

Latam FX Talking: Rethinking the real

Local policymakers are sounding more confident on growth in Brazil. Should that arrive, it'll take some of the pressure off the fiscal side. We're modestly upgrading our Brazilian real forecasts this month. Mexico's peso continues to perform well and ride out Trump fears. And the decision of Chile's central bank to slash rates leaves the peso vulnerable



Sugarloaf Mountain in Rio de Janeiro, Brazil

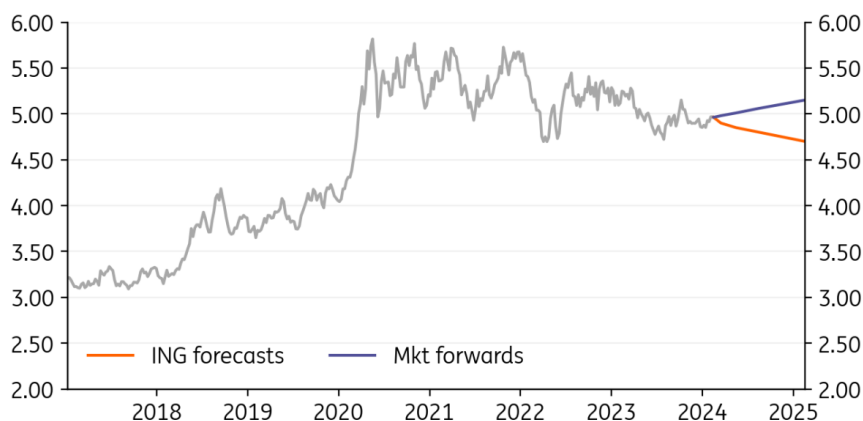
Main ING Latam FX forecasts

	USD/BRL		USD/MXN		USD/CLP	
1M	4.90	↓	17.25	↑	900.00	↓
3M	4.85	↑	17.00	↓	875.00	↓
6M	4.80	↑	16.75	↓	850.00	↓
12M	4.70	↑	16.75	↓	850.00	↓

USD/BRL: Upgrading the BRL forecast

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	4.9627	Mildly Bearish ↘	4.90	4.85	4.80	4.70

- USD/BRL has been trading a very tight range, meaning that both realised and implied volatility has been falling. This is good for investors in the BRL carry trade, where 10% implied yields remain attractive. The BRL has survived the back up in USD rates well.
- Locally, Finance Minister Haddad is briefing that consensus is too pessimistic on flat QoQ growth in 4Q23 and full year 24 growth of 1.6%. He looks for 2% growth minimum. Brazilian assets markets could get an upgrade should China's Two Sessions meeting in March produce results. Better growth can help the fiscal side too.
- BACEN still seems comfortable to cut the policy rate (now 11.25%) another 100bp over the next two meetings.



Source: Refinitiv, ING

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

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	17.0700	Mildly Bullish ↗	17.25	17.00	16.75	16.75

- The back-up in US rates has failed to dent the peso's appeal. Nor has Banxico's recent admission that it could start cutting rates at coming meetings. A 25bp rate cut in March now looks likely. However, Banxico has said it will be very cautious in its rate cutting cycle and the starting point for real rates in the 6%+ area suggests the peso does not have to sell off as easing starts.
- Fourth quarter growth slightly disappointed last year, but consensus 2024 GDP growth is still 2.2% - which should be supported by loose fiscal policy this year. Elections in Mexico are held in June.
- Factoring US elections is a tough call into the peso, but a variety of positive factors suggests MXN outperforms its forward curve.



Source: Refinitiv, ING

USD/CLP: Peso at some worrying levels

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	962.9500	Mildly Bearish ↘	900.00	875.00	850.00	850.00

- Chile's peso stands out as the worst performer in the Latin space this year. Driving the sell-off has really been the central bank's aggressive easing cycle. In January, the policy rate was slashed again by 100bp (now 7.25%) with one member voting for a 125bp cut. Low inflation has allowed the central bank to solely focus on promoting growth. It seems that real rates coming inside of 5% has been enough to hurt the peso.
- USD/CLP has traded back up to the 950 level which prompted the central bank to slow easing and stop its FX rebuild last October. Unfortunately, FX intervention to support CLP is a no-go.
- CLP could be helped by China stimulus or a weaker dollar in 2H24.



Source: Refinitiv, ING

{/exp:ce_str:ing}

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss

arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.