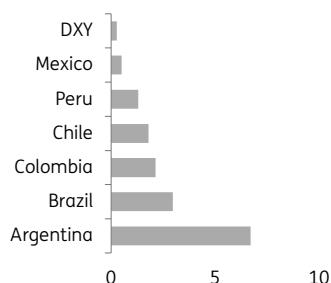


12 July 2019

LATAM FX Talking

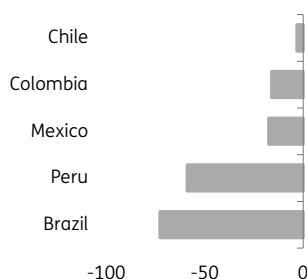
The Brazil vs Mexico divergence gains steam

FX monthly change (%)



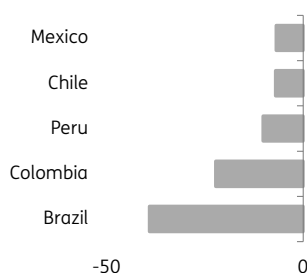
Source: Bloomberg, ING

5yr local rate monthly change (bp)



Source: Bloomberg, ING

5yr CDS monthly change (bp)



Source: Bloomberg, ING

The external risk environment has turned slightly more benign over the past month with US-China trade tensions stabilizing and market relief provided by expected rate cuts in the US and Europe. Having said that, risk of deterioration in the risk environment remains elevated, and, just like in the past month, we expect the market environment to continue to be more favourable for currencies that are likely to be less sensitive to external drivers, or that have a strong domestic driver to offset external headwinds. In that case, the Brazilian BRL continues to stand out, even though we have recently moderated our appreciation trajectory for the *Real*, while rising idiosyncratic risks faced by the Mexican economy have increased the risk of a more persistent weakening bias for the MXN.

In the case of Brazil, the much-anticipated approval of the pension reform should reduce uncertainties related to the sustainability of the fiscal accounts and prompt an improvement in the outlook for economic activity and for local assets in general. But market reaction to the approval of the pension reform by the Brazilian Congress has been relatively muted this week, suggesting that much of the approval had already been incorporated into asset prices. Moreover, implementation of a relatively frontloaded monetary easing cycle, by as much as 150bp, starting with a 50bp cut on July 31, suggests that the BRL may lag other local assets.

The outlook for the Mexican peso has become cloudier, with lingering external trade uncertainties and, especially, the deterioration in the outlook for economic activity, as illustrated by the worrying contraction in industrial activity seen today, and the rising risk of credit rating downgrades, for PEMEX and the sovereign. Due to these uncertainties Banxico remains cautious about changing policy guidance, but a deeper divide appears to have emerged inside the board, as suggested by the monetary policy minutes released this week, and the bank appears now more inclined to follow the US Fed and cut the policy rate slightly. Having said that, intense policy focus on maintaining FX stability suggests that high rates should continue to act as the chief FX anchor in the nearer term.

ING's 12-month currency view vis-à-vis forward/NDF market forecasts

	USD/BRL		USD/MXN		USD/CLP	
1M	3.60	↓	19.20	↑	685.00	↑
3M	3.60	↓	19.50	↑	695.00	↑
6M	3.70	↓	19.40	↓	680.00	↓
12M	3.70	↓	19.50	↓	670.00	↓
	USD/ARS		USD/COP		USD/PEN	
1M	42.00	↓	3200.00	↑	3.28	→
3M	42.50	↓	3200.00	↓	3.30	↑
6M	45.00	↓	3150.00	↓	3.31	→
12M	49.50	↓	3100.00	↓	3.31	↓

>/=< indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source: Bloomberg, ING

