

Latam FX Talking: Large easing cycles in Brazil and Chile

Brazil and Chile have both embarked on large monetary easing cycles. But given the very high starting point for policy rates, their local currencies should be able to hold onto gains. The Mexican peso may be under pressure in September and October as Banxico unwinds its intervention forward book, but we expect it to find strong buying interest on dips



After Brazil's second-quarter GDP came in higher than anticipated, concerns are rising over the government potentially backtracking on plans for fiscal consolidation

Main ING Latam FX forecasts

| | USD/BRL | USD/MXN | USD/CLP |
|-----|---------|---------|---------|
| 1M | 4.9 ↓ | 17 ↓ | 850 ↓ |
| 3M | 4.8 ↓ | 17 ↓ | 825 ↓ |
| 6M | 4.8 ↓ | 16.75 ↓ | 800 ↓ |
| 12M | 4.8 ↓ | 16.5 ↓ | 800 ↓ |

USD/BRL: Steady easing cycle remains priced

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|--------|---|------|------|------|------|
| USD/BRL | 4.9836 | Mildly Bearish ▼ | 4.90 | 4.80 | 4.80 | 4.80 |

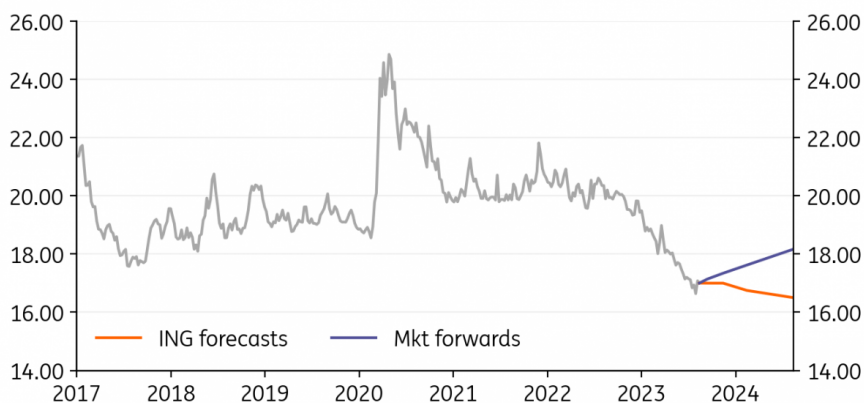
- Higher US yields and a stronger dollar have pushed USD/BRL close to 5.00 and seen the market take out about 25bp of expected easing this year. Market pricing of around 155bp of easing by year-end now looks conservative and assumes that Brazil's central bank cuts 50bp at each of the Sep, Nov & Dec meetings.
- Over the last month we have seen Brazil's second-quarter GDP come in at 0.9% QoQ versus 0.3% expected. The central bank is a little worried this could see the government backtrack on plans for fiscal consolidation. But Brazil's CDS has not moved much.
- High real rates for the BRL (around 7% if we use current inflation) should see good demand for BRL once external conditions settle.



USD/MXN: Banxico makes waves with forward book unwind

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|---------|--|-------|-------|-------|-------|
| USD/MXN | 17.5700 | Bearish ▼ | 17.00 | 17.00 | 16.75 | 16.50 |

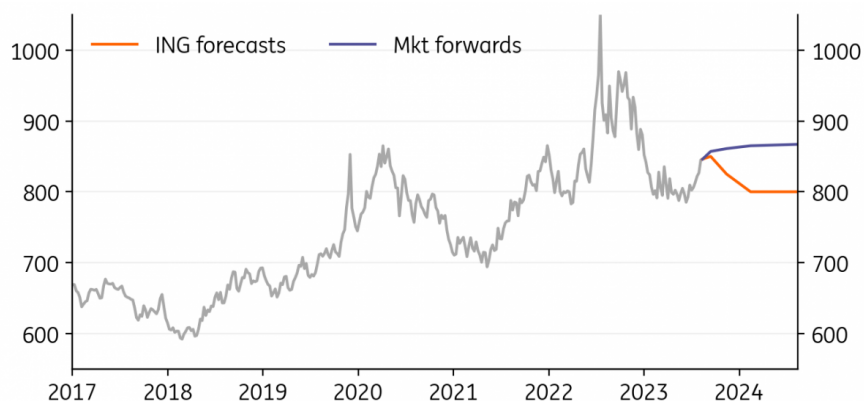
- For a change we have had a big local story in Mexico. Banxico has announced that it will start 'gradually' unwinding its \$7.5bn FX forward book starting this month. Banxico had auctioned off dollars in 2017 and 2020 to support the peso when it was under pressure. It now wants to buy those dollars back and will do so by allowing its forward book to roll off. That could mean as much as \$2.5bn of less dollar supply in September.
- Some are arguing that this marks Banxico's protest against a strong peso. We think it is more of a commercial decision.
- A tough external environment could see USD/MXN trade to 18.00 this month, but a good macro story favours 17 again soon.



USD/CLP: Central bank needs to be a little careful

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|----------|----------------|--------|--------|--------|--------|
| USD/CLP | 896.2000 | Bearish 📉 | 850.00 | 825.00 | 800.00 | 800.00 |

- Chile's central bank followed up its 100bp easing in July with a 75bp rate cut in September. The policy rate is now 9.50%. Expectations have been guided for the policy rate to be cut to 7.75/8.00% by year-end, with meetings in October & December.
- Confident rate cuts are being made on the fact that two-year inflation expectations are stable at 3%. Yet core inflation is still currently over 8%. Should core not fall as quickly as expected and the central bank still cut, the CLP could be hit harder.
- The external environment has not been kind to Latam currencies. But if we are right with our dollar call, USD/CLP can edge lower later this year. But sub-800 levels seem out of the question.



Author

Chris Turner

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

chris.turner@ing.com

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