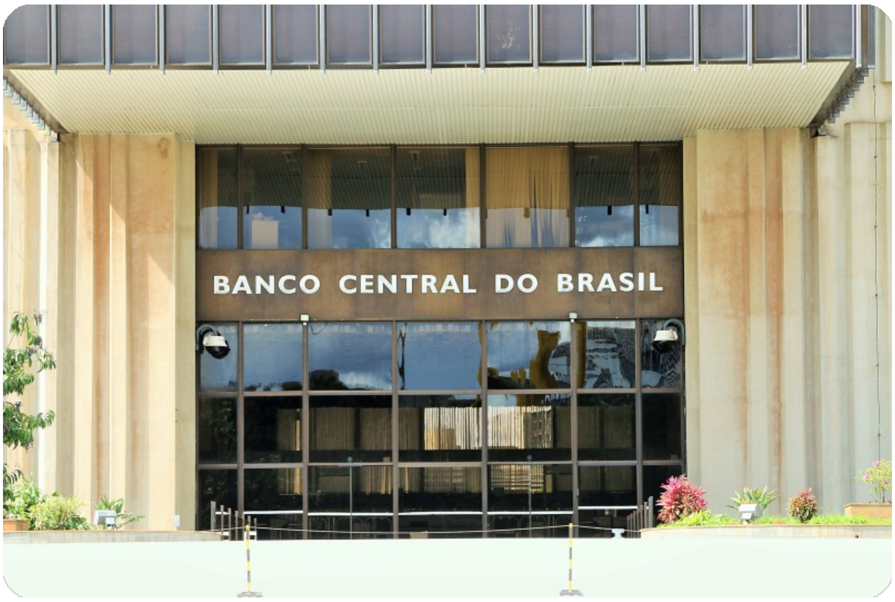
Opinion | 19 August 2026 RATES BRAZIL MEXICO

Mapping rate tensions in Latin America

Colombia and Brazil have built large rate buffers. Of the two, Colombia is more primed for eventual cuts. Mexico and Chile have zero-to-negative rate buffers. Both are market-primed for eventual hikes. If the Fed does not hike, but instead cuts in 2027 (our view), there is a material effect to be had on realised outcomes



We analyse rate differentials, domestic and real policy rate differentials between various Latin American countries and the US

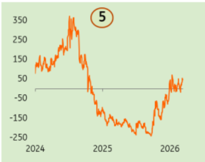
Our interest rate pressure model

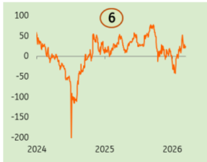
We deploy pure statistical analysis that uses 15yr averages as neutral references. We look at the rate differential versus the Fed, the domestic real policy rate and the real policy rate differential versus the US. We take an equally weighted average of the delta of these three versus averages. The outcome is the rate buffer. Positive is protective, while negative is loose. The separate FX Buffer measures the extent to which the FX rate is acting to tighten or loosen policy.

Brazil: Rate Buffer is +3.6%

Brazil	Now	Average	Delta
1. Policy Rate differential vs US	10.4	8.6	1.8
2. Domestic Real Policy rate	9.6	4.3	5.3
3. Real Policy Rate differential vs US	9.3	5.4	3.9
Size of policy rate buffer versus the Fed = 3.6%	*(1.+2.+3.)*.33*		
4. Inflation differential vs US	1.0	3.2	-2.1
5. 2yr rate differential vs policy rate	47	(carry spread, bp)	
6. 10yr rate differential vs 2yr	25	(term premium, bp)	

Note: The grey line in the graphs is the average for the period shown | FX buffer = 0.3%





Source: Macrobond, ING estimates

Brazil has elections to be concerned with in the coming months, which typically have a dominating influence. But we can still assess the protection that the policy rate might offer. The current policy rate at 14% is 10.4% over the Fed funds rate; a delta of 1.8% versus the 15yr average. The delta's for the real policy rate and differential versus the US are more elevated, at 5.3% and 3.9% respectively. That maps an overall rate buffer of 3.6%; one that has been yielding benefit. For 2026 to date, non-duration Brazil exposures have shown an alpha of 12.6% (5.6% on USD/BRL and 7% on the rate differential).

