

Latam FX Talking: Policy rates are coming down quickly

We have been seeing some sharp rate cuts across Latin America. These have weighed heavily on Chile's peso and may well have been holding back the Brazilian real, too. The Mexican peso has been the dramatic outperformer, but we are fearful it is starting to become a little too strong. We continue to like MXN, but do not see USD/MXN holding below 16.50 levels



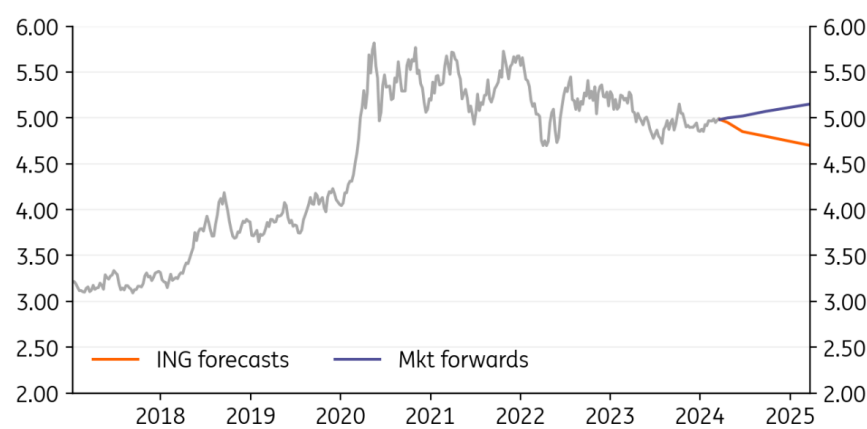
Main ING Latam FX forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	4.95 ↓	17.00 ↑	975.00 ↑
3M	4.85 ↓	16.75 ↓	950.00 ↓
6M	4.80 ↓	16.75 ↓	900.00 ↓
12M	4.70 ↓	16.50 ↓	850.00 ↓

USD/BRL: BRL lagging a little

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	4.9823	Neutral	4.95	4.85	4.80	4.70

- BRL/MXN has dropped to the lowest levels since 2003. That’s largely down to MXN strength, but USD/BRL recently has popped above 5.00. Driving that move was government intervention to prevent Petrobras paying a special dividend. Notably, Brazilian equities are substantial underperformers in the region.
- Hurting the Brazilian real has been the fall in iron ore which has seen Brazil’s terms of trade fall 30% this year. However, we doubt iron ore needs to fall much further even though China remains soft.
- In terms of central bank policy, the recent 50bp cut to 10.75% has seen the language change. It suggests only one more 50bp reduction and then smaller cuts – probably to the 9.50% area.



Source: Refinitiv, ING

USD/MXN: Peso to hold gains despite start of Banxico easing

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	16.7700	Mildly Bearish ▼	17.00	16.75	16.75	16.50

- Banxico has just started its easing cycle with a 25bp rate cut to 11.00%. It has not provided much forward guidance - probably because it requires flexibility around Fed policy too. Banxico has not said much about the very strong, inflation-adjusted peso. However, it is up 16% YoY and at the highest levels since 2008 and could start to become a problem.
- The above is our preference in that the rates market will probably take the strain (i.e. steady cuts from Banxico this year) and USD/MXN continues in a 16.50/17.00 range rather than dropping below 16.00 when the Fed cuts.
- Donald Trump remains the wild card - most recently threatening 100% tariffs on Chinese cars made in Mexico.

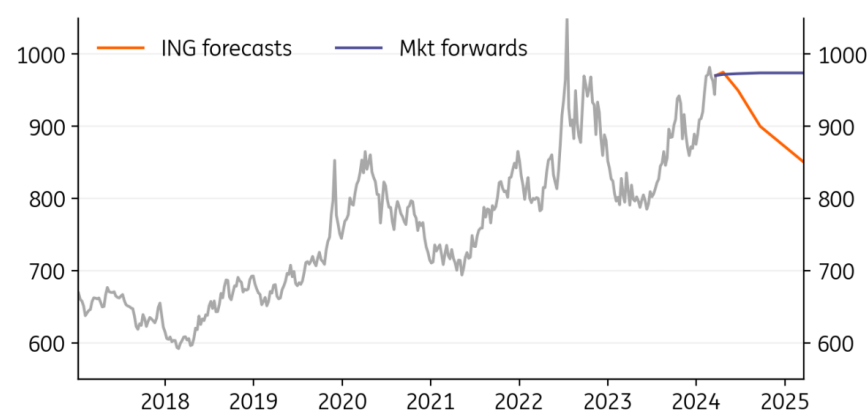


Source: Refinitiv, ING

USD/CLP: Peso bailed out by the copper rally

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	970.3000	Neutral	975.00	950.00	900.00	850.00

- USD/CLP has reversed from near 1000. Some slightly better activity data may have helped (2023 GDP was positive after all), but the big story is the rally in copper. Our team has discussed the reasons for copper’s rally [here](#). This story has seen Chile’s terms of trade improve markedly and provided some support to an otherwise negative near-term outlook for the peso.
- Here, the central bank seems to have abandoned the currency and gone for growth with large rate cuts. Another large rate cut on 2 April could send USD/CLP back up to 1000.
- However, if we are right with 125bp of Fed rate cuts starting in June, a growth-friendly environment could take USD/CLP sub 900.



Source: Refinitiv, ING

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