

Latam FX Talking: Making the most of a short-lived rebound

The Mexican peso and Brazilian real are recovering as domestic fiscal concerns are tentatively easing and collapsing FX volatility offers opportunities to re-enter carry trades. That rebound has further to run in the short term in our view, but it may not take long before domestic headwinds come back to haunt Latam currencies



Main ING Latam FX Forecasts (versus forwards)

	USD/BRL	USD/MXN	USD/CLP
1M	5.35 ↓	17.75 ↓	920 ↓
3M	5.50 ↑	18.00 ↓	925 ↓
6M	5.50 ↓	18.5 ↑	940 ↑
12M	5.50 ↓	18.5 ↓	950 ↑

USD/BRL: Careful fiscal optimism

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.4200	Mildly Bearish ↘	5.35	5.50	5.50	5.50

- The Lula administration approved spending cuts to meet the fiscal framework in early July, helping a rebound in the BRL after a nearly two-month long depreciating streak.
- Markets are pricing in close to 150bp of hikes by Banco Central do Brasil in the next twelve months, which seem too aggressive. At the same time, our rates colleagues believe that BCB has overshot the rate-cutting process by around 50bp, and some tightening is needed.
- A dovish Fed repricing can help in the near term, but despite the improvement in the fiscal situation may only be temporary and Lula’s threat to central bank independence remains a key risk. A return to 5.50 in the medium term remains our base case.



Source: Refinitiv, ING forecasts

USD/MXN: Small window for MXN recovery

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	17.8300	Mildly Bearish ↘	17.75	18.00	18.50	18.50

- USD/MXN is back below 18.0 after some efforts by newly elected President Claudia Sheinbaum to turn more market-friendly. Still, the degree of uncertainty for policy expectations remains high.
- Speculative net-longs on MXN have also started to rebound, and the more balanced positioning now may offer more flexibility to benefit from softer US data in the short term.
- But aside from domestic political uncertainty, we have quite dovish expectations on Banxico, and think markets are underestimating chances of a 25bp cut in August and the whole policy path beyond. Rising Trump re-election chances also bode ill for the highly exposed MXN in the medium term.



Source: Refinitiv, ING forecasts

USD/CLP: Less volatile, but soft fundamentals

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	930.4000	Mildly Bearish ▼	920.00	925.00	940.00	950.00

- Chile’s peso has followed the rebound in the Latam FX since the start of July, after having shown some relative resilience given turmoil in the region and a correction in copper prices in June.
- Banco de Chile has cut by 25bp at every policy meeting this year, and markets are expecting one cut from the next two meetings. Our rates team agrees with that, as they believe Chile’s policymakers need a Fed rate cut before they can ease again.
- We remain reluctant to call for large CLP gains due to low FX reserves, a 4%+ current account deficit and our commodities teams’ short-term bearish view on copper (slow China demand).



Source: Refinitiv, ING forecasts

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