

Latam FX Talking: Carry trade remains the dominant theme

Latin currencies continue to be buoyed by interest in the carry trade, to which Fed rate cuts, more liquidity and low volatility should all be conducive. The main risks to something like the Brazilian real remain political, whether Washington takes a greater interest in Brazilian free speech or President Lula's pre-election spending plans



Rio de Janeiro, Brazil. Current risks to the real are largely political, whether at home or abroad

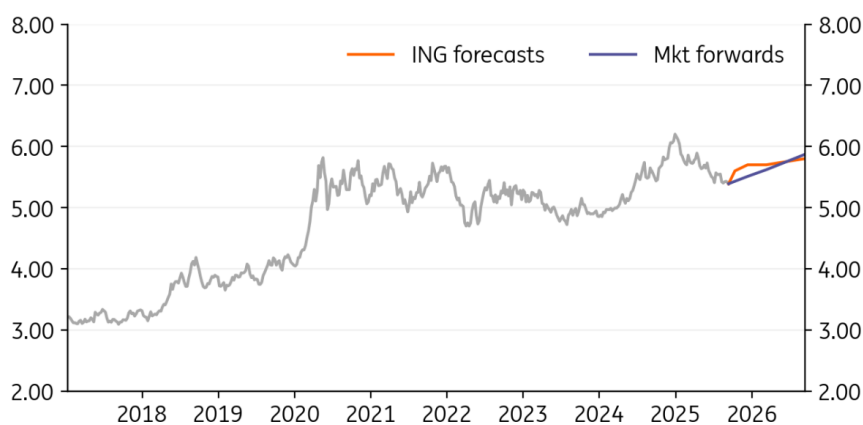
Main ING Latam FX Forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.60 ↑	18.60 ↑	945 ↑
3M	5.70 ↑	18.25 ↑	925 ↑
6M	5.70 ↑	18.25 ↑	925 ↑
12M	5.80 ↑	18.00 ↑	925 ↑

USD/BRL: Real performing well

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.39	Mildly Bullish ↗	5.60	5.70	5.70	5.80

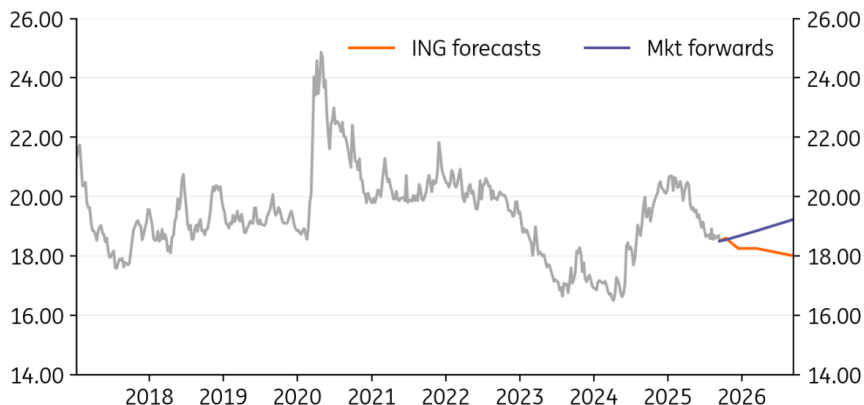
- The global demand for carry is lending support to the Brazilian real as well. Implied yields are 13.3% p.a. available through the three-month forward and are very attractive when compared to inflation of around 5%. The central bank, BACEN, will probably be able to start cutting its 15% policy rate in January, and the market currently prices a 250bp easing over the next 15 months.
- The economy is performing well, growing at 0.4% quarter-on-quarter in the second quarter. Rising commodity prices will help too.
- Politics is the biggest risk here through: a) Washington raising threats to protect former president Jair Bolsonaro, or b) President Luiz Inácio Lula da Silva overreaching on public spending ahead of next year's election.



USD/MXN: Banxico ready to follow the Fed with lower rates

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	18.4900	Mildly Bullish ↗	18.60	18.25	18.25	18.00

- Like fellow high-yielders, the Mexican peso has been performing well. 18.50 seems temporary support in USD/MXN, but a soft dollar environment into year-end points to 18.25, if not 18.00. Expect Banxico to follow the Fed easing cycle now, given that it seems confident that inflation will hit its 3.00% target next summer and growth forecasts remain soft.
- Interestingly, markets only price a 75bp Banxico easing cycle to 7.00%, whereas the Fed looks set to cut 125-150bp. In short, Banxico could cut more deeply than current pricing.
- We suspect it will be an external shock that triggers any MXN correction rather than any local news.



USD/CLP: FX intervention campaign to limit CLP gains

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	950.0000	Mildly Bearish ↘	945.00	925.00	925.00	925.00

- To repeat what we said last month, we are not more bullish on the Chilean peso since the central bank has just announced a new FX reserve building programme of \$25m per day for three years, to a total of \$18.5bn. This is partially to offset a \$14bn IMF credit facility expiring next year.
- Otherwise, we would be looking for the peso to play catch-up with some of the other regional peers. On the positive side, investors have positioned for the success of right-wing candidate José Antonio Kast in November’s presidential election.
- With copper in demand on the back of the softer dollar, Chile’s terms of trade are very strong – warning USD/CLP tests 930.



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