

# 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



Source: Shutterstock

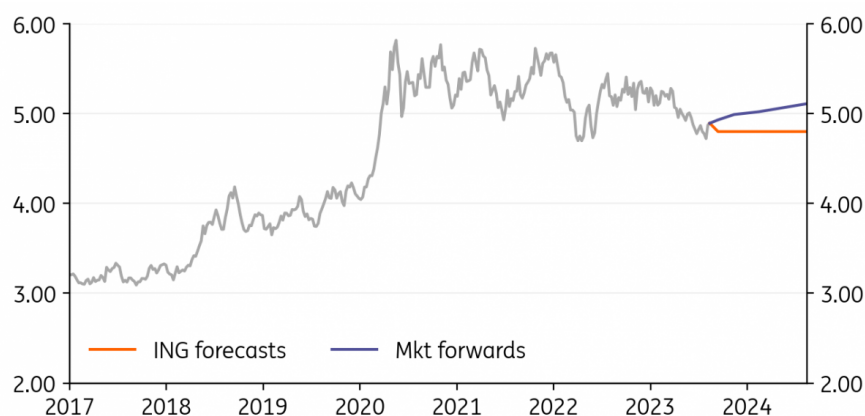
## Main ING Latam FX forecasts

	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

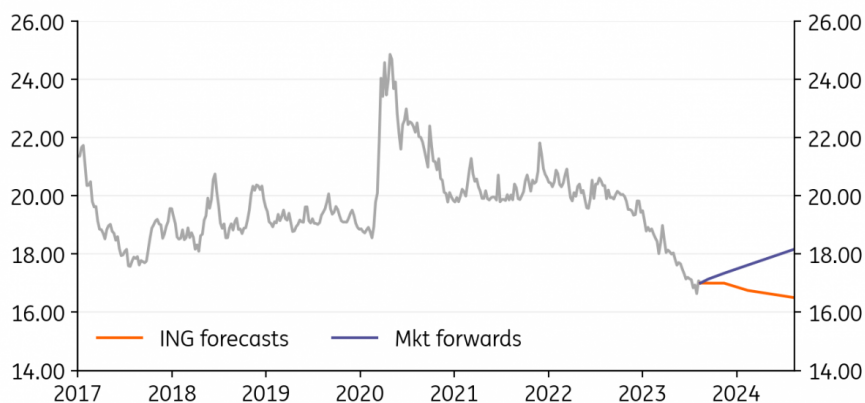
- Shortly after Fitch’s sovereign upgrade of Brazil to BB from BB-, Brazil’s central bank surprised markets by delivering a larger than expected 50bp cut – the first in its easing cycle. While the decision to cut 50bp was not unanimous, what was unanimous was the agreement to cut by a similar 50bp at 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 <span style="color: green;">↗</span>	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



## Author

### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.