The LatAm FX Strategist

Uncertainty limits directional conviction

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GEM FI & FX Strategy
LatAm

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Summary of FX views

Higher-than-expected inflation in the US has led to an upward correction in Treasury yields. US rates have arguably been the main driver behind LatAm FX, but with an uncertain outlook we hold no strong directional conviction and prefer relative value.

ARS (bearish*): Government´s stabilization measures are being challenged in Congress; measures may need additional FX depreciation. We see USD/ARS at 2,200 by 2024-end.

BRL (bullish*): Real rates well above neutral, narrowing of the primary deficit and strong external accounts will support BRL. We see USD/BRL at 4.75 by 2024-end.

CLP (neutral*): Despite attractive valuation, an overly dovish BCCh may put pressure. FX reserve accumulation may limit upside. We see USD/CLP at 950 by end-2024.

COP (bearish*): Monetary easing, weak growth and an expansionary fiscal policy guidance will weaken COP. We see USD/COP at 4,100 by 2024-end.

MXN (bearish*): Banxico anticipating the Fed with a March cut, weak growth in 2H24 and political noise should weaken MXN. We see USD/MXN at 18.50 by 2024-end.

PEN (bullish*): The recent selloff was inconsistent with fundamentals, but FX intervention has supported PEN. We see USD/PEN at 3.75 by 2024-end.

UYU (neutral*): A pause in BCU easing, strong FDI, and a resilient macro provide support, but policy risks may put pressure. We see USD/UYU at 40.7 by 2024-end.

CACs: We are now bullish CRC and DOP amid resilient growth, consolidated disinflation, and contained policy risks. We see USD/CRC at 505 and USD/DOP at 60 by 2024-end.

Exhibit 1: BofA quarter-end FX forecasts
We are bearish ARS, bullish BRL, bearish CLP, bearish COP, bearish MXN, bullish PEN

		Forecasts			
Currency	**View/bias**	**1Q '24**	**2Q '24**	**3Q '24**	**4Q '24**
USD/ARS (official)	bearish*	1000	1300	1700	2200
USD/ARS (blue chip)	--	1400	1690	2125	2640
USD/BRL	bullish*	4.90	4.88	4.80	4.75
USD/CLP	bearish*	960	955	952	950
USD/COP	bearish*	4,000	4,050	4,075	4,100
USD/CRC	bullish*	512	510	507	505
USD/DOP	bullish*	58.8	59.0	59.3	60.0
USD/MXN	bearish*	17.8	18.0	18.3	18.5
USD/PEN	bullish*	3.75	3.74	3.74	3.75
USD/UYU	neutral*	39.9	40.2	40.6	40.7

Source: BofA Global Research

BofA GLOBAL RESEARCH

*Note: bullish/neutral/bearish labels are relative to 1-quarter-ahead forward contracts.

Argentina

FX Views and forecasts

View: bearish*

The new government is implementing a decisive stabilization plan that includes a large fiscal adjustment and a strong devaluation. However, the set of pro-growth structural reforms are being challenged in the Congress. We expect official FX depreciation to accelerate by March and the FX gap to gradually narrow. We see USD/ARS at 2,200 by 2024-end.

Key macro developments: The government is seeking to stabilize the economy with a balanced budget target implying a 5% of GDP fiscal adjustment in 2024 (3pp via expenditure cuts and 2pp via revenue measures). However, structural reforms proposals are ambitious and are being challenged in Congress. The Omnibus Bill was withdrawn from Congress due to insufficient support. Based on early consumption indicators, we believe a deep recession in 1Q will affect government revenue. Yet, a better harvest will support revenue in 2Q. Thus, we forecast the primary surplus at 0.8% of GDP in 2024.

The ARS devaluation (+120% ARS increase in December) and Argentina's persistent capital controls have allowed a strong accumulation of FX reserves of around USD 6bn since Milei took office. Amid these measures, the parallel FX gap initially decreased to 12%. However, a slow ARS depreciation of 2% has put pressure, bringing the gap back to 35%. In our view, BCRA will have to accelerate depreciation in March. Inflation decreased to 20.6% mom in January (vs 25.5% in December). We see inflation at 205% by 2024-end and expect the FX gap to drop to 20% in 2024 after an ARS correction.

The government also reached an IMF staff-level agreement allowing access to a USD 4.7bn disbursement, committing to a USD 10bn FX reserve accumulation target by 2024-end and to eliminating the multiple FX regime. The government said it analyzes to negotiate a new IMF program and fresh funds not off the table.

Valuation: Overvalued by 54% according to our medium-term Compass BEER model. Overvalued by 4.3% according to our long-term Compass FX model.

