

Latam FX Talking: Brazil elections still in focus



Rio de Janeiro, Brazil

Source: Shutterstock

Main ING Latam FX forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.35 ↑	20.5 ↑	950.00 →
2M	5.50 ↑	20.5 ↑	950.00 →
6M	5.75 ↑	20.0 ↓	925.00 →
12M	5.90 ↑	20.0 ↓	900.00 →

↑ / → / ↓ 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: Brazilian assets rally on first round results

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.1999	Bullish ↗	5.35	5.50	5.75	5.90

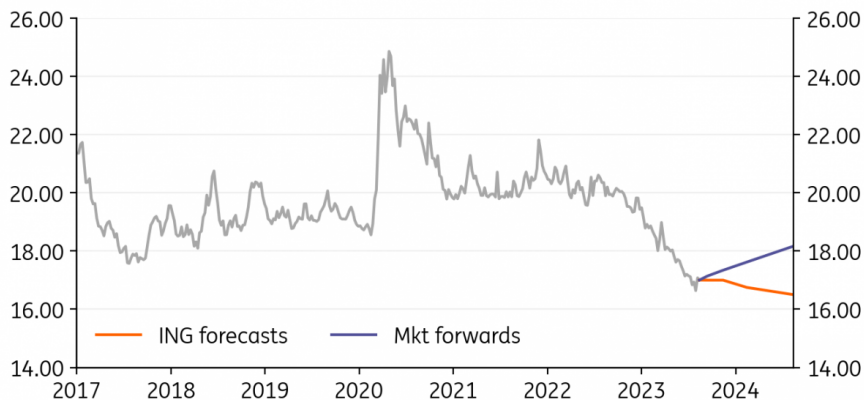
- Brazilian assets enjoyed strong gains on the 1st round election results. Incumbent Bolsonaro did better than expected at 43%, while challenger Lula received 48% support. The run-off is held October 30th. The better than expected showing of the right in the elections – and particularly the strong showing of the right in Congress – means that either Lula will be dragged to the centre or Bolsonaro can continue his free-market policies.
- There is still the risk, however, of a narrow Lula win Oct. 30th and contested election results – a big BRL negative.
- A tough external environment, both from higher US rates and lower China/US growths keeps us bearish on the BRL.



USD/MXN: Banxico dances toe-to-toe with the Fed

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	19.9800	Mildly Bullish ↗	20.50	20.50	20.00	20.00

- Though it is not official policy, Banxico is doing an exceptionally good job of keeping USD/MXN stable near 20.00. It does this by matching the Fed hike-for-hike. The policy rate is now 9.25% in Mexico and is expected to be hiked another 125bp over the next six months – matching Fed expectations.
- Arguably the MXN should perform better than many in EM given its exposure to the strong US economy and relatively low debt to GDP ratio (near 50%) as AMLO espoused new debt during 20/21.
- However, Mexico is a big beast in EM indices. A tough time for EM as the Fed raises rates into a recession could easily see MXN come under pressure over the next 3-6 months.



USD/CLP: In the thick of it

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	983.3300	Neutral	950.00	950.00	925.00	900.00

- Chile's peso remains in the thick of financial market pressure as ill-winds blow from the international environment. Chile's large current account deficit leaves the peso vulnerable and investors can see central bank FX reserves having dropped 25% from late last year as it tries to support the peso. Tapping the IMF's \$18bn Flexible Credit Line (FCL) to support the CLP would be a new low point – FCL's are precautionary & never meant to be used.
- In response the central bank is hiking aggressively, with the policy rate now 10.75%. It may have to hike more.
- Weak China and US growth over the next six months and our call for ongoing dollar strength, suggests \$/CLP retests 1000.



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