Latam FX Talking: This time could be different for Mexico

Mexico's peso had an easier ride than most during Trump 1.0 as the NAFTA trade deal was renegotiated quite quickly. However, there is a review of the USMCA (which replaced NAFTA) in summer 2026. We think uncertainty about its renewal could weigh heavily on the peso. And Trump 2.0 looks a broad negative for Latin currencies

Claudia Sheinbaum, President of Mexico

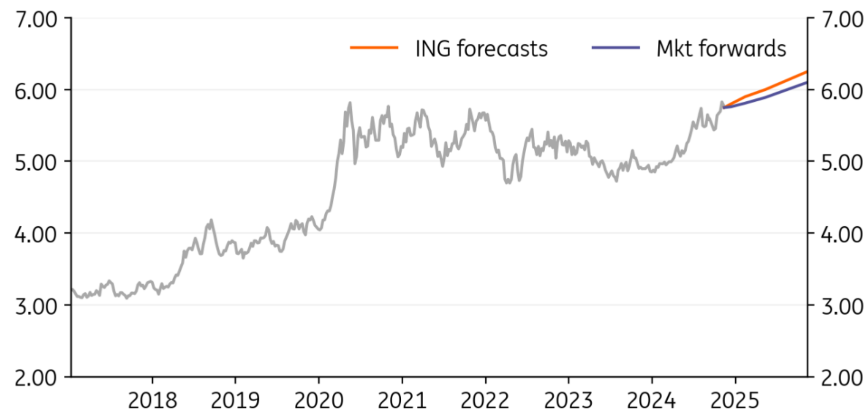
Main ING LATAM FX Forecasts

	USD/BRL		USD/MXN		USD/CLP	
1M	5.80	↑	21.00	↑	975	↓
3M	5.90	↑	21.50	↑	1000	↑
6M	6.00	↑	22.00	↑	1000	↑
12M	6.25	↑	23.00	↑	1050	↑

USD/BRL: Tight monetary policy limits the real's downside

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.7482	Mildly Bullish	5.80	5.90	6.00	6.25

- The real remains under pressure despite the central bank delivering back-to-back rate hikes. The policy rate is now 11.25% and is priced above 13.50% next year. The central bank remains concerned by loose fiscal policy and rising inflation expectations.
- President Lula is at the other end of the ideological spectrum to Trump. Yet some supporters are encouraging Lula to move towards the centre to avoid letting the Bolsonarists back into power in 2026. This will have a major say for the real next year.
- Brazil's fiscal accounts remain fragile and will be pressurised by rising US yields next year. Brazil's large exposure to China also leaves it vulnerable and the real had a tough 2018/2019. Look for gains above 6.00 in 2025 – even though the real is already cheap.

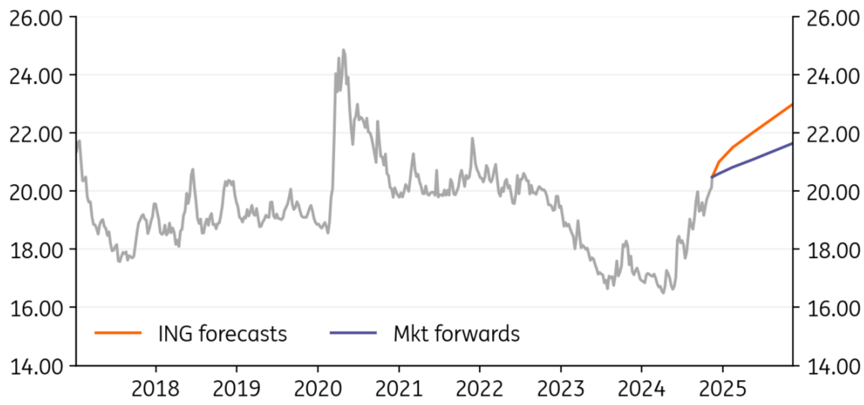


Source: Refinitiv, ING forecasts

USD/MXN: Peso deserves a new and large risk premium

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	20.4900	Mildly Bullish	21.00	21.50	22.00	23.00

- When looking at real exchange rates – i.e., nominal exchange rates adjusted for inflation differentials – the real exchange rates of Brazil and Chile are just 10-15% off the lows seen over the last four to five years. Mexico's real exchange rate is some 35% off the 2020 low and, put simply, the peso has further to fall.
- Trump has made it clear he plans to take aim at those economies running the largest trade surpluses with the US. After China, Mexico has the largest surplus. With trade hawks running the show in Washington, expect Trump to openly question whether the US should renew the USMCA in 2026.
- High interest rates protect the peso to some degree, but the prospect of tariffs should dominate throughout 2025.

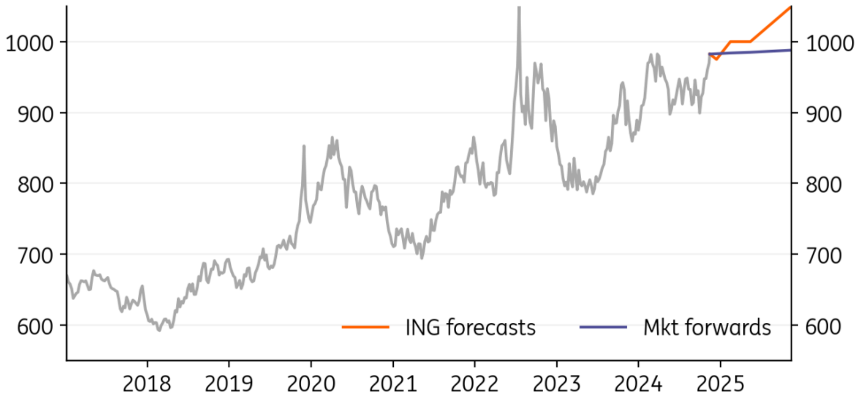


Source: Refinitiv, ING forecasts

USD/CLP: Probably one of the most vulnerable EM currencies

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	982.6000	Neutral	975.00	1000.00	1000.00	1050.00

- Unlike its Latam peers with double-digit interest rate protection, Chile's central bank recently cut rates to 5.25% and wants to cut further. With inflation running around 4%, Chile's real interest rate will soon move inside of 100bp – which is low by EM standards.
- Given the external environment only looks to get tougher on the back of a curtailed Fed easing cycle (stronger dollar) and upcoming tariffs against China, the peso is likely to come under pressure. And Chile's authorities have relatively low FX reserves with which to fight that pressure on the peso.
- Look for $/CLP to be trading up to 1100 next year.



Source: Refinitiv, ING forecasts

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