Positioning: Market short (-14). Hedge funds short (-40), real money long (+12).

Risks to our view: Slower-than-expected FX or fiscal adjustment; social unrest.

Upcoming risk events: Structural reform debate (ongoing); approval of IMF staff-level agreement by the IMF board (1Q24).

Corporate hedging: We recommend hedging given risk of faster depreciation pace due to imbalances.

Exhibit 2: USD/ARS forecasts vs forwards
We forecast USD/ARS at 1300 by 2Q '24

	current	chg		
Spot	842	+19		
	Forecast		**Forward**	
Period	**current**	**chg**	**current**	**chg**
1Q 2024	1,000	-100	882	-78
2Q 2024	1,300	200	1094	-216
3Q 2024	1,700	+30	1375	-250
4Q 2024	2,200	-	1664	-223

Source: BofA Global Research, Bloomberg
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Exhibit 3: USD/ARS blue chip forecasts
We forecast USD/ARS at 1690 by 2Q '24

	current	chg
Spot	1072	- 219
	Forecast	
Period	**current**	**chg**
1Q 2024	1,400	-195
2Q 2024	1,690	-335
3Q 2024	2,125	+37
4Q 2024	2,640	-

Source: BofA Global Research, Bloomberg
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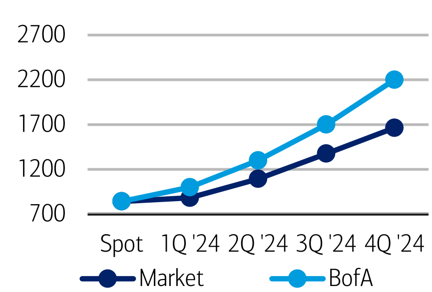
Exhibit 4: USD/ARS forecasts vs forwards
We are bearish vs. forwards for 2Q '24



Source: BofA Global Research, Bloomberg
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Brazil

FX Views and forecasts

View: bullish*

We continue to be bullish BRL, as we think it will continue to offer the *healthiest* carry. The central bank is signaling that rates will remain above neutral, which may make Brazilian real rates the highest across global markets by the end of this year. Also, while fiscal concerns will not fully fade in 2024, we hold a more bullish view amid a meaningful narrowing of the primary deficit. Strong external accounts will also support BRL. We see USD/BRL at 4.75 by 2024-end.

Key macro developments: In another unanimous decision, BCB delivered the fifth consecutive 50bp rate cut, reaching 11.25%. Minutes signaled caution and maintained forward guidance that the current pace would prevail. Moreover, even if inflation decelerated to 4.5% yoy in January, it surprised to the upside and services inflation accelerated at the margin. This uptick reinforces a cautious monetary policy ahead. We expect three more 50bp cuts and a final 25bp cut, leaving the Selic rate at 9.50% by July. This would allow inflation to reach 3.7% by year-end.

Also reinforcing a cautious easing was economic activity, which surprised to the upside in December by growing 0.8% momsa, above the 0.75% momsa expectation. While we expect economic activity to slow in 2024, we think that larger social transfer programs, court-ordered debt payments, lower inflation and looser monetary policy should help avoid an activity slump. After a period of tightness, the Brazilian credit market should feel the effects of the monetary easing bringing support to credit (see Credit Markets: the worst is behind). In fact, we remain more optimistic than our peers on GDP growth, expecting 2.2% in 2024 versus the 1.6% consensus (see Key Things to Watch in 2024). On the external front, we believe the Brazilian oil sector may continue to support GDP growth (see The oil frontier shines bright with promise). We also see potential for larger FDI inflows in 2024, as external liquidity improves and negative sentiment around policy risks declines. As a result, FDI will continue to fund the CA deficit.

Valuation: Undervalued by 4% according to our medium-term Compass BEER model. Overvalued by 6.5% according to our long-term Compass FX model.

Positioning: Market long (+3.5). Hedge funds short (-42), real money long (+33).

Risks to our view: Fiscal slippage or faster monetary policy easing in Brazil.

Upcoming risk events: BCB meeting (Mar 20, May 8), municipal elections (Oct 6).

Corporate hedging: We recommend taking advantage of BRL rallies to hedge.

Rates: Lower/steeper. We expect BCB to continue cutting rates at 50bp pace.

