Latam FX Talking: Temporary setback for the Mexican peso

Latam FX performed quite well during the US banking crisis. Investors will remain nervous but should continue to be attracted to any dips in the Mexican peso. We think USD/BRL and USD/CLP will struggle to sustain moves below 5.00 and 800 respectively

Main ING Latam FX forecasts

	USD/BRL		USD/MXN		USD/CLP	
1M	5.30	↑	18.20	→	820.00	→
3M	5.30	↑	18.10	↓	800.00	→
6M	5.20	→	18.00	↓	800.00	→
12M	5.20	↓	17.75	↓	800.00	→

↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source (all charts and tables): Refinitiv, ING forecast

USD/BRL: New fiscal framework delivers a brief lift

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.0667	Mildly Bullish	5.30	5.30	5.20	5.20

- USD/BRL is pressing 5.00 and the real has been one of the better EMFX performers over the last month. Helping the real has been the positive reception of the new fiscal framework announced at the end of March. It seeks to stabilise debt-to-GDP levels at around 75% and limit government expenditures. Having done its part, the government will now be leaning on the central bank to cut rates. So far, the central bank is still sounding hawkish given that inflation expectations are heading in the wrong direction.
- BRL is enjoying a short honeymoon, but renewed pressure on the central bank or poor fiscal developments can easily end the rally.
- We favour USD/BRL returning to the middle of a 5.00-5.50 range.

USD/MXN: MXN rally stalls

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	18.1250	Mildly Bearish	18.20	18.10	18.00	17.75

- Now that everyone agrees that the Mexican peso should be the best-performing emerging market currency in the world, the rally has stalled. That is probably a function of positioning, a big level at 18.00 and concerns over the US economy. In addition, this month has seen the government announce the US$6bn purchase of Iberdola's gas and wind assets. President AMLO describes this as 'new nationalisation', ie, securing strategic assets such as lithium.
- The Iberdola deal may keep USD/MXN above 18.00 temporarily but we doubt it undoes Mexico's position as a key recipient of nearshoring Foreign Direct Investment (FDI) inflows.
- Expect Banxico to continue matching Fed policy – ie, perhaps one last 25bp hike in May and then a 100bp easing cycle into 2024.

USD/CLP: Copper story isn't as good as it looks

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	819.0800	Neutral	820.00	800.00	800.00	800.00

- Copper trading back at US$9000/MT should have been great news for the Chilean peso. Ironically, part of the reason that copper is trading so high is the production shortfall in Chile. In February, Chile's copper production was the lowest in six years. Underinvestment and ageing deposits are being blamed here and clearly this will weigh on Chile's FX income in a year when growth may well contract.
- The above is probably the reason why USD/CLP is not participating in the broad dollar decline. We are also closely watching Chile's FX reserves for signs of intervention to rebuild its reserves, which fell from US$55bn to US$38bn last year.
- Despite 10% yields, we do not see CLP as attractive.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com