

Latam FX Talking: The end of a love affair

Latam FX has had a shocking month. At the heart of the story has been the massive election win for Mexico's ruling party and its intention to push through some worrying institutional reforms. In Brazil, President Lula is making all the wrong noises around fiscal consolidation. We suspect long positioning in both the peso and the real can be unwound further



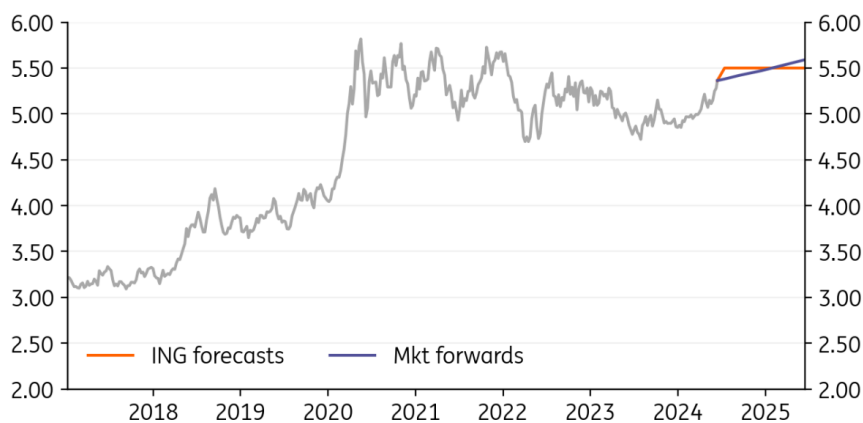
Main ING Latam FX Forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.50 ↑	19.00 ↑	950.00 ↑
3M	5.50 ↑	19.00 ↑	950.00 ↑
6M	5.50 ↑	19.00 ↓	950.00 ↑
12M	5.50 ↓	19.00 ↓	900.00 ↓

USD/BRL: Lula starts to flex his populist muscles

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	5.3633	Mildly Bullish ↗	5.50	5.50	5.50	5.50

- Brazilian asset markets are starting to soften. The sharp sell-off in Mexico has not helped, but we are starting to hear some quite worrying comments from President Lula. He seems to have little appetite to cut government spending to hit fiscal goals and instead seems to be relying on interest rate cuts. Local Brazilian government yields have been rising and if the market starts to think he is really exerting pressure on BACEN to cut rates, the Brazilian real will tumble.
- There is a BACEN meeting on 19 June. Recall the real was hit in May when political appointees voted for a bigger rate cut.
- USD/BRL looks biased towards 5.50, despite the weaker USD.



Source: Refinitiv, ING forecasts

USD/MXN: Morena's threat of constitutional reforms upends MXN

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	18.5600	Mildly Bullish ↗	19.00	19.00	19.00	19.00

- We, and the market, had thought that Mexican elections would be a non-event with a smooth transfer of power from AMLO to Claudia Sheinbaum. However, the Morena party's gains were so large that it looks that it will have the power to change the constitution. This has sent shockwaves through the market fearful that AMLO is seeking to dismantle independent institutions and removes checks on his regime.
- The 11% sell-off so far in the peso means that Banxico's plans to cut rates have been curtailed. Rates could stay at 11.25% all year.
- The peso may not recover until much later in the year. Investors will want to see what the new Congress does in September.



Source: Refinitiv, ING forecasts

USD/CLP: Last Latam currency standing

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	917.9000	Mildly Bullish ↗	950.00	950.00	950.00	900.00

- Latam currencies have had a bad month. Even the high yield Colombian peso has been hit with concerns about fiscal slippage and changes to the debt limit. Yet Chile's peso has managed to post modest gains against the dollar – largely buoyed by copper prices. Our commodities team, however, thinks that the Chinese glut of finished copper means that copper prices will come down over the next couple of months. This could weigh on Chile's peso.
- The local central bank is expected to push ahead with rate cuts on 18 June. The risk is that a 50bp cut hits the peso.
- With low FX reserves and a largish (4% of GDP) current account deficit, we remain concerned about the peso.



Source: Refinitiv, ING forecasts

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