

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
USD/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.



Source: Refinitiv, ING

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.



Source: Refinitiv, ING

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.



Source: Refinitiv, ING

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@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>.