

## Latam FX Talking: Carry trade unwind recommends caution

Higher volatility led by US rates is causing trouble for the carry trade. Having been big beneficiaries of these flows, high-yield Latam FX is now under pressure. Losses may extend a little further, but the fundamentals of Brazil and Mexico look good, and their currencies should be supported on dips. The wild card this month is the election in Argentina



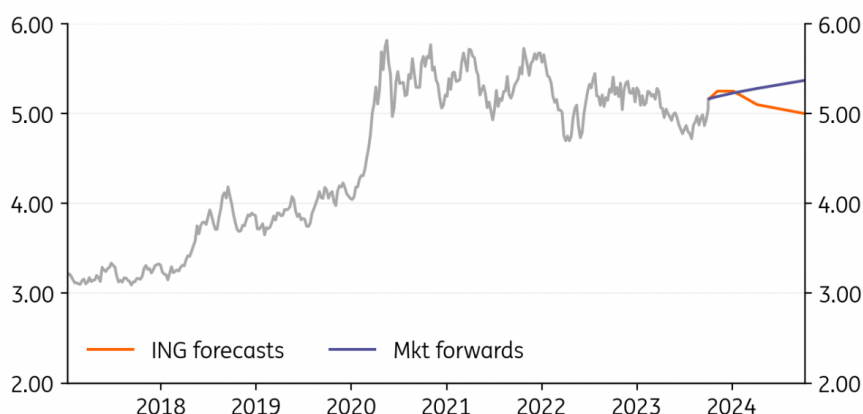
### Main ING Latam FX forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.25 <span>↑</span>	18.50 <span>↑</span>	925 <span>↑</span>
3M	5.25 <span>↑</span>	18.00 <span>↓</span>	900 <span>↓</span>
6M	5.1.0 <span>↓</span>	17.50 <span>↓</span>	875 <span>↓</span>
12M	5.00 <span>↓</span>	16.50 <span>↓</span>	800 <span>↓</span>

## USD/BRL: Local story looks reasonably good

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.1668	Mildly Bullish 	5.25	5.25	5.10	5.00

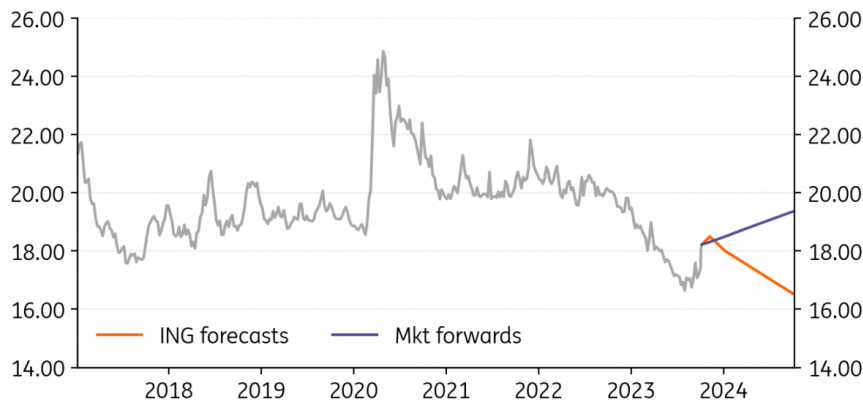
- The BRL has been hit hard by the tough external environment as have all the high-yielding Latam favourites of the carry trade. But Brazil's local story looks alright. On the export side, relatively high iron ore and soybean prices are keeping Brazil's current account deficit in check. And consumer confidence is surprisingly firm.
- Having been pressing the central bank for larger than 50bp rate cuts, the high US rate environment has seen Brazil's expected easing cycle pared back – e.g. the low point for the policy rate is now priced around 10.50/10.75% versus 9.25/9.50% a month or two ago. However, expect BACEN to continue with 50bp cuts.
- Argentine elections Oct 22nd could prove a negative event risk.



## USD/MXN: Carry trade unwind dominates peso

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	18.2200	Mildly Bullish 	18.50	18.00	17.50	16.50

- Last month we warned that a tough external environment and a carry trade unwind could see USD/MXN trade 18.00 – which has been the case. There is outside risk that USD/MXN does trade 18.50/18.75 should US Treasury 10 year yields hit 5.00%+, but again we expect to see good demand for peso on dips.
- Regarding Banxico, the market has priced out 75bp of the expected Banxico easing cycle since the Fed's hawkish meeting Sep 20th. No change is priced in policy for the next six months. Keep a close watch of Banxico voting patterns (e.g. any votes for cuts?). Though this seems unlikely while USD/MXN is above 18.
- MXN can survive looser fiscal policy into a 2024 election year.



## USD/CLP: Easing expectations have not changed much

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	914.4000	Mildly Bullish	925.00	900.00	875.00	800.00

- Unlike in Brazil and Mexico, the sharp rise in US rates has done little to alter pricing of rate cuts in Chile. Here the central bank expects the policy rate (now 9.50%) to be cut to the 7.75/8.00% region by year-end. With core inflation around 7% and falling quickly (plus a likely 2Q/3Q recession in Chile), the central bank can probably get away with these rate cuts without damaging the peso too much.
- Buy USD/CLP is at 900 now, the central bank is buying \$40mn every day to rebuild FX reserves and US rates could go higher.
- Presumably \$/CLP above 950 could slow the easing cycle or potentially suspend the FX rebuild.



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