

# Latam FX Talking: Will peso strength lead to early Banxico easing?

Latam currencies have started the year in mixed fashion. The Mexican peso remains very much in demand, but frankly, Chile's peso should have performed better. Looking ahead, one of the big stories will be how the peso copes with some early Banxico easing - potentially in February. We think it will be fine



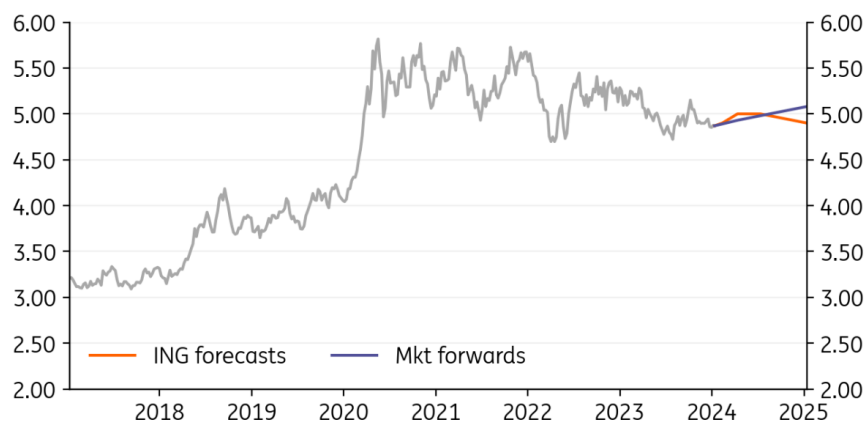
## Main ING Latam FX forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	4.90 →	17.25 ↑	900 ↓
3M	5.00 ↑	17.00 →	875 ↓
6M	5.00 →	16.75 ↓	850 ↓
12M	4.90 ↓	16.75 ↓	850 ↓

## USD/BRL: Treading carefully in Brazil

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	4.8698	Neutral	4.90	5.00	5.00	4.90

- The real has traded on a steady footing over recent months and has only marginally underperformed the strong Mexican peso. The central bank continues with its orderly easing cycle – delivering a 50bp cut to 11.75% in December and encouraging market expectations of three further 50bp cuts in February, March and May to take the selic rate to 10.25%. The low point of the cycle is seen at 9.25/50% towards year-end.
- We do see some headwinds for the real, however. The primary challenge remains fiscal – does Congress support plans for the 0% primary fiscal deficit in 2024? Votes will take place shortly.
- Also, one of Brazil's key exports, iron ore, looks to have run higher too far, too fast and a correction could hold the real back.

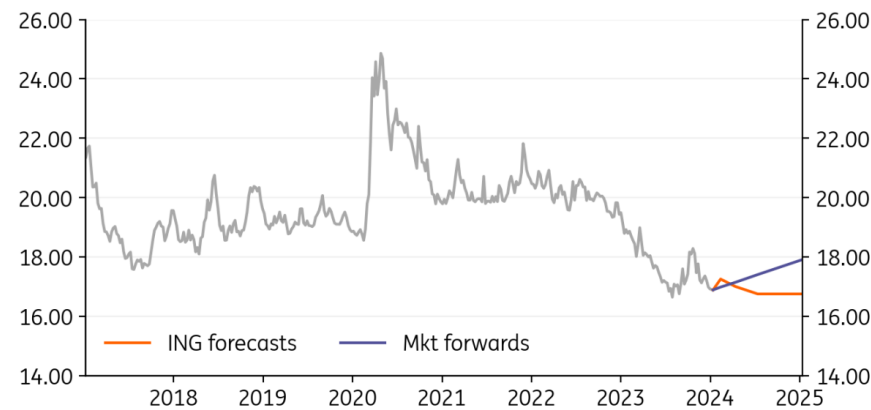


Source: Refinitiv, ING

USD/MXN: Strong peso to allow early Banxico easing?

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	16.8800	Mildly Bullish 	17.25	17.00	16.75	16.75

- The peso continues to perform well – largely helped by its impressive implied yields above 11% and a lack of direction in core markets. In addition, macro investors like the loose fiscal/tight monetary policy setting in Mexico this year as well as the nearshoring/North America growth story.
- The market is starting to consider some early Banxico easing. 50bp of cuts are priced over the next six months and 175bp over the next 12. We think that could be too conservative and that the strong, real trade-weighted peso could spark some early easing. Remember, the 575bp policy spread over the Fed is wide.
- With real rates so high in Mexico, we doubt early Banxico easing damages the peso – and see it staying in a 16.75/17.25 range.



Source: Refinitiv, ING

## USD/CLP: Some worrying signs for the peso

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	911.0600	Neutral	900.00	875.00	850.00	850.00

- Supply problems for copper (a major mine in Panama being permanently shut) and some very strong terms of trade gains for Chile should have been great news for the peso late last year. However, the peso lagged its Latam peers and could be at the forefront of any losses should the environment deteriorate.
- Perhaps one could argue that the central bank shifting to a more aggressive 75bp rate cut in December has hurt the peso - the market now prices a 400bp easing cycle this year – a move encouraged by central bank communication.
- Given Chile's 3%+ of GDP current account deficit, CLP may struggle to post outsized gains and could be the first to sell off.



Source: Refinitiv, ING

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