Exhibit 5: USD/BRL forecasts vs forwards
We forecast USD/BRL at 4.88 by 2Q '24

	current	chg		
Spot	4.97	+0.1		
	Forecast		**Forward**	
Period	**current**	**chg**	**current**	**chg**
1Q 2024	4.90	-	4.98	+0.03
2Q 2024	4.88	-	5.03	+0.03
3Q 2024	4.80	-	5.07	+0.03
4Q 2024	4.75	-	5.12	+0.02

Source: BofA Global Research, Bloomberg

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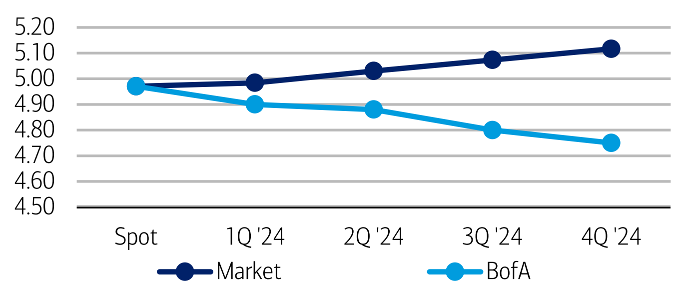
Exhibit 6: USD/BRL forecasts vs forwards
We are bullish with respect to forwards for 2Q '24



Source: BofA Global Research, Bloomberg

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Cross currency basis

Exhibit 7: Cupom cambial contracts

Cupom cambial rates are +12bp on average over the past 3m

Contract	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
Jan25	620	6	5	56	517		682	612	16	56	1.6	0.2
Jan26	579	2	18	37	475		652	568	17	62	1.9	0.3
Jan27	555	-3	14	20	466		637	548	18	64	1.7	0.2

Source: BofA Global Research, Bloomberg

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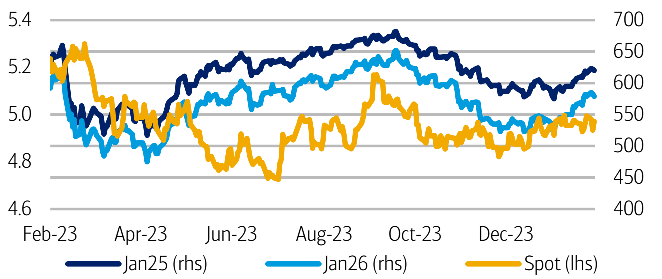
Exhibit 8: Short-term Cupom Cambial rates vs USD/BRL spot

Short-term Cupom Cambial rates stands at 576bp



Source: BofA Global Research, Bloomberg

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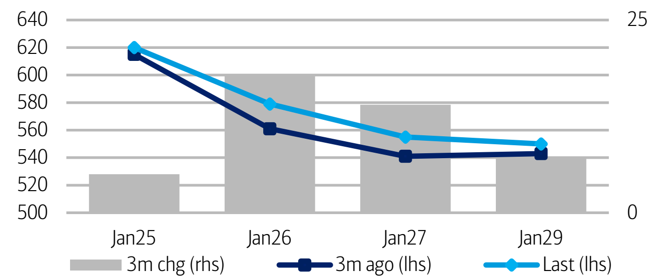
Exhibit 9: Term structure of Cupom Cambial rates

Cupom cambial is +11bp on average over the past 3m



Source: BofA Global Research, Bloomberg

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Volatility surface: USD/BRL

Exhibit 10: USD/BRL current implied volatilities

3-month ATM implied volatility is at 10.11

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	8.40	8.51	9.15	10.31	11.70
3m	9.30	9.42	10.11	11.37	12.90
6m	10.26	10.36	11.06	12.36	13.99
1y	11.20	11.33	12.06	13.43	15.19

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 11: USD/BRL 3m z-scores of implied volatilities

3-month z-score of 3-month ATM implied volatility is -2.11

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	- 1.9	- 1.9	- 1.9	- 1.8	- 1.8
3m	- 2.2	- 2.1	- 2.1	- 2.1	- 2.1
6m	- 2.3	- 2.2	- 2.2	- 2.2	- 2.2
1y	- 2.4	- 2.4	- 2.4	- 2.4	- 2.3

Source: BofA Global Research

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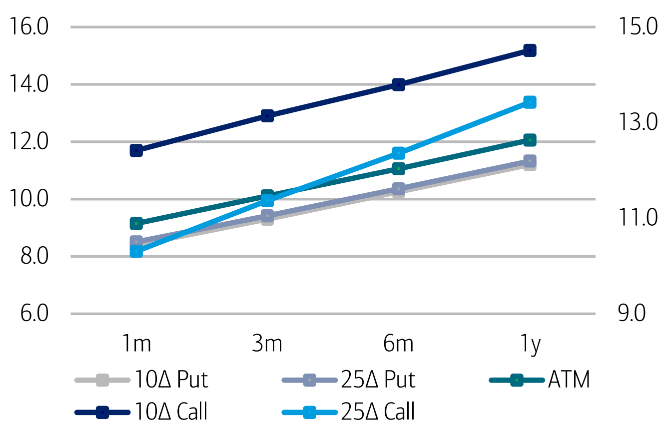
Exhibit 12: Implied volatility term structure