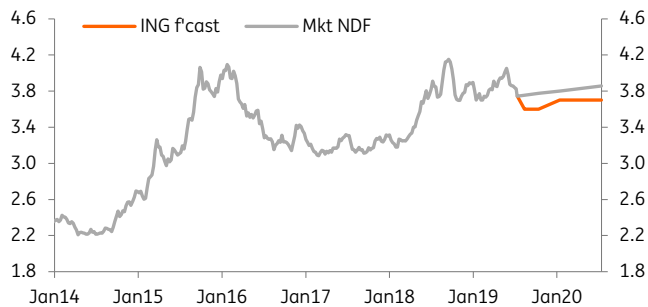
Gustavo Rangel

Chief LATAM Economist
New York +1 646 424 6464
gustavo.rangel@ing.com

USD/BRL

The post-reform adjustment

Current spot: 3.74



Source: Bloomberg, ING

- The much-anticipated approval of the pension reform should reduce fiscal uncertainties and prompt an improvement in the outlook for economic activity and for local assets in general.
- BRL prospects have also improved, but a rally should be limited by rate cuts. The SELIC rate could drop by as much as 150bp, starting with a 50bp cut on July 31. Lower rates reduce the BRL's carry and stimulate the use of the USDBRL as a hedge to external risks for overweight positions in other local assets (FI/equities).
- The lower cost of BRL-financing has also reduced the inflow of USDs in Brazil this year. And this could intensify post-reform and help limit the BRL rally to levels closer to 3.6, instead of 3.4.

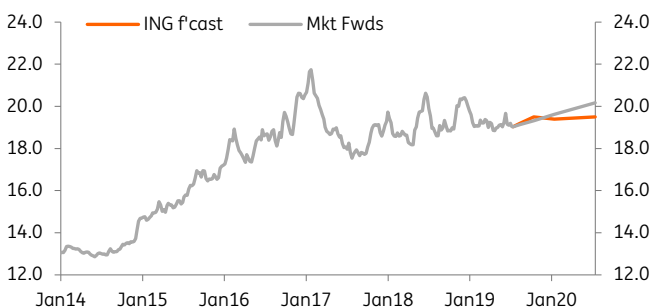
ING forecasts (NDF)	1M 3.60 (3.76)	3M 3.60 (3.78)	6M 3.70 (3.80)	12M 3.70 (3.86)
----------------------------	-----------------------	-----------------------	-----------------------	------------------------

Gustavo Rangel, New York +1 646 424 6464

USD/MXN

Attractive carry partly offsets heightened uncertainties

Current spot: 19.03



Source: Bloomberg, ING

- Episodes of high volatility driven by external and domestic factors marked the MXN's performance over the past couple of months, resulting in a significant underperformance.
- These included the tariff threat by President Trump and, more recently, the abrupt resignation of Finance Minister Carlos Urzua, who cited economic policy disagreements, and raised questions about the outlook for Mexico's macro and credit metrics.
- Monetary policy caution indicates that high rates should remain a chief FX anchor, but poor GDP growth, with the risk of recession rising recently, and the possibility of sooner-than-expected credit rating downgrades (especially for PEMEX) hamper the MXN's outlook.

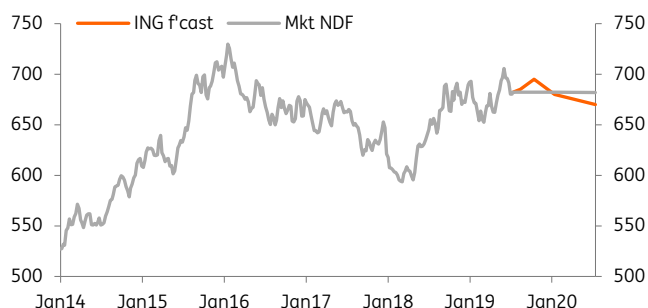
ING forecasts (mkt fwd)	1M 19.20 (19.13)	3M 19.50 (19.32)	6M 19.40 (19.62)	12M 19.50 (20.17)
--------------------------------	-------------------------	-------------------------	-------------------------	--------------------------

Gustavo Rangel, New York +1 646 424 6464

USD/CLP

Trade war concerns continue to drive the CLP outlook

Current spot: 682.35



Source: Bloomberg, ING

- As a small open economy, with an export basket heavily skewed towards copper, the CLP has traded with an underperformance bias in recent months, consistent with the weaker copper prices seen as a result of lingering trade-war concerns.
- A lack of progress in the US-China trade-war impasse in the coming months should extend that weakening bias.
- While external drivers dominate, local macro trends have also become less supportive for the CLP. Subdued inflation and softer economic activity indicators, dragged by mining, pushed BCCh to surprise the market with a large 50bp cut, reversing the hikes seen over the past year. And additional cuts are likely.

