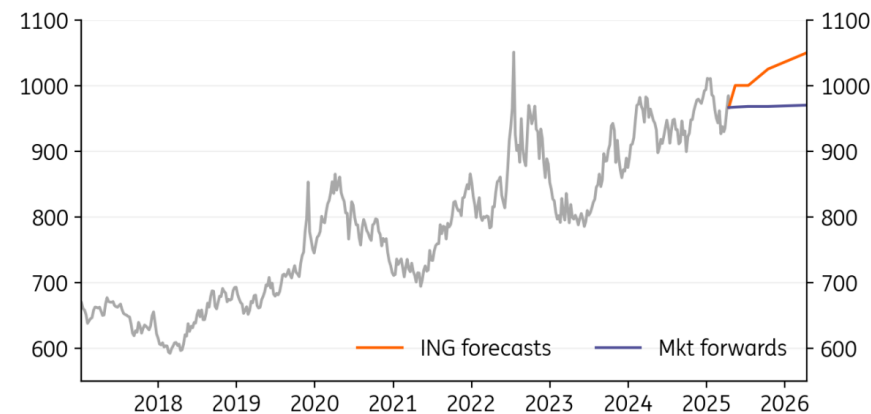


Source: Refinitiv, ING forecasts

USD/CLP: Toying with 1000

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	966.3500	Bullish ↗	1000.00	1000.00	1025.00	1050.00

- The big tariff sell-off in industrial commodities did not spare copper, and Chile's peso was hit. USD/CLP made quite a sharp turn from 1000, questioning again whether the central bank may have been intervening a little more than at its scheduled FX sales.
- Until the US-China tariff war gets resolved, expect Latam FX to remain collateral damage and currencies to generally stay on the soft side. Additionally, the market now prices another 50bp of easing in Chile (taking the policy rate to 4.5%), which does not offer the peso much protection at all.
- Apparently, FDI trends in the mining sector are looking good in Chile – but we don't like the peso.



Source: Refinitiv, ING forecasts

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

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