ATM implied volatility term structure is upward sloping



Source: BofA Global Research, Bloomberg

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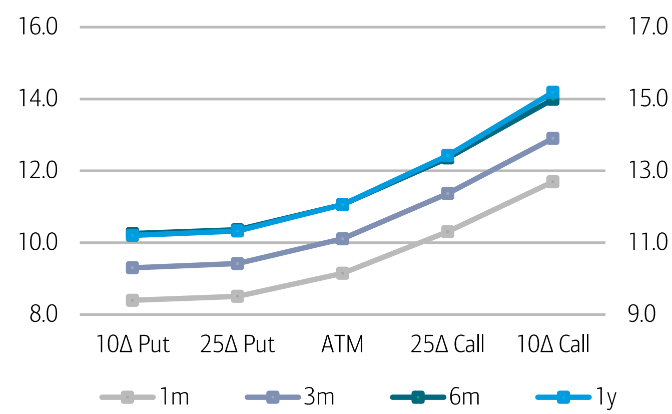
Exhibit 13: Implied volatility smiles

Implied volatility smiles are somewhat skewed



Source: BofA Global Research, Bloomberg

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Chile

FX Views and forecasts

View: neutral*

We remain neutral on the Chilean peso. CLP has underperformed and is most likely undervalued against long-run fundamentals. However, we believe FX depreciation is mostly driven by an overly dovish central bank. The risk of a restart of BCCh's FX reserve accumulation program limits CLP upside. We see USD/CLP at 950 by end-2024.

Key macro developments: Despite being already within the target range, Inflation prints remain extremely volatile, making it difficult to extract a clear signal. For instance, headline inflation was 0.7% mom in January (3.8% yoy), significantly above the 0.4% consensus. Similarly, core inflation was high at 0.7% mom, up from -0.4% in December. This, in our view, should lead BCCh to be cautious in upcoming cuts.

BCCh cut rates by 100bp in January to 7.25%, faster than the 75bp in December, as inflation is converging to 3% faster than anticipated. Minutes were dovish before the bad inflation print (they see convergence to 4% neutral rate in 2H). We expect BCCh to slow to clips of 75bp in the next meeting, given CLP pressures amid higher US interest rates. Overall, we believe the policy rate will reach 5% by December and a terminal rate of 4.75% in 2025. As a result, we forecast inflation at 3.4% this year and 3.1% in 2025.

On the activity front, the Chilean economy is stagnant with a drop in December but marginal growth in 4Q. Business sentiment recovered in January after a very weak December. We expect GDP to rebound 2.2% in 2024 (from -0.1% in 2023) given expansionary fiscal and monetary policy (plus increasing labor supply). Construction remains a drag. Lower policy uncertainty as the Constitution remains is also positive.

Yet, uncertainty remains amid structural reforms and fiscal concerns. Pension reform was partially approved, but 6% additional employer contributions were rejected. There is some space to advance with a pro-growth agenda, and the government was negotiating a fiscal pact, including a watered-down tax reform (2.7% of GDP) and spending priorities (pensions 1.2% of GDP, health 0.9%, security 0.3% other social spending 0.3%).

Valuation: Undervalued by 18% according to our medium-term Compass BEER model. Overvalued by 17.1% according to our long-term Compass FX model.

Positioning: Market is long (+11). Hedge funds are long (+25), real money short (-3).

Risks to our view: BCCh accumulating FX reserves; weak copper prices; pause in cuts.

Upcoming risk events: BCCh meeting (Apr 2, May 23); tax & pension reform (ongoing).

Corporate hedging: We recommend taking advantage of CLP rallies to hedge.

Rates: Higher/flatter. We expect BCCh to cut less than market pricing.

Exhibit 14: USD/CLP forecasts vs forwards
We forecast USD/CLP at 955 by 2Q '24

	current	chg		
Spot	977	+67.7		
	Forecast		Forward	
Period	current	chg	current	chg
1Q 2024	960	+40.0	979	+65.8
2Q 2024	955	+45.0	980	+65.2
3Q 2024	952	+47.0	980	+63.8
4Q 2024	950	+50.0	980	+62.9

