

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.