

# LATAM FX Talking: Brazil struggles to shake off fiscal concerns

The Brazilian real continues to underperform as fears about softer fiscal policy into 2025 weigh on the currency. And while the local central bank has started hiking today, investors will be wary about the new governor. Mexico's peso is stabilising - allowing Banxico to cut rates. And a lack of rate protection could leave Chile's peso vulnerable



## Main ING LATAM FX Forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.60 ↓	20.00 ↑	950 ↑
3M	5.50 ↓	20.00 ↑	950 ↑
6M	5.50 ↓	19.00 ↓	950 ↑
12M	5.50 ↓	19.00 ↓	950 ↑

## USD/BRL: Poor performer

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.5838	Mildly Bullish ↗	5.60	5.50	5.50	5.50

- The real should have been doing a little better on news that China is finally taking measures to reflate its economy. But higher US rates have hurt the real and there are some local challenges as well. At the forefront of those are fiscal concerns. Worryingly, Brazil's recent upgrade by Moody's has not really helped the sovereign CDS. The fear here is that after recent poor local election results, President Lula will accelerate government spending in the run up to the 2026 presidential election.
- Monetary policy should be supportive. BACEN hiked 25bp in September to 10.75% and the market prices 13% in a year.
- The big question, however, is whether new central bank governor, Gabriel Galipolo, proves a dove in hawk's clothing.



Source: Refinitiv, ING forecasts

## USD/MXN: US elections will have a major say in pricing

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	19.4400	Mildly Bullish <span style="color: green;">↗</span>	20.00	20.00	19.00	19.00

- This time next month we will probably know who has won the US presidential election and the composition of the US Congress. A win by Donald Trump would have the greatest impact for the peso where the threat of universal tariffs or the review of the USMCA in 2026 could prove troublesome. The peso was the biggest mover (down) in election week 2016.
- Domestically, Banxico looks firmly set on an easing cycle. It has cut rates three times this year to 10.50% and is expected to take rates to 8.50% by the end of 2025. Core inflation is key here.
- Even though MXN has very attractive real yields, the political uncertainty on both sides of the border keeps us a little bearish.



Source: Refinitiv, ING forecasts

## USD/CLP: Low real rates leave CLP vulnerable

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	924.9500	Mildly Bullish <span style="color: green;">↗</span>	950.00	950.00	950.00	950.00

- The pick-up in US rates since late September has seen Chile's peso underperform within the region. The reason behind that is probably because Chile's real rates only offer wafer-thin protection to the peso. Here, inflation is running around 4% and the local central bank is expected to cut rates to just 5.25% on 17 October.
- China's reflationary policies may offer Chile a lifeline. Though we suspect the monetary/fiscal stimulus will not be sufficient to trigger a wholesale re-assessment of Chinese demand.
- For reference, Chile's peso was one of the worst performers during Trump's 2018-19 trade war against China.



Source: Refinitiv, ING forecasts

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