Source: BofA Global Research, Bloomberg

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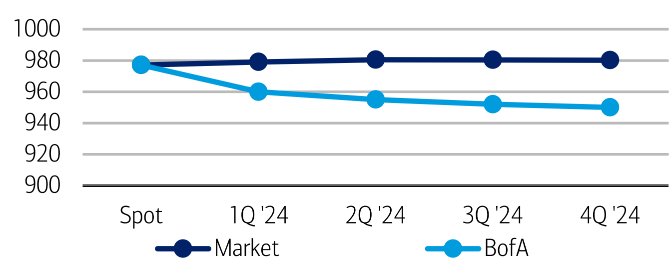
Exhibit 15: USD/CLP forecasts vs forwards
We are neutral with respect to forwards for 2Q '24



Source: BofA Global Research, Bloomberg

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Cross currency basis

Exhibit 16: CAMARA vs SOFR basis swaps

CAMARA basis swap rates are -4bp on average over the past 3m

Contract	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-10	1	-26	-146	-28		167	55	16	58	-0.5	-1.1
2y	17	13	-4	-75	0		148	59	9	34	0.2	-1.0
5y	11	11	10	-20	-6		60	24	8	27	0.9	-0.6
10y	14	6	3	-23	3		57	28	8	27	-0.4	-1.0

Source: BofA Global Research, Bloomberg

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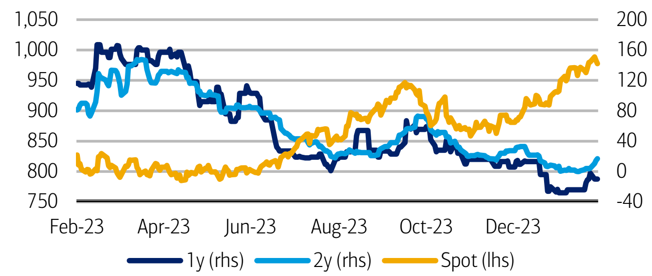
Exhibit 17: CAMARA basis swaps vs USD/CLP spot

CAMARA basis swaps stand around 8bp



Source: BofA Global Research, Bloomberg

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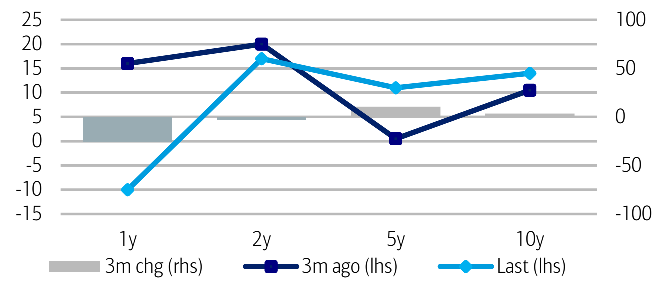
Exhibit 18: Term structure of CAMARA basis swaps

CAMARA basis swaps are -4bp on average over the past 3m



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Volatility surface: USD/CLP

Exhibit 19: USD/CLP current implied volatilities

3-month ATM implied volatility is at 13.9

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	13.76	13.67	14.24	15.52	17.21
3m	13.38	13.29	13.90	15.29	17.12
6m	13.59	13.48	14.10	15.53	17.46
1y	13.95	13.77	14.37	15.87	17.97

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 20: USD/CLP 3m z-scores of implied volatilities

3-month z-score of 3-month ATM implied volatility is -1.3

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	- 0.9	- 1.0	- 1.1	- 1.2	- 1.3
3m	- 1.1	- 1.2	- 1.3	- 1.4	- 1.5
6m	- 0.9	- 1.0	- 1.2	- 1.3	- 1.4
1y	- 0.7	- 0.9	- 1.1	- 1.2	- 1.3

Source: BofA Global Research

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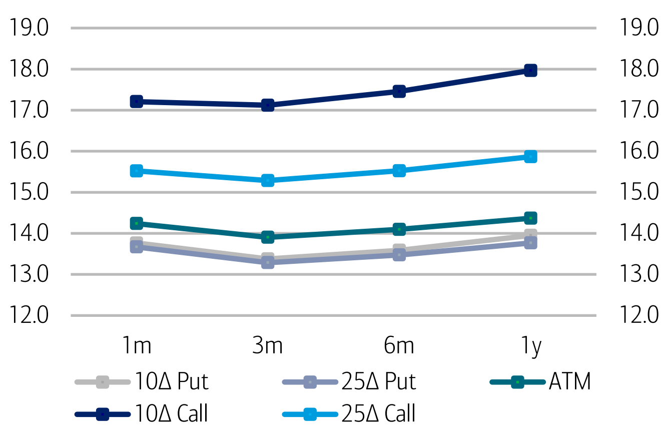
Exhibit 21: Implied volatility term structure

