

Latam FX Talking: Performing well despite local hazards

Latam FX continues to perform well, buoyed by high yields and some firmer prices for key exports. While we are not expecting major setbacks here, we're not looking for major advances either. Here it looks like Brazil is testing the waters on fiscal policy ahead of next year's election and the Mexican peso could still be derailed by USMCA renegotiation



Main ING Latam FX Forecasts

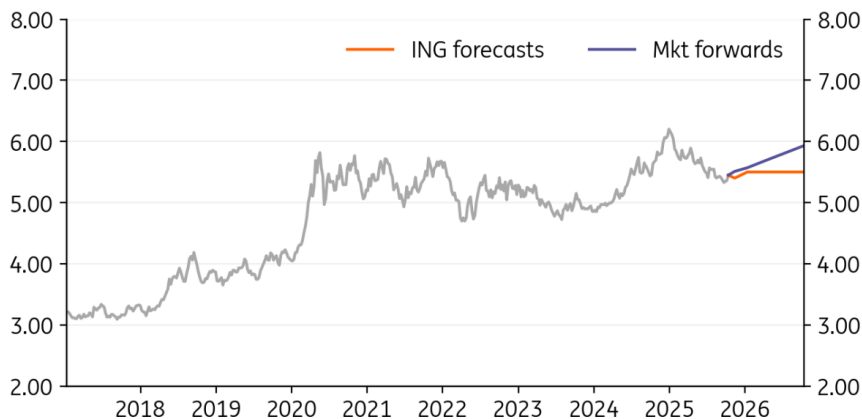
	USD/BRL	USD/MXN	USD/CLP
1M	5.40 ↑	18.40 ↑	925 ↑
3M	5.50 ↑	18.25 ↑	925 ↑
6M	5.50 ↑	18.25 ↑	925 ↑

12M	5.50 ↑	18.00 ↑	925 ↑
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USD/BRL: Real holds gains

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.48	Neutral	5.40	5.50	5.50	5.50

- The summer of carry saw the real benefit in the third quarter – USD/BRL was down around 2%. Even though implied yields have come down a little, at 13%+ they are still attractive and are seen to outweigh the local and international political risks. At the same time, BACEN remains quite hawkish. At its September meeting it was even threatening to raise its 15% policy rate rather than cut.
- The challenge for BRL will be October 2026 Presidential elections. Growth is expected to slow from above 2% down to 1.5% and the Lula administration may be tempted into fiscal giveaways.
- The world is watching Trump-Lula relations. Any warming and a reduction in the 50% tariff rate would be BRL positive.



USD/MXN: Tariff story isn't over yet

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	18.5200	Mildly Bearish ↘	18.40	18.25	18.25	18.00

- Mexican growth is expected at a weak 0.5% this year and only expected to pick up to 1.3% in 2026. Currently about 50% of its exports to the US are USMCA compliant (at 0% tariffs). The ambition is to make that 80-85%. Remember as well that the USMCA is due for a renegotiation next July – presenting further opportunities to Washington for leverage. Non-USMCA exports are tariffed at 25%, steel at 50% and now heavy trucks at 25%.
- Banxico has already cut rates to 7.50% and may cut another 50bp over the next six months on a view that inflation will be back at its 3.0% target by third quarter 2026.
- We and consensus had not expected the peso to get this strong and we still do struggle to see USD/MXN below 18.00.



USD/CLP: The peso should be doing a lot better

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	959.5000	Bearish ↘	925.00	925.00	925.00	925.00

- The outage at the world's second largest copper mine, Grasberg in Indonesia, has sent copper above \$10,500/MT. Chile's terms of trade are flying high and the peso should be doing a lot better. If and when US data can confirm the weak US labour market, USD/CLP should now be pressing the 925 area.
- Perhaps holding the peso back is the knowledge that the central bank is restocking FX reserves to the tune of \$18bn. This is a three-year plan equating to \$25m of USD/CLP buying per day.
- The peso may also find more support in the run up to the 16 November general election on the view that market-friendly Jose Antonio Kast will be elected president. Polls suggest he is expected to defeat the left-wing candidate 49% to 32% in the second-round run-off.



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