

Latam FX Talking: High rates provide some insulation from the tariff noise

The Brazilian real has withstood the threat of 50% US tariffs reasonably well. The 15% local policy rate helps here, as does Brazil's relatively more closed economy. The Mexican peso can also withstand tariff noise quite well - unless Washington starts to walk back on its USMCA commitments



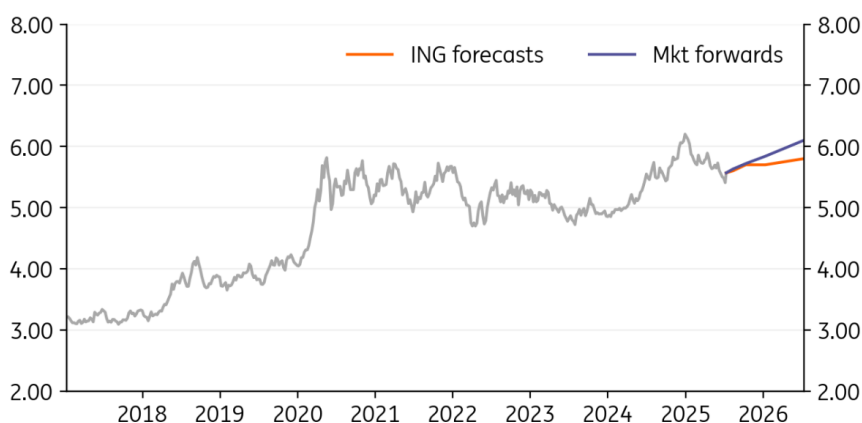
Main ING Latam FX Forecasts

| | USD/BRL | USD/MXN | USD/CLP |
|-----|---------|---------|---------|
| 1M | 5.60 ↓ | 18.75 ↓ | 975 ↑ |
| 3M | 5.70 ↓ | 19.00 ↑ | 950 ↓ |
| 6M | 5.70 ↓ | 18.75 ↓ | 950 ↓ |
| 12M | 5.80 ↓ | 18.50 ↓ | 950 ↓ |

USD/BRL: 50% tariffs may not do too much damage

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|--------|------------------|------|------|------|------|
| USD/BRL | 5.5684 | Mildly Bullish ↗ | 5.60 | 5.70 | 5.70 | 5.80 |

- The prospect of 50% US tariffs on Brazil has come as a surprise – especially since Brazil had fared quite well with ‘Liberation Day’ tariffs of only 10%. However, Brazil is less dependent on trade than its Latam peers (exports to GDP sub 20%) and only 10% of its exports go to the US. Some estimates suggest tariffs could knock 0.5% off GDP, but domestic demand is more important.
- By nature of the benign external environment and Brazil's 15% interest rates, the currency has been performing well. What we're more worried about in the third quarter is a US Treasury sell-off and higher volatility – which could send USD/BRL to 5.75.
- But unless President Lula misjudges with pre-election fiscal give-aways, we expect currency losses to be contained.

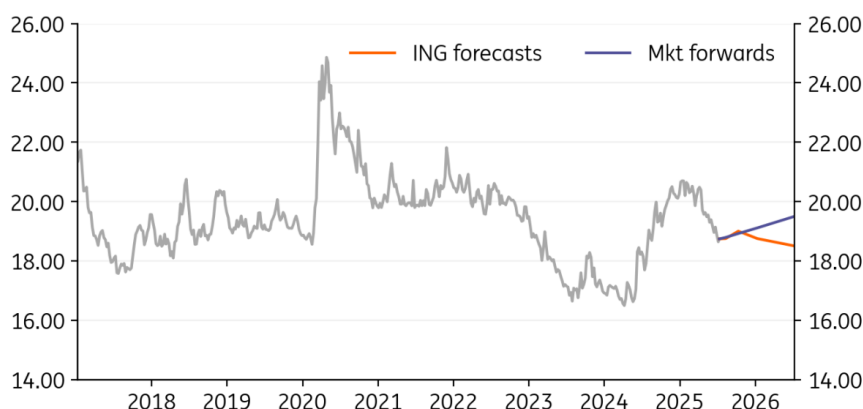


Source: Refinitiv, ING forecasts

USD/MXN: Peso pullback

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|---------|----------------|-------|-------|-------|-------|
| USD/MXN | 18.7400 | Neutral | 18.75 | 19.00 | 18.75 | 18.50 |

- USD/MXN is correcting from levels just above 18.50 – largely on the back of a little stability in the dollar. Scope for a little further dollar correction in 3Q could drive a correction towards 18.75 – possibly higher if there’s any disorderly adjustment in Treasuries.
- Domestically, Mexico has avoided the worst of the tariffs and hopes that will continue. Having cut rates 200bp to 8.00% this year 50bp at a time, it looks like Banxico will shift to 25bp increments or perhaps wait until the Fed is ready to move. The Fed-Banxico policy spread is already quite narrow at 350bp – the narrowest since 2016.
- Weak Mexican growth, a slowing US economy, an uncertain trade and FDI environment prevent us from becoming too MXN bullish.

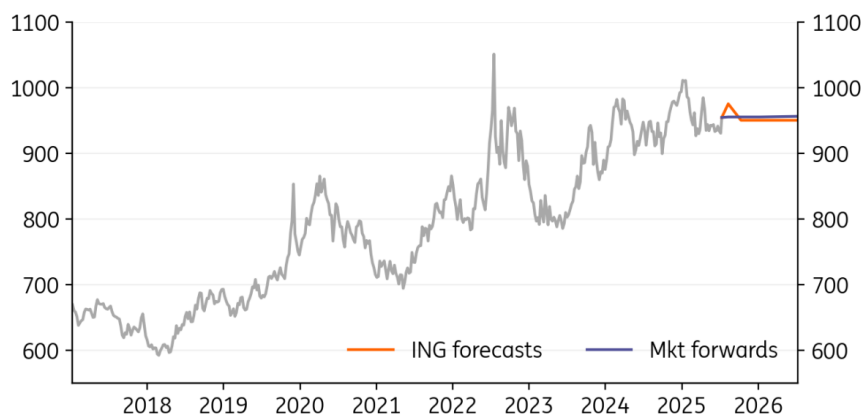


Source: Refinitiv, ING forecasts

USD/CLP: Copper challenges ahead

| | Spot | One month bias | 1M | 3M | 6M | 12M |
|---------|----------|----------------|--------|--------|--------|--------|
| USD/CLP | 954.2300 | Bullish ↗ | 975.00 | 950.00 | 950.00 | 950.00 |

- Leaders in the government and private sector in Chile currently remain in the dark over whether the 50% US copper tariffs will apply to Chile. Whether they do or not remains to be seen, but overall, we think Chile and the peso face headwinds from copper prices. Here, the front-loading of inventory into the US should now be complete and weaker global demand trends should see copper prices starting to come lower.
- The corrective rally in the dollar should drag USD/CLP closer to the upper end of a broad 900-1000 trading range, with domestic rates providing much less protection than in Brazil and Mexico.
- Presidential elections in November could also require a risk premium in what so far has been a good year for Chile’s assets.



Source: Refinitiv, ING forecasts

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