ATM implied volatility term structure is flat



Source: BofA Global Research, Bloomberg

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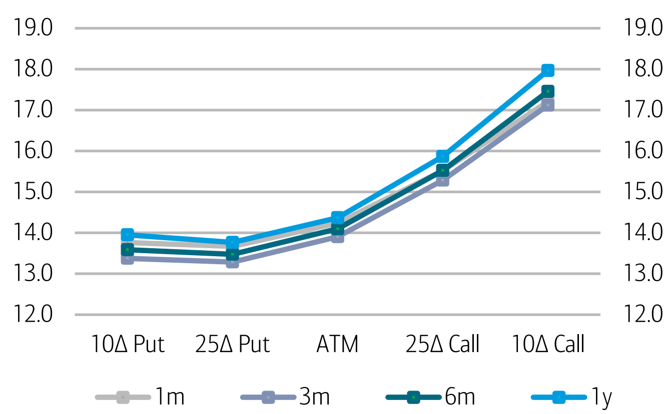
Exhibit 22: Implied volatility smiles

Implied volatility smiles are somewhat skewed



Source: BofA Global Research, Bloomberg

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Colombia

FX Views and forecasts

View: bearish*

We expect COP to underperform LatAm FX as the currency is no longer undervalued, the central bank has been cutting rates, growth remains weak, and guidance on fiscal policy has disappointed. We see USD/COP at 4,100 by 2024-end.

Key macro developments: After an aggressive unwind of risk premium, we believe that the market is now pricing an overly optimistic scenario for Colombia. Recent developments are making us a bit less optimistic about the economic outlook.

First, GDP growth in 2023 ended up being 0.6%, almost half of median expectations. Given the new information, revised down our GDP growth forecasts for 2024, to 1.4% (from 1.9%), and 2025, to 2.8% (from 2.9%). We do see the economy gaining traction in 2024, as lower inflation improves the purchasing power of consumers and investment rebounds amid lower interest rates and less uncertainty about economic policy risks.

However, BanRep is facing a challenging tradeoff between growth and inflation. Despite inflation and inflation expectations running well above target (with January inflation at 8.35% yoy), the central bank continued easing rates in January with another 25bp cut. We expect BanRep will cut 25bp in March, as it remains cautious about still-high inflation. However, BanRep should accelerate to 50bp in April and keep cutting until reaching a terminal rate of 6% by October 2025. The acceleration may weigh on COP. Still, a highly persistent inflation should reach 5% by 2024-end and 3.5% by 2025-end.

While S&P revised Colombia's outlook to negative on the back of growth concerns, net public debt fell 5% of GDP in 2023, to 52.8%, below the 55% anchor-level written in the Fiscal Rule. We believe that the government remains committed to complying with the fiscal, but we see as disappointing news the government's new 0.9% primary deficit fiscal target in 2024.

Valuation: Overvalued by 11% according to our medium-term Compass BEER model. Overvalued by 7.3% according to our long-term Compass FX model.

Positioning: Market short (-0.5). Hedge funds long (+31), real money short (-32).

Risks to our view: Hawkish turn in BanRep; higher oil prices.

Upcoming risk events: BanRep meeting (Mar 22, Apr 30); reforms debate (1H24).

Corporate hedging: We recommend hedging amid bearish outlook for COP.

Rates: Lower/steeper. We expect BanRep to cut more than market pricing.

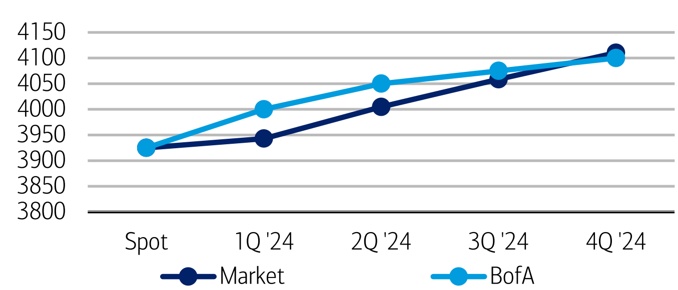
Exhibit 23: USD/COP forecasts vs forwards
We forecast USD/COP at 4050 by 2Q '24

	current	chg		
Spot	3,925	- 16		
	Forecast		Forward	
Period	current	chg	current	chg
1Q 2024	4,000	-	3943	-49
2Q 2024	4,050	-	4005	-56
3Q 2024	4,075	-	4059	-61
4Q 2024	4,100	-	4110	-69

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 24: USD/COP forecasts vs forwards
We are bearish with respect to forwards for 2Q '24



