Article | 10 February 2026

FX TALKING

Latam FX Talking: Early year gains may slow

Latam currencies have been some of the best global performers this year as investors have embraced global growth plays. We struggle to see another 5-6% quick appreciation against the dollar. Here, politics remains the wild card for Brazil, while the USMCA renegotiation may limit Mexican peso gains. We doubt copper needs to drag CLP much higher

Latam has been one of the best performing currency blocs this year. Further gains may prove harder to come by

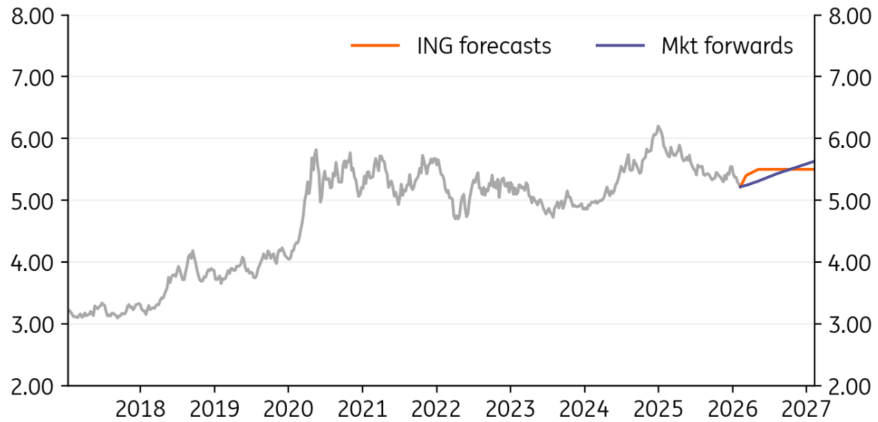
Main ING Latam FX Forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.40 ↑	17.50 ↑	870 ↑
3M	5.50 ↑	17.75 ↑	870 ↑
6M	5.50 ↑	17.75 ↑	850 ↓
12M	5.50 ↓	17.50 ↓	900 ↑

USD/BRL: Political risk keeps an otherwise bullish BRL story in check

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.2200	Mildly Bullish	5.40	5.50	5.50	5.50

- The real has been performing well and the recent global risk-off correction has barely dented the currency's gains seen in January. Indeed, one high profile local fund manager is making the case for USD/BRL to trade at 4.40. We would be more bullish on the real were it not for the October Presidential election. Here sluggish growth under 2% still leaves the path open for some last-minute fiscal give-aways – bearish for the real.
- BACEN has made it clear that it is ready to cut its 15% policy rate. Consecutive 50bp rate cuts are expected in March and April and a total of 300bp in cuts is priced this year.
- Risks to our forecast look skewed to a better BRL outcome – particularly were Tarcisio de Freitas to enter the race in April.

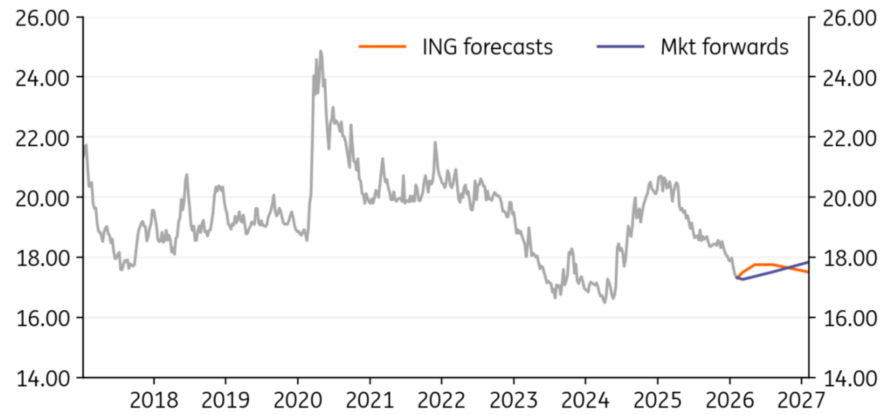


Source: Refinitiv, ING forecasts

USD/MXN: Riding the global EM tide

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	17.2600	Mildly Bullish	17.50	17.75	17.75	17.50

- Flows into global EM assets have been very strong over recent months and have provided a powerful current to the peso. Even though implied yields are now under 7%, demand for the peso is still there. The market struggles to price any more Banxico easing now, so those implied yields should be steady now.
- Though we like EM risk this year, we note USD/MXN is not far away from the 16.70 levels at which Banxico proved sensitive to peso strength in 2023. At that time, it announced it was unwinding its short USD/MXN forward book.
- Potential concern over a strong peso and the threat of a difficult USMCA renegotiation in July limits the downside for USD/MXN.

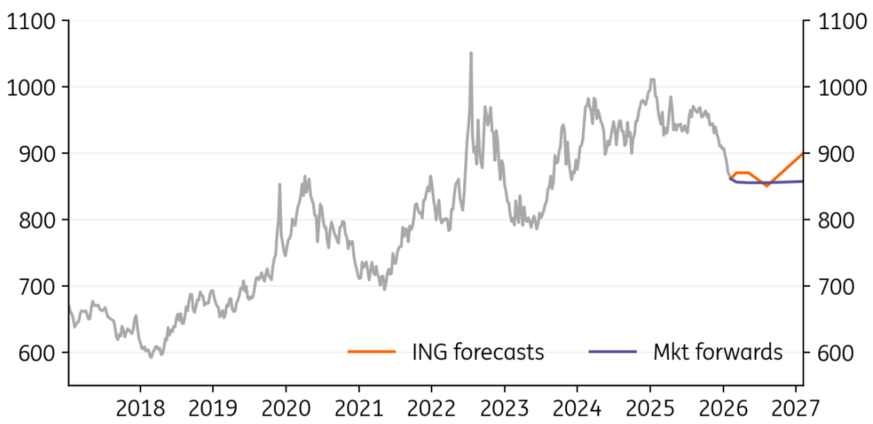


Source: Refinitiv, ING forecasts

USD/CLP: Peak copper?

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	856.0000	Mildly Bullish	870.00	870.00	850.00	900.00

- The commodities rally has kept most of the Latam currencies bid – especially Chile's peso. The ongoing FX sales from the Finance Ministry – even at these low levels in USD/CLP – have also weighed. However, our commodities team note that at current levels, US$13k/MT, copper is destroying demand. There is evidence of this in China.
- Indeed, our team struggle to see copper holding above US$13k/MT this year and look for a correction back to US$11k/MT by year-end as new supply comes on line.
- The market prices one more 25bp cut in the policy rate to 4.25% and in all we favour USD/CLP trading an 850-900 range.



Source: Refinitiv, ING forecasts

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