Latam FX Talking: Full steam ahead with easing cycles

Brazil and Chile have launched new easing cycles with larger-than-expected rate cuts. It is probably a little too early to assess the impact of these moves on local currencies given that the strong dollar and the soft China story are dominating. But in general, we expect Latin currencies to keep outperforming their steep forward curves

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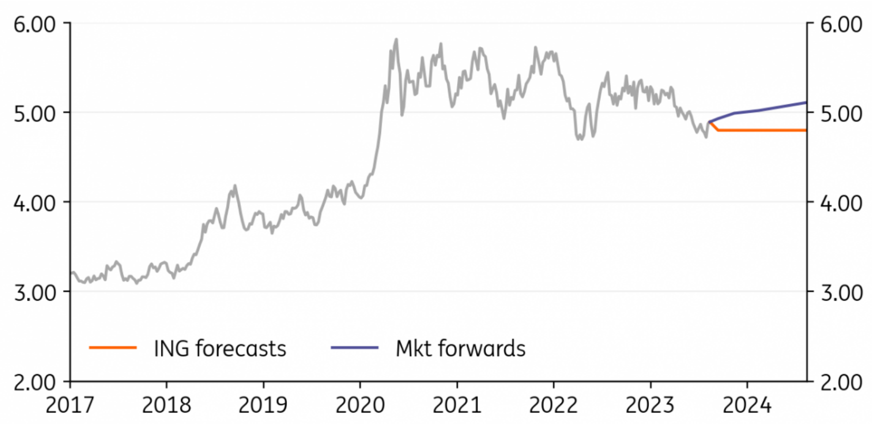
Main ING Latam FX forecasts

	USD/BRL		USD/MXN		USD/CLP	
1M	4.80	↓	17.00	↓	850	→
3M	4.80	↓	17.00	↓	825	↓
6M	4.80	↓	16.75	↓	800	↓
12M	4.80	↓	16.50	↓	800	↓

USD/BRL: Things are looking up for Brazil

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	4.8929	Mildly Bearish	4.80	4.80	4.80	4.80

- Shortly after Fitch's sovereign upgrade of Brazil to BB from BB-, Brazil's central bank surprised markets by delivering a larger than expected 50bp cut – the first in its easing cycle. While the decision to cut 50bp was not unanimous, what was unanimous was the agreement to cut by a similar 50bp at forthcoming meetings. There are three meetings before year-end and investors are actually now pricing in 178bp of rate cuts!
- Given real interest rates are so high in Brazil (at nearly 10% by some measures), the BRL can stay bid in an easing cycle.
- Assuming the China macro picture does not deteriorate sharply, USD/BRL can trade to the lower end of a 4.50-5.00 range.



USD/MXN: Looks like Banxico may not be cutting anytime soon

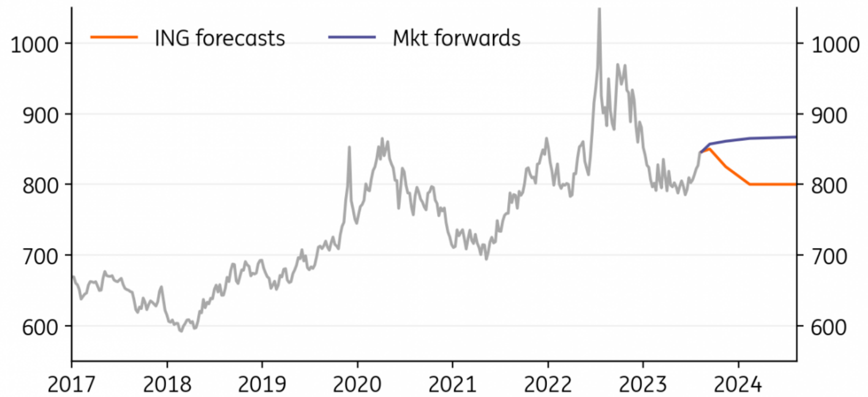
	Spot	One month bias	1M	3M	6M	12M
USD/MXN	17.0000	Neutral	17.00	17.00	16.75	16.50

- The Mexican peso remains at the forefront of the carry trade owing to its high volatility-adjusted returns and its liquidity. However, those volatility levels were tested in August when the sell-off in US Treasuries saw volatility spike and the MXN sell off 4-5%. In short, MXN is very much driven by global sentiment.
- Locally, Banxico recently held rates at 11.25% and promised to keep them there for an extended period. Banxico's priority has long been a stable/positive peso and it will not be cutting anywhere as much as Brazil or Chile.
- However, high real rates and exposure to a strong US economy should keep MXN in demand and bring 16.50 levels into play.

USD/CLP: Easing cycle starts off with a bang

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	846.1300	Mildly Bullish	850.00	825.00	800.00	800.00

- Chile's central bank started its easing cycle with a 100bp rate cut – taking the policy rate to 10.25%. It cited inflation falling faster than expected and two-year inflation expectations settled at 3%. Naturally the market moved to pricing a much deeper easing cycle and priced the policy rate near 5.50% by year-end! The central bank governor has suggested rates may be closer to 8%.
- The peso softened on the large rate cut and then got caught up in the risk-off move in early August. The China story is not particularly supportive for Chile and copper either.
- Expect USD/CLP to settle somewhere in the 800-850 area in the medium term, but not lower since Chile is rebuilding FX reserves



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