

# Latam FX Talking: Regional variations coming through

The Latam region has been hit on the broad deleveraging of positions in emerging markets, even though the likes of Brazil are net energy exporters. We see potential for the Brazilian real to bounce back the most – or at least, outperform the forwards – should the crisis abate. Chile's peso looks the most vulnerable, especially if copper keeps falling



The Brazilian real may have the most potential to bounce back should the current crisis abate

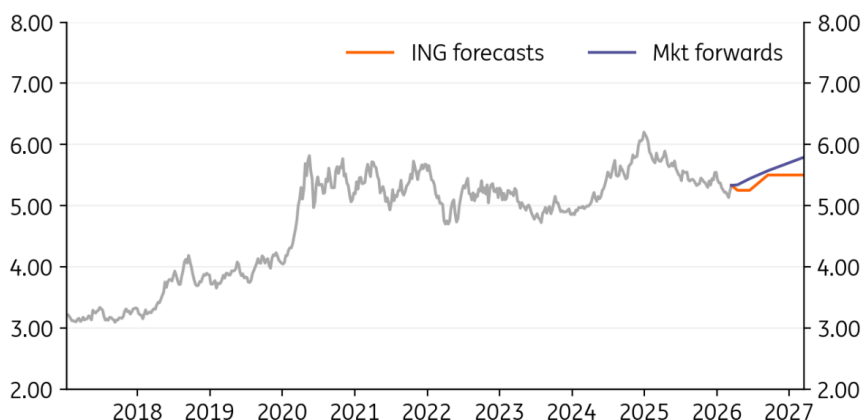
## Main ING Latam FX Forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.25 ↓	17.50 ↓	875 ↓
3M	5.25 ↓	17.75 ↓	875 ↓
6M	5.50 ↓	17.50 ↓	900 ↓
12M	5.50 ↓	17.25 ↓	950 ↑

## USD/BRL: Brazilian assets prove resilient

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.3237		5.25	5.25	5.50	5.50

- Like other EM currencies, Brazilian assets were hit on conflict in the Middle East. This is despite Brazil being a net energy exporter and its terms of trade having risen since the crisis began. Yet local assets have bounced back quickly. Supporting the bond market remains the prospect of the Central Bank of Brazil starting its easing cycle on 19 March. Traders have pared back bets for a 50bp opening cut, but a 200bp easing cycle is still priced.
- Providing the Brazilian real with some support may also be opinion polls. Despite measures to support his base, President Luiz Inácio Lula da Silva is still seen running at 50:50 with the opposition candidate, Flavio Bolsonaro.
- Were external conditions to improve, USD/BRL could trade sub 5.00. Pre-election fiscal giveaways remain the risk.

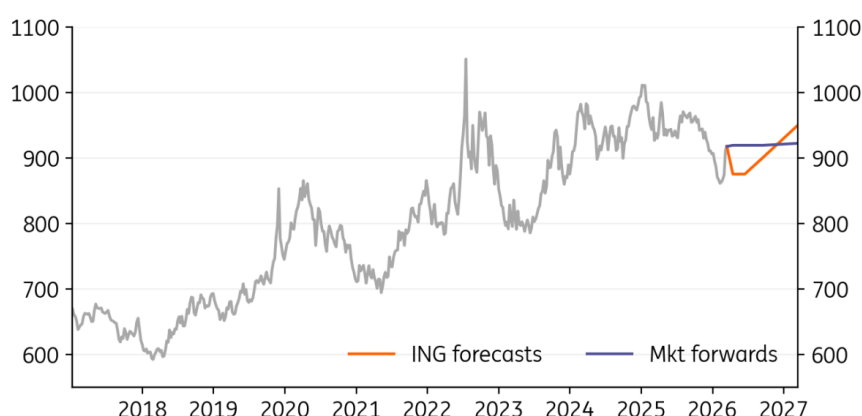


Source: Refinitiv, ING forecasts

## USD/CLP: The wrong kind of commodity rally

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	917.8400		875.00	875.00	900.00	950.00

- The big jump in energy prices has once again exposed Chile's dependence of fossil fuel imports. Petroleum products make up around 20% of Chile's imports. And the Middle East crisis seems to have firmed up a low at 850 in USD/CLP.
- As we discussed last month, we think copper prices may not be quite as friendly for the peso as they have been previously. Copper is edging back under \$13,000/Mt and our commodities team warn of a move back to \$11,000/Mt, particularly later in the year, as overseas supply increases. USD/CLP could be heading back to 950 then.
- Markets have re-priced Chile's monetary policy cycle some 20bp higher during the energy crisis, with limited room for rate cuts.

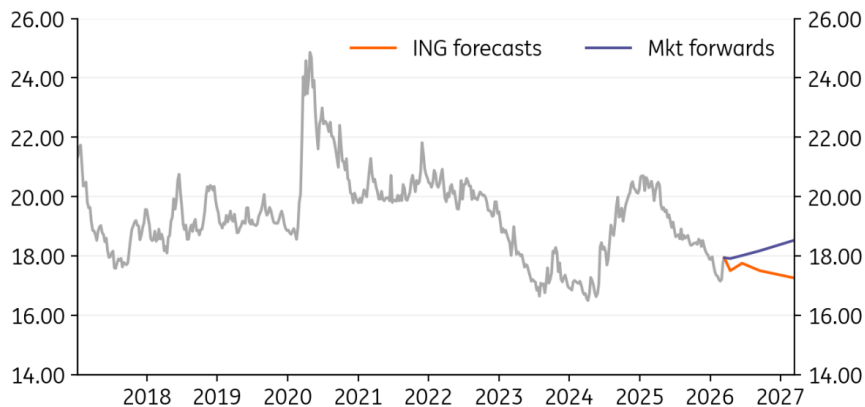


Source: Refinitiv, ING forecasts

## USD/MXN: Riding the global EM tide

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	17.8600		17.50	17.75	17.50	17.25

- With a big weight in EM benchmark indices, Mexican assets were understandably hit on the Middle East energy shock. They are starting on a recovery, with the peso leading the charge. Money markets have now priced out chances of further Banxico rate cuts this year and that leaves the peso with healthy real interest rates near 3%.
- We have a kink in the USD/MXN profile to take account of the USMCA renegotiation. The US is interested in rules of origin, supply chain security and any inroads the USMCA offers China. The deadline is July this year.
- If we are right with a relatively short-lived energy crisis, USD/MXN can end the year near 17.25 and the peso can outperform forwards again.



Source: Refinitiv, ING forecasts

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