Ahead, the carry spread and term premium (see the graphs above) paint a picture of no further material rate cuts, and the maintenance of a wide rate buffer through the remainder of 2026 (and into 2027). That sustains carry support for the Brazilian real. But at a cost, as it amplifies government debt dynamic risks (debt / GDP ratio at 82% and rising) through super-elevated interest rates. There is a chicken-and-egg story here, where super-elevated fiscal deficits (approaching 10% of GDP) manifest in the need for higher protective rates, but those protective rates in turn worsen the fiscal picture.

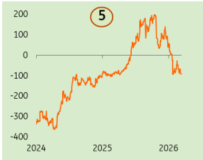
To help square the circle, Banco Central do Brasil really needs to cut as and when the inflation metrics facilitate it (as they have been doing recently, with inflation down to 4.4%). However, break-even inflation rates are on the rise again, and are back in 6%+ territory, which places a limit to rate-cut capacity. Indeed, it paints a troubling picture beyond the elections for the next administration to battle.

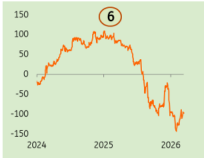
We're left with the impression that Brazil is left stuck with higher rates than are comfortable for the foreseeable future. There is a rate-cut theme in play currently, but its extent risks being constrained by a sticky inflation dynamic ahead.

Most of this rate pressure is idiosyncratic to Brazil, so the Fed rate trajectory is not as impactful. But still, if instead of hiking by 25bp (as the market discounts), the Fed were to cut rates by 50bp in 2027 (ING view), there is an implied 75bp of offset to take into account. That helps. But domestic Brazil factors should dominate.

Colombia: Rate Buffer is +4.1%

Colombia	Now	Average	Delta
1. Policy Rate differential vs US	8.4	4.5	3.9
2. Domestic Real Policy rate	6.0	1.1	4.9
3. Real Policy Rate differential vs US	5.7	2.2	3.6
Size of policy rate buffer versus the Fed = 4.1%		*(1.+2.+3.)*.33*	
4. Inflation differential vs US	2.6	2.3	0.3
5. 2yr rate differential vs policy rate	-89	(carry spread, bp)	
6. 10yr rate differential vs 2yr	-97	(term premium, bp)	
Note: The grey line in the graphs is the average for the period shown		| FX buffer = 3.7%	





Source: Macrobond, ING estimates

Banco de la República has built a large rate buffer of 4.1%, which is practically at its highest through our decade-and-a-half monitoring period. We argued here that BanRep did not *need* to hike at their last meeting. But they went ahead and hiked by 75bp, bringing the key rate to 12%. Now, on a 2yr carry spread of -89bp, the market is discounting at least an unwind of that hike. Beyond that, the -97bp inversion along the 2/10yr segment anticipates cuts of at least an additional 100bp beyond that.

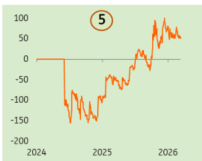
Inflation at 6% remains too elevated for comfort. And while the 4yr market break-even inflation rate has been easing lower in recent months, it remains above 6% (albeit just). At the same time, the peso has been on a remarkable strengthening phase, which is acting as a material monetary tightening. On our numbers, the FX move is the equivalent of a 3.7% hike over the past 18 months (each 2.5% deviation equates to a 25bp move). We reiterate our view that BanRep should not need to hike further.

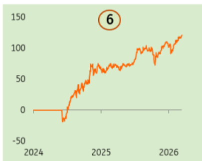
Beyond that, the interest rate buffer can be shaved as inflation eventually edges lower. However, a slow process and a still significant deviation above 4% makes a rate cut any time soon tough to pull off. The peso is screaming for a cut, but for now will only have success in preventing more hikes. That said, the next move is far more likely to be down than up. And there is room for a comfortable cumulative 200bp shave.

That can be amplified, if instead of hiking by 25bp (as the market discounts), the Fed were to cut rates by 50bp in 2027 (ING view), as there is then an implied 75bp of alpha versus the market discount to take into account. Or at the very least, should help facilitate the cuts already discounted for 2027.

