Article | 12 October 2026

FX TALKING

Latam FX Talking: Brazil and Mexico on diverging paths

Flávio Bolsonaro s surprising success in the first round of Brazil s presidential elections suggests Brazilian assets and the currency remain prone to a re-rating. In contrast, Banxico seems to have little intention of tracking the Fed in its tightening cycle, leaving the peso quite vulnerable. BRL/MXN looks set to continue its powerful advance



Brazilian assets are in the midst of a re-rating, while Banxico is showing benign neglect for the peso

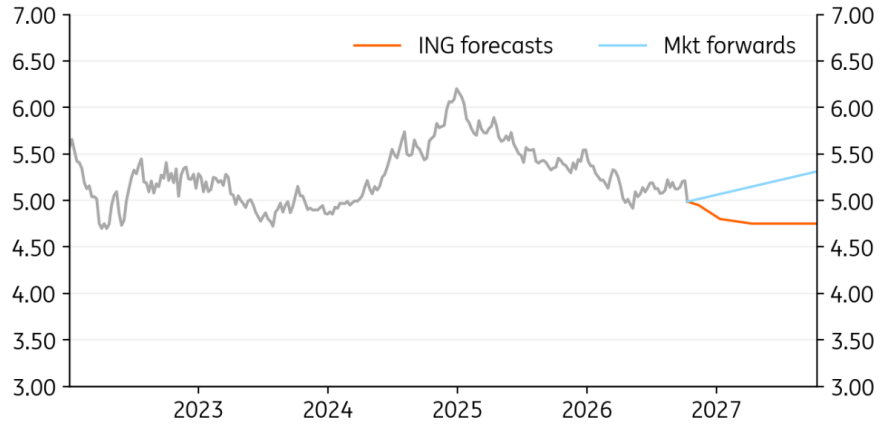
Main ING Latam FX Forecasts

	USD/BRL	USD/MXN	USD/CLP
1M	4.95 ↓	18.25 ↓	975 ↓
3M	4.80 ↓	18.25 ↓	975 ↓
6M	4.75 ↓	18.00 ↓	975 ↑
12M	4.75 ↓	17.75 ↓	925 ↓

USD/BRL: The presidency is Bolsonaro's to lose

	Spot	One month bias	1M	3M	6M	12M
USD/BRL	4.9873	Mildly Bearish ↘	4.95	4.80	4.75	4.75

- The first-round result in the presidential election proved quite the surprise, where Flavio Bolsonaro secured a two-point lead over incumbent President Lula da Silva. The run-off on 25 October is expected to see the other candidates' votes directed very much to Bolsonaro. The presidency now seems Bolsonaro's to lose.
- A Bolsonaro victory later this month could see another round of Brazilian asset buying on expectations that fiscal consolidation (perhaps 2% of GDP) and deregulation can prompt a re-rating of the Brazil investment thesis. The policy rate could be cut 150bp.
- Despite a tough external environment, we see scope for USD/BRL to test the lows of the year at 4.90 and break lower next year.

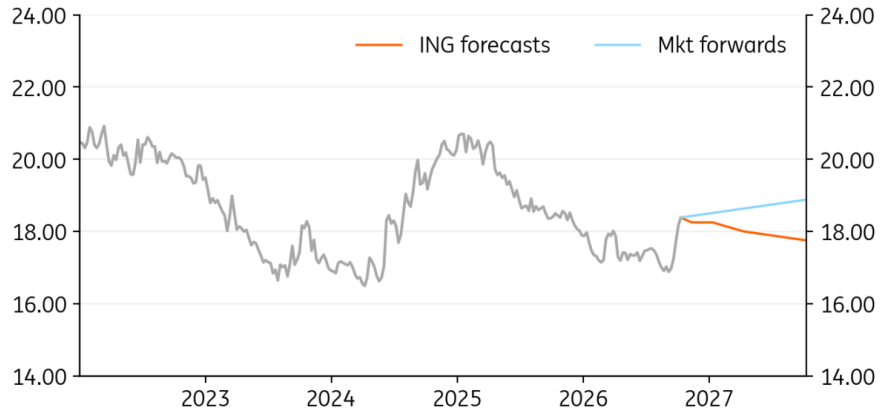


Source: Refinitiv, ING Forecasts

USD/MXN: Benign neglect of the peso

	Spot	One month bias	1M	3M	6M	12M
USD/MXN	18.4000	Neutral	18.25	18.25	18.00	17.75

- USD/MXN has surged 7-8%, largely because the Fed has hiked, US Treasury yields have surged and Banxico did not feel the need to match the Fed's move. Indeed, Banxico said it does not have to 'mechanically' react to actual or expected Fed policy. This leaves the Banxico-Fed spread at the tightest levels (250bp) seen over the last quarter of a century. The peso is now exposed.
- EM correlations show Mexican local currency debt as some of the most exposed to higher Treasury yields. It seems too early to call a top in US rates, meaning that USD/MXN could trade 18.50.
- Uncertainty around the United States-Mexico-Canada Agreement and US President Donald Trump returning to trade post-midterm election results can see MXN underperform.

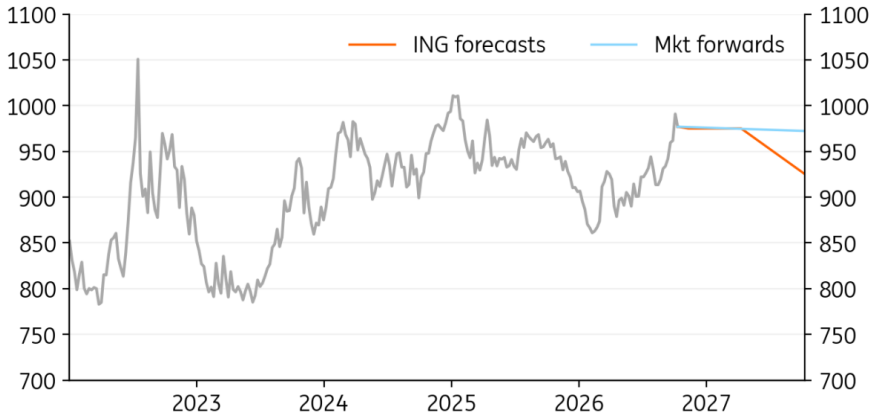


Source: Refinitiv, ING Forecasts

USD/CLP: Higher US rates, lower copper production weigh

	Spot	One month bias	1M	3M	6M	12M
USD/CLP	976.8600	Neutral	975.00	975.00	975.00	925.00

- Latam currencies had a tough September, and Chile's peso was no exception. Not only are higher US rates weighing on the peso, but so too are Chile's challenges with copper production. Bad weather has been playing a part here, but there are now reports of labour market strikes starting too. As such, Chile may not be able to take advantage of high copper prices.
- The central bank has the policy rate at 4.50%. In the past, it had wanted to cut rates further, but that window has now shut. Markets are expecting 100bp of hikes now over the next year.
- USD/CLP could get close to the top of a 900-1000 range over the next three to six months. And we look for USD/CLP to turn lower in 2Q27.



Source: Refinitiv, ING Forecasts

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