

# 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 <span style="color:red">▼</span>	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 <span style="color:red">▼</span>	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 <span style="color:red">▼</span>	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

## Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@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>.