

Article | 16 May 2023

FX TALKING

Latam FX Talking: The irrepressible Mexican peso

The Mexican peso continues to go from strength to strength. Banxico's policy of matching the Fed hiking cycle is really paying dividends. And the peso stands to be the prime beneficiary of nearshoring trends. Elsewhere, investors are giving the new Brazilian administration the benefit of the doubt - but Brazilian real gains may prove temporary



Palacio de Bellas Artes or Palace of Fine Arts, a famous theater, museum and music venue in Mexico City

Source: Shutterstock

Main ING Latam FX forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.10 ↑	18.00 ↑	820.00 →
3M	5.20 ↑	17.75 ↓	800.00 →
6M	5.20 ↑	17.50 ↓	800.00 →
12M	5.20 →	17.00 ↓	800.00 →

↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the

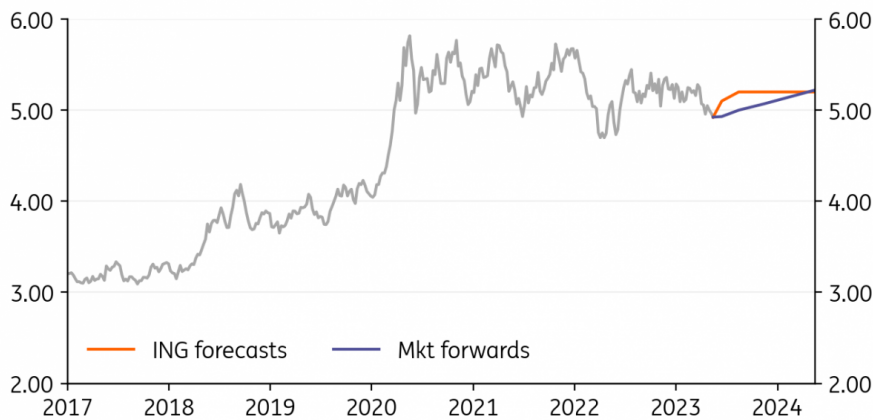
corresponding market forward or NDF outright

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

USD/BRL: Investors give Lula the benefit of the doubt

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	4.9040	Mildly Bullish 	5.10	5.20	5.20	5.20

- USD/BRL is starting to break under 5.00 – a move being accompanied by lower traded FX volatility and lower local sovereign yields. It seems that investors are giving the Lula administration the benefit of the doubt in that fiscal reforms can lead to lower sovereign risk and eventually rate cuts.
- So far, the central bank is pushing back against political pressure for rate cuts – still concerned by rising inflation expectations. Two new government nominations for positions on the central bank board could raise fears over political pressure to cut rates.
- We fear the pressure for slippage on the fiscal side is high and those looking for 12% implied yields should focus on MXN not BRL.

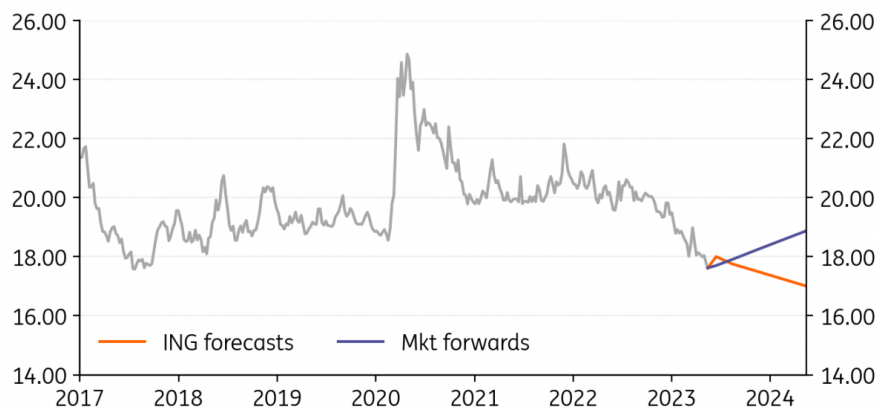


Source: Refinitiv, Macrobond, ING

USD/MXN: Mexico's peso the standout performer

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	17.5760	Mildly Bullish 	18.00	17.75	17.75	17.00

- The Mexican peso is now pulling away as the best performing EMFX currency of 2023. Banxico's maintenance of a 600-650bp spread above Fed rates has helped USD/MXN volatility levels fall and the peso stand out as the world's preferred carry trade currency. Banxico meets 18 May and may deliver one last hike (to 11.50%) before pausing/stopping the tightening cycle.
- Remittances back to Mexico remain high at \$5bn per month, but this year's hot topic will remain 'nearshoring' and the promise of large FDI inflows into Mexico.
- Pressure is building for a USD/MXN to break below the 17.45 low of 2017 - and only long MXN positioning stands in the way.

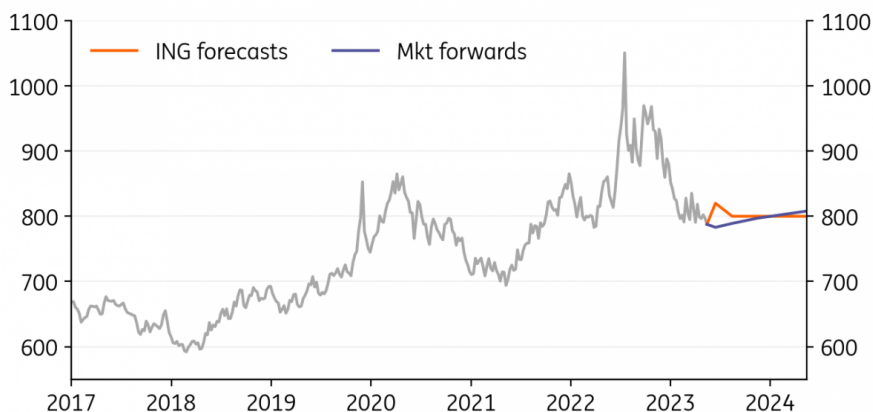


Source: Refinitiv, Macrobond, ING

USD/CLP: Chilean peso will struggle to hold gains

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	779.4500	Mildly Bullish 	820.00	800.00	800.00	800.00

- Institutional investors have made their minds up that rates have peaked and are now looking to receive rates around the world. Chile is no exception, where the market now prices 150bp of rate cuts over the next six months. Any interest to buy local currency bonds is likely to be unhedged because of high hedging costs.
- Yet we are not big fans of the CLP. The commodity environment looks mixed at best and we think investors will be wary that the government once again allows residents to raid pension pots – as they did during the pandemic. That didn't end well for the CLP.
- We favour USD/CLP trading back over 800. FX reserve restocking may play a role here after Chile lost half of its reserves last year.



Source: Refinitiv, Macrobond, 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

THINK economic and financial analysis

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 www.ing.com.