

## Latam FX Talking: Things are looking up

The region's currencies continue to perform well in a low-volatility world looking for carry trade opportunities. The Mexican peso remains the standout performer and should hold onto its gains. And there is the clear risk that we are underestimating the chances of a more positive re-assessment of the Brazilian real, as sovereign risk premia narrow



The president of Mexico boasts of the historical strength of the peso against the dollar, Mexico City

Source: Shutterstock

### Main ING Latam FX forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	5.10 ↑	17.50 ↑	800.00 →
3M	5.20 ↑	17.25 ↓	800.00 →
6M	5.20 ↑	17.00 ↓	800.00 →
12M	5.20 ↑	16.50 ↓	800.00 →

↑ / → / ↓ indicates our forecast for the currency pair is above/in line with/below the corresponding

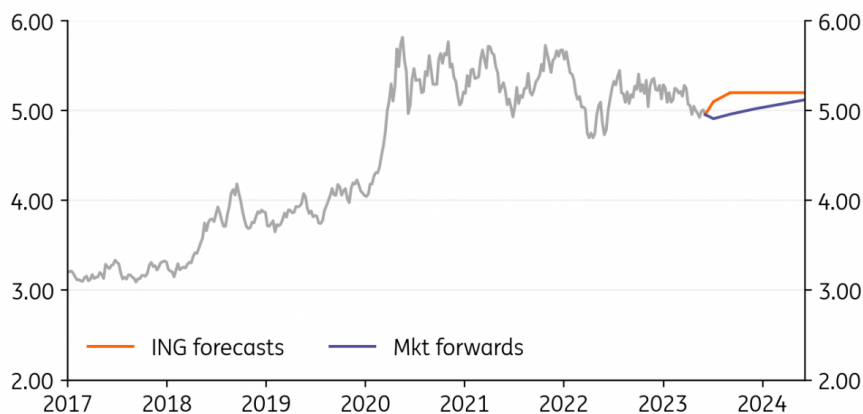
market forward or NDF outright

Source (all charts and tables): Refinitiv, ING forecast

### USD/BRL: Investors are warming to the Brazil trade

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	4.8796	Bullish ↗	5.10	5.20	5.20	5.20

- We have not been big fans of the Brazilian real but have to admit that a bullish case could be building and that we risk missing a strong rally. The bull case is that a credible central bank, operating now with 'patience & serenity', is keeping rates at 13.75% to ensure that inflation really does come under control. With inflation now at 4%, real rates are very attractive.
- Equally, bond investors have bought into fiscal credibility – where Brazil's five-year CDS is now trading under 200bp and yields on the 10y local currency have fallen to 11.20% from 13.65%.
- A final Fed hike this summer could keep USD/BRL not far from 5, but our forecasts will be on review for a possible revision to 4.50.

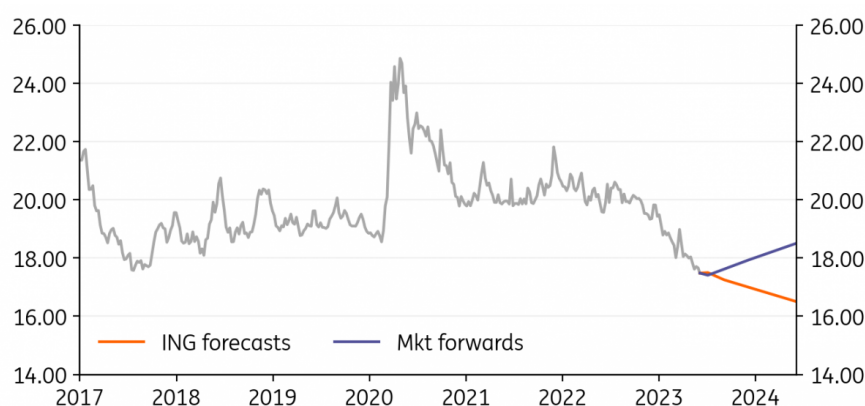


Source: Refinitiv, Macrobond, ING

## USD/MXN: Peso remains the market's best friend

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	17.3040	Neutral	17.50	17.25	17.00	16.50

- The continued fall in cross-market volatility is favouring the carry trade, where the Mexican peso continues to offer high risk-adjusted returns. This is becoming a crowded trade – meaning that any corrections could be violent – but the core story remains a strong one for the peso. Namely, high yields, good country risk and a country well-positioned for the nearshoring story in the new bipolar geopolitical world.
- Banxico's policy has certainly helped the peso. A small risk is MXN coming under pressure should Banxico fail to match a summer hike from the Fed – but that seems manageable.
- If we're right with our weaker dollar call, USD/MXN can trade sub- 17.

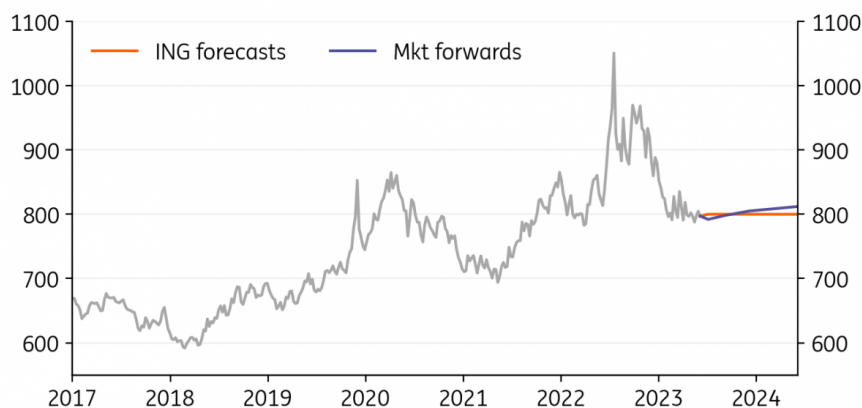


Source: Refinitiv, Macrobond, ING

## USD/CLP: Peso doing well – less compelling case to be bullish

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	788.3000	Neutral	800.00	800.00	800.00	800.00

- USD/CLP is drifting towards the lower end of this year's ranges as low volatility conditions encourage investments in EM high yielders such as Chile. Some modest bounce back in copper and iron prices over recent weeks is providing support to the peso. However, our commodities team still favours a mixed outlook for metals amid weak growth in China's property sector.
- Expectations are that the central bank will start to cut rates within three months. That seems a little soon given that core inflation is still 10% and the central bank's target is 3%.
- The mixed metals outlook and our view that the central bank may want to rebuild FX reserves keeps us neutral on USD/CLP.



Source: Refinitiv, Macrobond, ING

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