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Cross currency basis

Exhibit 25: IBR vs SOFR basis swaps

IBR basis swap rates are +47bp on average over the past 3m

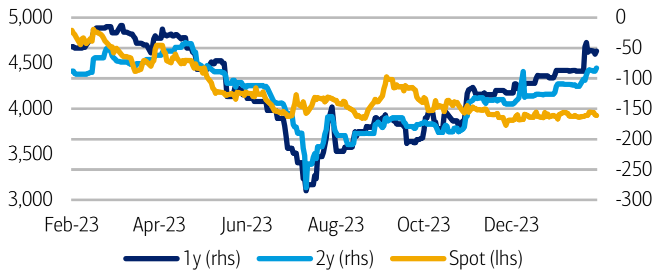
Contract	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	-55	-14	64	-20	-285		-13	-123	20	70	2.1	1.0
2y	-83	11	57	7	-280		-41	-130	18	63	2.4	0.9
5y	-110	3	43	8	-200		-96	-139	13	47	1.9	1.2
10y	-93	11	25	16	-135		-75	-104	8	29	2.5	0.7

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 26: IBR basis swaps vs USD/COP spot

IBR basis swaps stand around -85bp

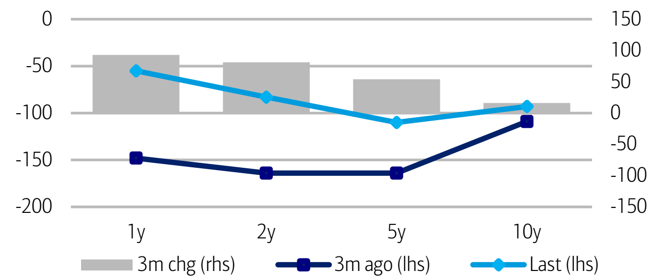


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 27: Term structure of IBR basis swaps

IBR basis swaps are +61bp on average over the past 3m



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Volatility surface: USD/COP

Exhibit 28: USD/COP current implied volatilities

3-month ATM implied volatility is at 13.4

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	12.42	12.32	12.92	14.28	16.05
3m	12.99	12.78	13.40	14.96	17.06
6m	13.68	13.46	14.10	15.75	18.00
1y	14.12	13.84	14.50	16.24	18.70

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 29: USD/COP 3m z-scores of implied volatilities

3-month z-score of 3-month ATM implied volatility is -2.11

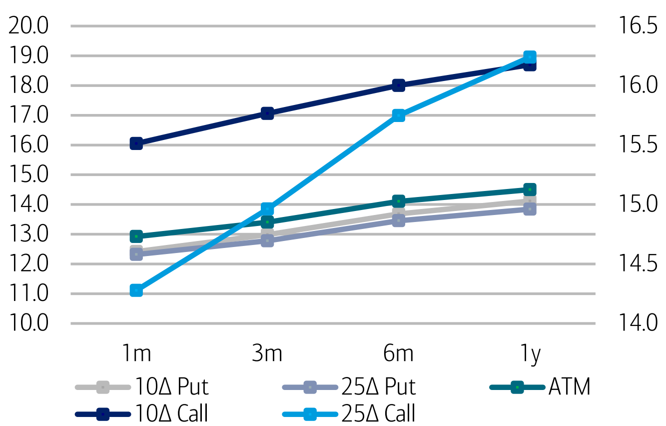
	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	- 2.3	- 2.3	- 2.3	- 2.3	- 2.3
3m	- 2.1	- 2.1	- 2.1	- 2.1	- 2.1
6m	- 2.1	- 2.1	- 2.1	- 2.1	- 2.1
1y	- 2.4	- 2.4	- 2.3	- 2.3	- 2.4

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 30: Implied volatility term structure

ATM implied volatility term structure is upward sloping

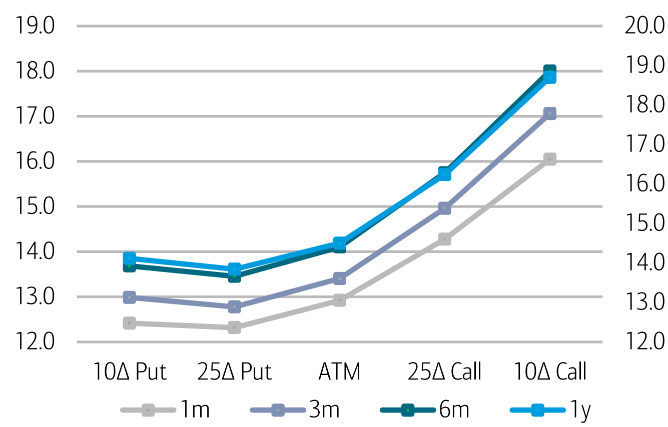


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 31: Implied volatility smiles

Implied volatility smiles are somewhat skewed



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Mexico

FX Views and forecasts

View: bearish*

We continue with the strong conviction that MXN will weaken in 2024. Our view is supported by weak growth in 2H24, which will allow Banxico to accelerate the pace of the easing. Slow US growth, potential fiscal concerns, and presidential elections in Mexico and the US may also put pressure. We see USD/MXN at 18.50 by 2024-end.

