

# Latam FX Talking: Politics, fiscal & copper in play

It is tempting to look for a re-pricing in Latam FX now that it seems clear the Federal Reserve will be cutting in September. But we are worried about local politics in Mexico (judicial reforms), fiscal accounts in Brazil (policy statement due in late August) and the impact of weaker copper on Chile's exports. Therefore we are not as bullish as some



## Main ING Latam FX Forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.60 ↑	19.00 ↑	950 ↑
3M	5.50 ↓	19.00 ↓	950 ↑
6M	5.50 ↓	19.00 ↓	950 ↑
12M	5.50 ↓	19.00 ↓	950 ↑

## USD/BRL: High-rate economy may cause fiscal trouble

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.5476	Mildly Bullish ↗	5.60	5.50	5.50	5.50

- The Brazilian real has been hit nowhere near as hard as Mexico's peso during the recent bout of deleveraging. Yet USD/BRL still touched a three-year high at 5.80. Lower US interest rates later this year should provide some support to BRL, but we remain worried by the domestic story. High rates may hit fiscal accounts.
- In particular, it looks like Brazil's easing cycle is over with the selic rate at 10.50%. The market now prices rate hikes to 11% by year-end and up to 12% into next summer. The government is facing refinancing costs at 12% at a time of fiscal concern.
- In late August we should hear what the government plans to do to hit its fiscal targets. This is a negative event risk for the BRL.



Source: Refinitiv, ING forecasts

## USD/MXN: Peso not as attractive as it was

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	18.8200	Mildly Bullish ↗	19.00	19.00	19.00	19.00

- It looks like the spike higher to 20.21 on 5 August marks an important top and represented 'capitulation' by many investors as the yen surged and equities sold off. However, we are not yet comfortable about forecasting a sustained move under 18.50 given event risks over coming months. The first is political risk, where Mexico's new parliament will consider constitutional reforms in September. Will these be watered down?
- November US presidential elections also raise the threat of new tariffs on Mexico from any new Trump administration.
- If the Fed cuts as we expect (to 3.50% next summer) Banxico should be able to cut rates to the 9.00% area from 10.75% today.



Source: Refinitiv, ING forecasts

### USD/CLP: Copper taking its toll

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	935.5000	Mildly Bullish <span style="color: green;">↗</span>	950.00	950.00	950.00	950.00

- Chile has a strong sovereign credit rating, but we see the currency dragged around by its largest export – copper. As discussed previously, the glut of Chinese finished copper is weighing on copper demand globally. At current levels of copper (\$8700/MT) USD/CLP looks fairly priced at 950. An extension in the copper sell-off could drag USD/CLP towards 1000.
- In July, Chile’s central bank refrained from cutting rates another 25bp to 5.50%. However, it sounded like it wants to cut and the market prices 4.75% next year. Chile’s real rates are quite low.
- Growing fears of a US recession are not great for copper. And despite lower US rates/softer dollar, we see CLP staying subdued.



Source: Refinitiv, ING forecasts

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