

Latam FX Talking: Yields and nearshoring power MXN ahead

The Mexican peso continues to power ahead. High risk-adjusted implied yields and now some nearshoring investment could see USD/MXN trade down to 17.50. The Brazilian real faces challenges as the central bank is pressured to cut rates. And the Chilean peso looks trapped in a 800-850/USD range for the time being



Bellas Artes Palace in Mexico city

Source: Shutterstock

Main ING Latam FX forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.30 ↑	18.20 ↑	820.00 →
3M	5.30 ↑	18.10 ↓	800.00 →
6M	5.20 ↓	18.00 ↓	800.00 →
12M	5.20 ↓	17.75 ↓	800.00 →

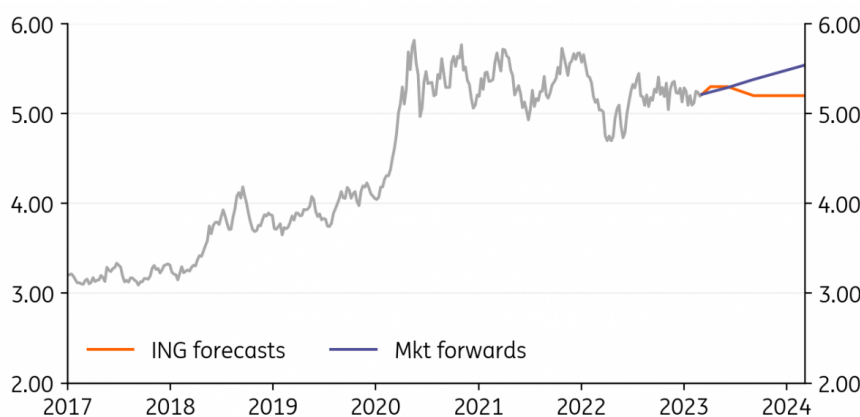
↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source (all charts and tables): Refinitiv, ING forecast

USD/BRL: Politicians and central bank on collision course

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.1958	Mildly Bullish ↗	5.30	5.30	5.20	5.20

- As we mentioned last month, the Brazilian real should have been doing better on the back of the China recovery story. The reason it is underperforming probably owes to domestic politics. Here, the new Lula administration is struggling to balance fiscal constraints with its commitment to help the poor. Hence the removal of fuel subsidies to help the fiscal accounts and the new tax on oil export sales. Equally, pressure is building on Petrobras to cut its margins such that fuel prices do not rise too much.
- That same pressure is being brought to bear on the central bank. The government wants the 13.75% policy rate cut, but the central bank says inflation expectations are moving north.
- We struggle to see the BRL as an attractive target currency.

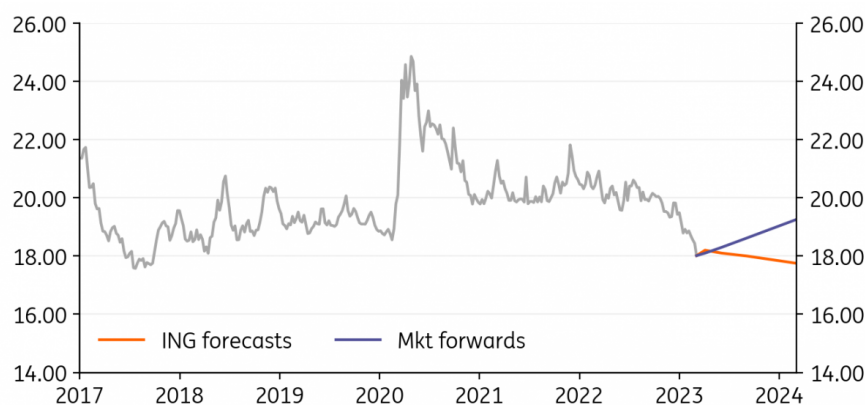


Source: Refinitiv, Macrobond, ING

USD/MXN: Nearshoring in action

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	17.9830	Neutral	18.20	18.10	18.00	17.75

- One of the few calls that has worked out well from our 2023 FX Outlook has been the call for the Mexican peso to benefit from [nearshoring trends](#). Late February saw Tesla announce that its next gigafactory would be built in Mexico, potentially delivering \$5bn of Foreign Direct Investment (FDI). Typically, Mexico sees \$30-32bn of FDI inflow per year, so the Tesla news is a big deal.
- The welcome FDI news comes on top of the MXN providing one of the highest risk-adjusted yields in the world, backed by a local central bank, Banxico, matching the Federal Reserve hike-for-hike.
- It will probably take either a financial crisis in core markets or Banxico refusing to hike any further to reverse MXN strength.

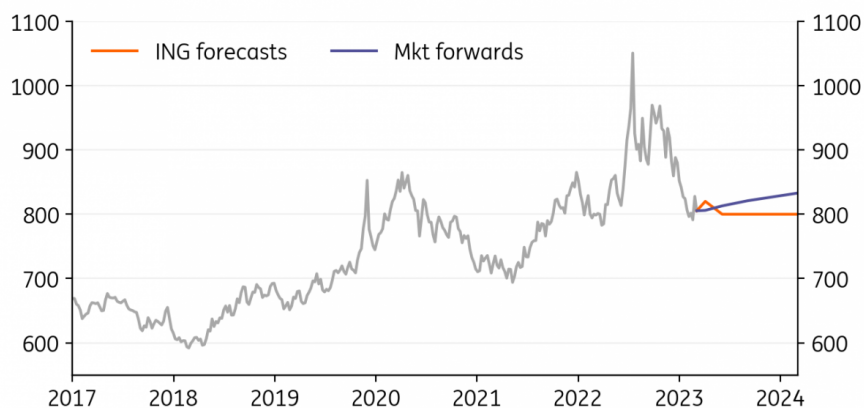


Source: Refinitiv, Macrobond, ING

USD/CLP: CLP gains could run into reserve accumulation story

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	802.7000	Mildly Bullish ↗	820.00	800.00	800.00	800.00

- USD/CLP has been trading well within an 800-850 range and we suspect it will continue to do so for the rest of the year. The China reopening story and the copper rebound is good news for the Colombian peso, but our commodity team thinks a lot of the good news has already been priced into copper.
- USD/CLP could make another run at 850 over the next month as US rates stay firm into the 22 March FOMC meeting. Thereafter the environment should turn friendlier for the CLP. Also helping should be the local central bank leaving rates at 11.25%.
- We're not more bullish on the CLP because: i) we think the central bank may want to rebuild FX reserves and ii) local politics.



Source: Refinitiv, Macrobond, ING

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