Mexico: Rate Buffer is Zero

Mexico	Now	Average	Delta
1. Policy Rate differential vs US	2.9	4.7	-1.8
2. Domestic Real Policy rate	3.4	1.8	1.6
3. Real Policy Rate differential vs US	3.2	2.9	0.2
Size of policy rate buffer versus the Fed = 0.01%		*(1.+2.+3.)*.33*	
4. Inflation differential vs US	-0.3	1.8	-2.0
5. 2yr rate differential vs policy rate	53	(carry spread, bp)	
6. 10yr rate differential vs 2yr	121	(term premium, bp)	
Note: The grey line in the graphs is the average for the period shown		| FX buffer = 1.1%	





Source: Macrobond, ING estimates

The Banxico policy rate is low when measured as a spread to the Fed funds rate, at 1.8% below the historical average. This is countered by an almost equal and opposite delta in the Mexican domestic real policy rate versus its average. Overall, our calculated interest rate buffer is effectively zero. The contained inflation dynamic (running at just over 3%) is an important positive factor. The other significant positive is the performance of the peso, the movement of which has effectively tightened policy by an additional 1.1% in the past 18 months.

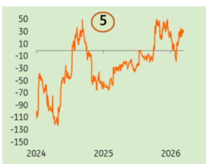
Ahead, Mexican inflation is anticipated to trend in the 4% area, and market inflation break-evens sit in the 4% to 4.3% area. This is at the extremity of the inflation tolerance band, and likely enough to deter Banxico from cutting further (now at 6.5%, and the last move was a cut). The carry spread of 53bp to the 2yr, and term premium of 121bp to the 10yr, discounts some 100bp in hikes in the coming 18 months. That said, the current inflation rate and relative FX strength suggests no rate hike risk in the immediate foreseeable future. A big potential swing factor here is the peso, which has shown a tendency in the past to sell off at extreme valuations (and it is currently at one).

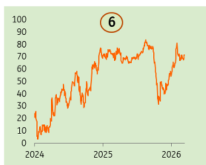
Our view on the Fed also helps. If, instead of hiking by 25bp (as the market discounts), the Fed were to cut rates by 50bp in 2027 (ING view), there is then an implied 75bp of alpha versus the market discount to take into account. Provided the peso behaves, that can materially curb the need for hikes.

Chile: Rate Buffer is -0.4%

Chile	Now	Average	Delta
1. Policy Rate differential vs US	0.9	2.7	-1.9
2. Domestic Real Policy rate	1.0	0.1	0.9
3. Real Policy Rate differential vs US	0.8	1.2	-0.4
Size of policy rate buffer versus the Fed = -0.47%	*(1.+2.+3.)*.33*		
4. Inflation differential vs US	0.1	1.5	-1.4
5. 2yr rate differential vs policy rate	33	(carry spread, bp)	
6. 10yr rate differential vs 2yr	72	(term premium, bp)	

Note: The grey line in the graphs is the average for the period shown | FX buffer = 0.3%





Source: Macrobond, ING estimates

Banco Central de Chile has managed to pitch its policy rate on average c.2% below that of Banxico or BanRep over the past 15 years. And, relative to MXN and COP, the CLP has underperformed versus respective inflation performances. That combination of relatively low rates and less currency protection has resulted in a -23% (negative) performance for non-duration exposure for foreign players over the past 15 years cumulative. That contrasts with +33% (positive) for Colombia, +78% for Mexico and +102% for Brazil. The FX performance has helped for Colombia and Mexico, while the higher rates environment has helped shield Brazil.

Policy remains easy in Chile, as reflected in the mere 0.9% spread from the Fed funds rate to the BCCh rate. That dominates the rates buffer of -0.5% (negative). Tolerably tame inflation in the 3.5% area, plus recent CLP firmness helps to sustain the negative rates buffer environment, and the pricing out of Fed hikes helps. Beyond that, the 2yr carry spread of 33bp plus the 2/10yr term premium maps out an ultimate 50-75bp rate hike risk in the coming 18 months.

However, that is being impacted by the market profile for the Fed funds rate. If, instead of hiking by 25bp as the market discounts, the Fed were to cut rates by 50bp in 2027, there is an implied 75bp of offset to take into account. That can negate the pressure for BCCh hikes, or at the very minimum result in an under-delivery versus the market discount.

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