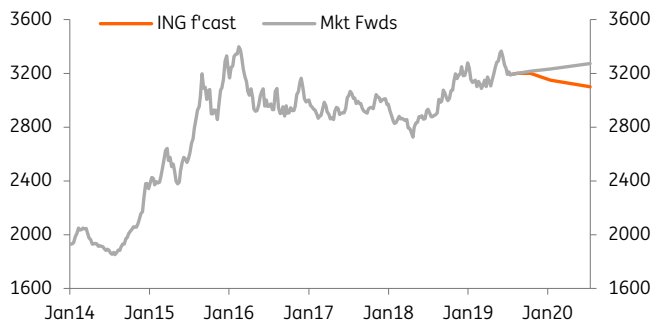
ING forecasts (NDF)	1M 685.00 (682)	3M 695.00 (682)	6M 680.00 (682)	12M 670.00 (682)
----------------------------	------------------------	------------------------	------------------------	-------------------------

Gustavo Rangel, New York +1 646 424 6464

USD/COP

Balance of risks seem more balanced for the COP now

Current spot: 3190.42



Source: Bloomberg, ING

- The COP continues to be especially sensitive to external shocks and USD fluctuations generally. And even though its correlation with oil prices has become less stable, the recent rise in oil prices seems to have contributed to the COP's recent outperformance.
- The ongoing widening of the current account deficit has become more of a concern, but that is partly offset by domestic drivers, which are more constructive than its peers in the region.
- Robust near-potential GDP growth prints together with muted inflation help justify a neutral monetary policy guidance. However, weak labour market data and the dovish FOMC have increased the risk of rate cuts in the coming quarters.

ING forecasts (NDF)	1M 3200.00 (3198)	3M 3200.00 (3215)	6M 3150.00 (3233)	12M 3100.00 (3272)
---------------------	-------------------	-------------------	-------------------	--------------------

Gustavo Rangel, New York +1 646 424 6464

USD/PEN

Solid macro trends help offset trade-war concerns

Current spot: 3.29



Source: Bloomberg, ING

- As usual, the PEN traded with the lowest volatility in the region, appreciating slightly over the past month. Even though Peru is a small open economy heavily reliant on commodity exports, the currency remains the least affected by gyrations in the USD and the trade-war concerns that affected its EM peers.
- Eventual positive developments on the US-China trade-war front would add support to the currency, but the potential for BCRP's FX intervention would likely limit any major rally in the PEN.
- Peru's BCRP has just adopted a dovish bias for the policy rate (2.75%) citing downside risks for inflation and the moderation in economic activity. With this month's shift, BCRP is now broadly in line with its Andean peers.

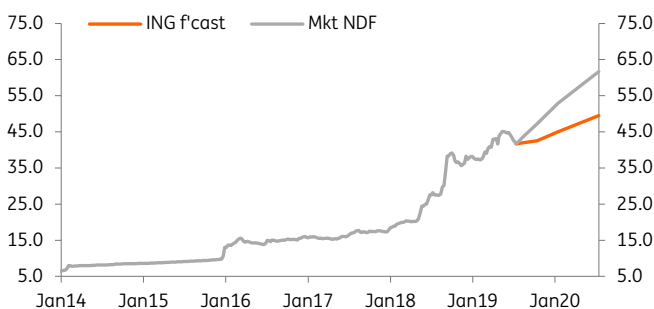
ING forecasts (NDF)	1M 3.28 (3.29)	3M 3.30 (3.30)	6M 3.31 (3.31)	12M 3.31 (3.33)
---------------------	----------------	----------------	----------------	-----------------

Gustavo Rangel, New York +1 646 424 6464

USD/ARS

Improved economic trends helped reduce political risk

Current spot: 41.68



Source: Bloomberg, ING

- The favourable external environment triggered by the dovish shift signalled by developed-market central banks have helped extend the outperformance of the ARS seen over the past couple of months.
- The stronger peso, lower inflation pressures, and signs of stability in economic activity have also helped generate a virtuous cycle as improved economic trends help boost prospects for the re-election of Mauricio Macri in the October presidential election.
- High interest rates should also help support local assets but any evidence that the Kirchnerist ticket would win in the October election should weigh on asset prices. The August 11 primaries are the chief near-term catalyst for local assets.

ING forecasts (NDF)	1M 42.00 (43.67)	3M 42.50 (47.26)	6M 45.00 (52.92)	12M 49.50 (61.69)
---------------------	------------------	------------------	------------------	-------------------

Gustavo Rangel, New York +1 646 424 6464

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 subject to limited regulation by the Financial Conduct Authority (FCA). 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 <https://www.ing.com>.