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# Latam FX Talking: Hawkish Banxico extends peso gains

Banxico's easing cycle, which started in March, has come to an abrupt halt. Upward revisions to its inflation forecasts question whether Banxico is prepared to again cut rates independently of the Fed. This looks positive for the peso. In contrast, Brazil's backtracking on fiscal consolidation and political pressure to cut rates harder weigh on BRL



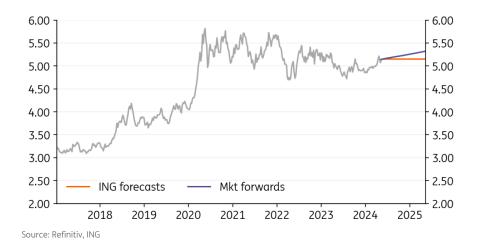
## Main ING Latam FX forecasts

	USD/BRL	USD/MXN	USD/CLP		
1M	5.15 ↓	16.75 ↓	950.00 ↑		
3M	5.15 ↓	16.75 ↓	950.00 ↑		
6M	5.15 ↓	16.75 ↓	950.00 ↑		
12M	5.15 ↓	16.50 ↓	900.00 👃		

# USD/BRL: Easing cycle slows down

		Spot	One month bias	1M	3M	6M	12M
U:	SD/BRL	5.1388	Mildly Bullish 🚜	5.15	5.15	5.15	5.15

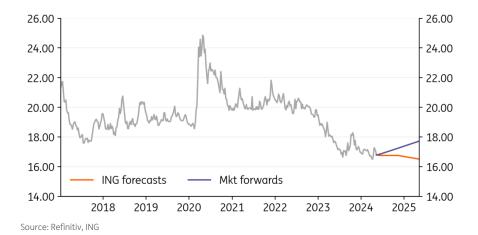
- The Brazilian real has had a better month, although we suspect its gains are fragile. Lower volatility has helped high yield currencies in general, but we doubt USD/BRL is ready to sustain a move under 5.00. In fact, we are a little surprised that the real and Brazilian CDS have not suffered more on the news that the government is scaling back its plans for budget surpluses in 2025 and 2026. This sets the scene for fiscal slippage this year too.
- On the monetary side, BACEN has slowed the pace of rate cuts to 25bp (policy rate now 10.50%) and dropped forward guidance. The 5-4 vote split could raise concerns over political pressure to cut rates a little deeper than necessary.
- Government involvement in the private sector is a worry too.



# USD/MXN: Banxico remains hawkish despite March cut

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	16.7500	Neutral	16.75	16.75	16.75	16.50

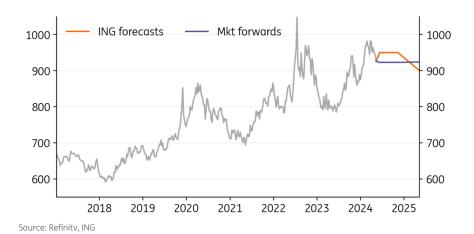
- Having cut rates 25bp to 11.00% in March, Banxico guided expectations of unchanged policy in May. Yet the May meeting proved far more hawkish than most were thinking. Core inflation forecasts were revised up substantially and suggest Banxico will be reluctant to cut independently of the Fed – largely because it might need a strong peso for a little longer.
- Banxico's hawkish shift is music to the ears of peso bulls where MXN's high, risk-adjusted carry keeps it very popular.
- The path ahead after November's US elections is not clear. The peso is too expensive hedge and corporates will probably wait to see who wins the White House and if a new trade war breaks out.



USD/CLP: Don't chase the CLP rally

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	922.2000	Mildly Bullish 🚜	950.00	950.00	950.00	900.00

- USD/CLP has broken lower as the powerful copper rally and softer US rates have finally broken through into Chilean peso pricing. 950 might now prove resistance for USD/CLP. However, we are not looking for copper prices to push much further ahead from here. This because of ongoing woes in the China property market and higher copper inventory levels over there too.
- Expect much focus on the local easing cycle. Inflation is proving sticky near 4.0% and inflation expectations are fractionally on the rise. Another big (50-75bp cut) could unnerve the CLP.
- As discussed last month, we think a wide current account deficit and low FX reserves should maintain a risk premium in the CLP.



### **Author**

### **Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE <a href="mailto:chris.turner@ing.com">chris.turner@ing.com</a>

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