

# LATAM FX Talking: Domestic stories dominate

It has been a tough month for Latam currencies - largely due to domestic stories. We fear the Mexican peso has yet to see the worst of the selling pressure, as the Morena party pushes through unpopular reforms. Brazil's real remains weighed down by fiscal concerns and weak China demand is hitting copper and Chile's peso



## Main ING LATAM FX Forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.65 ↑	20.50 ↑	950 ↑
3M	5.50 ↓	20.00 ↓	950 ↑
6M	5.50 ↓	19.00 ↓	950 ↑
12M	5.50 ↓	19.00 ↓	950 →

## USD/BRL: 'Fiscal steroids'

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.5992	Mildly Bullish ↗	5.65	5.50	5.50	5.50

- Some have described Brazil's strong economic growth of 2Q24 as being driven by 'fiscal steroids.' And certainly, it is the fiscal side weighing on the currency right now. The rolling 12-month budget deficit is now 10% of GDP and expectations of fiscal rectitude are low in 2025 as the Lula administration prepares for elections in 2026. Despite promising a balanced primary budget in 2025, investors question government revenue forecasts.
- Weakness in the real and rising inflation expectations now has the market pricing in a 175bp tightening cycle starting 18 September. Failure to deliver on that could hit the real.
- In late August the central bank sold \$2.2bn in spot markets to defend the real. Expect more intervention over coming months.

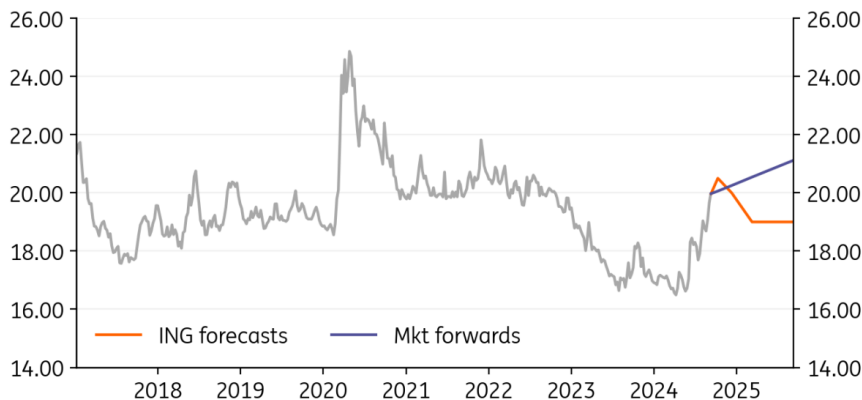


Source: Refinitiv, ING forecasts

## USD/MXN: Morena pushes on with judicial reforms

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	19.9700	Mildly Bullish ↗	20.50	20.00	19.00	19.00

- The peso remains under pressure as the Morena administration pushes ahead with its plan to reform the judiciary. Recall the plan is to have judges, even supreme court judges, elected by popular vote – threatening their independence. Despite financial market unease, these reforms have already passed by a two-thirds majority in the lower house and now head into the Senate. Passage in the Senate could trigger another leg lower in MXN.
- Banxico is trying to hold a dovish line here citing the better path for core inflation. Rates are expected to be cut 175bp over the next year, although a move on 26 September may be too early.
- A lower USD/JPY won't help the MXN recover quickly either.



Source: Refinitiv, ING forecasts

### USD/CLP: Scope for faster rate cuts weighs on peso

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	944.0000	Neutral	950.00	950.00	950.00	950.00

- USD/CLP has drifted back to the 950 area, driven by both y softer copper prices and more recently by the last central bank rate cut to 5.50%. It was not the 25bp adjustment which hit the peso, but more the statement saying that rates could be cut faster to neutral (4.25%). With real rates already relatively low in Chile, the peso did not like the news of further and quicker rate cuts.
- Our commodities team thinks copper prices could stabilise around current levels (\$9000/MT), helped by Fed easing and weak Chinese demand already being priced into the metal.
- US elections pose a significant risk to the peso were trade wars with China to ratchet higher to a new level.



Source: Refinitiv, ING forecasts

## Author

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.