

## 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.

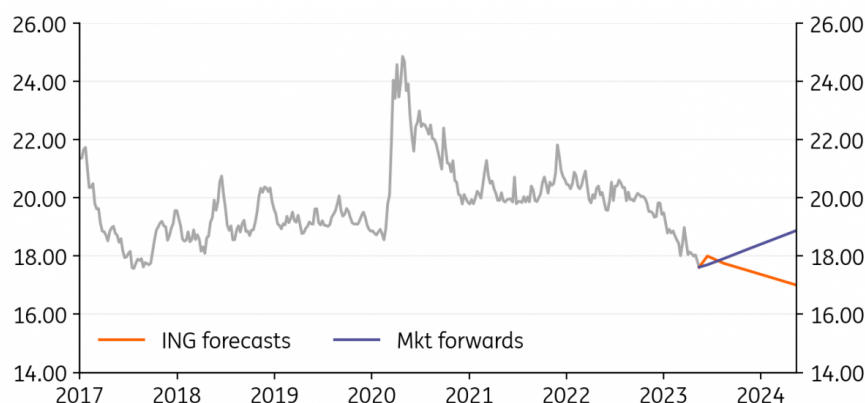


Source: Refinitiv, Macrobond, ING

## 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.

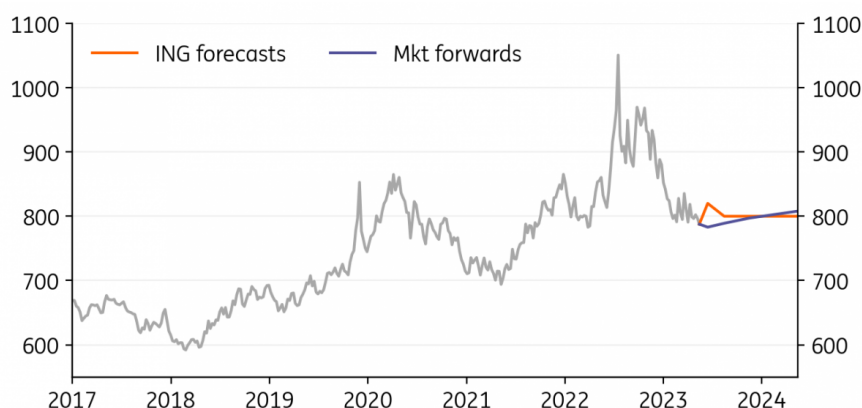


Source: Refinitiv, Macrobond, ING

## 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

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