

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

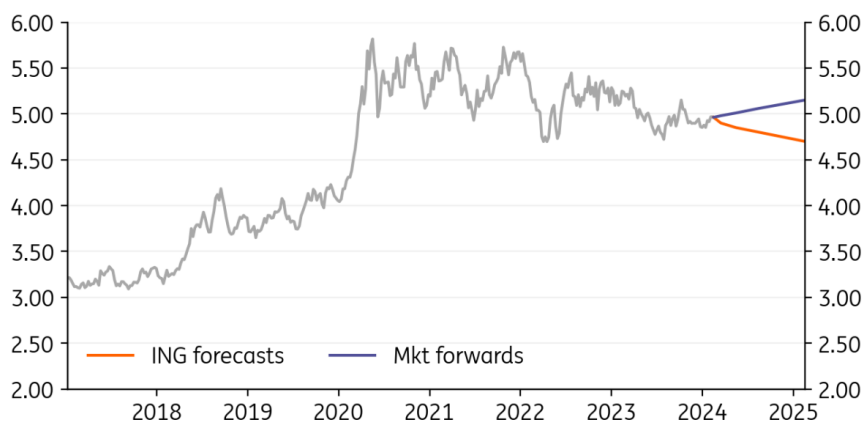
Main ING Latam FX forecasts

	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.

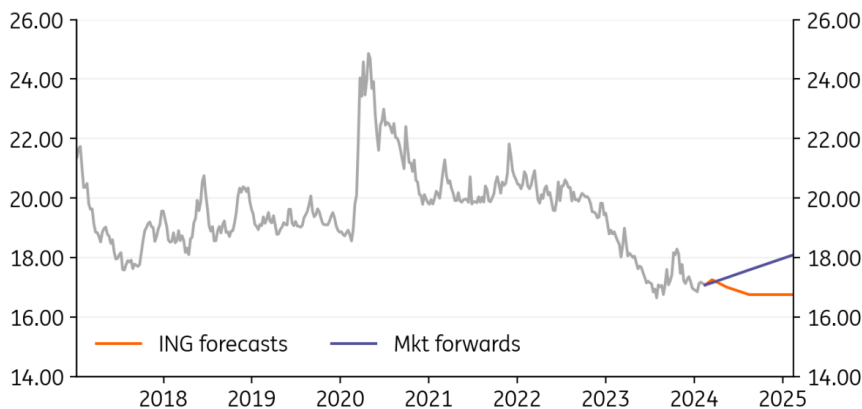


Source: Refinitiv, ING

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

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