Key macro developments: Economic activity decelerated in 4Q23. GDP growth came in at 0.3% qoq saar, down from 4.3% in 3Q23. The contraction was largely driven by construction and a deceleration in remittances. While we still see a strong 1H24 amid a large fiscal impulse, we see a sharp deceleration in 2H24 amid slower growth in the US and a fiscal cliff. We revised down our GDP growth forecast to 1.8% from 2% by 2024-end (see Mexico's GDP decelerated significantly in 4Q 2023 across the board).

Meanwhile, inflation accelerated for the third month in a row in January, as headline hit 4.9% yoy. Yet, core inflation continued to fall, reaching 4.8% yoy. As in the previous two months, inflation was mainly driven by the non-core component. We expect inflation to remain sticky, ending 2024 at 4.9% yoy and 2025 at 4.4% yoy. We see risks skewed to the upside for inflation, from red sea events to the impact of droughts in Mexico (see Drought is likely to keep (non-core) inflation high) to the tight labor market.

We expect Banxico to begin easing in March, ahead of the Fed, as it changed forward guidance to signal the possibility of "adjusting" the policy rate in the following meetings. We now expect Banxico to start a full cycle gradually, with a switch to deeper cuts at the end of the 2H24 due to a deceleration in activity (see Banxico will anticipate the Fed).

On the political front, the government sent 20 constitutional reform bills to Congress (see AMLO's 20 constitutional reform proposals). The reforms are broad and touch upon many topics, but the government lacks the qualified majority in Congress to pass them. Finally, as general elections in June approach, we think MXN volatility may increase.

Valuation: Overvalued by 14% according to our medium-term Compass BEER model. Overvalued by 5.3% according to our long-term Compass FX model.

Positioning: Market long (+7.6). Hedge funds short (-50), real money long (+25).

Risks to our view: Hawkish turn in Banxico; resilient growth in Mexico and the US.

Upcoming risk events: Banxico meeting (Mar 21, May 9); presidential campaigns (Mar 1); general election (Jun 2).

Corporate hedging: We recommend hedging amid bearish outlook for MXN.

Rates: Lower/steeper. We expect Banxico to cut more than market pricing.

Exhibit 32: USD/MXN forecasts vs forwards
We forecast USD/MXN at 18 by 2Q '24

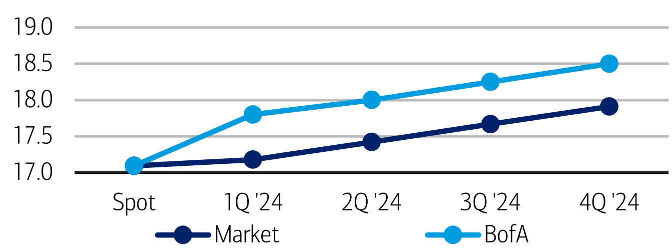
	current	chg		
Spot	17.09	- 0.11		

	Forecast		Forward	
Period	**current**	**chg**	**current**	**chg**
1Q 2024	17.80	-	17.18	-0.21
2Q 2024	18.00	+0.10	17.42	-0.23
3Q 2024	18.25	-0.05	17.67	-0.25
4Q 2024	18.50	-	17.91	-0.26

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 33: USD/MXN forecasts vs forwards
We are bearish with respect to forwards for 2Q '24



Source: BofA Global Research, Bloomberg

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Cross currency basis

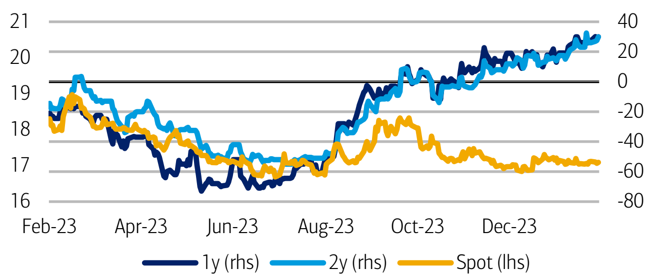
Exhibit 34: 28d TIIE vs SOFR basis swaps
TIIE basis swap rates are +32bp on average over the past 3m

Contract	Last	1w chg	3m chg	1y chg	Min	Last vs 1y Avg	Max	1y Avg	1w vol	3m vol	3m z-score	1y z-score
1y	30	4	24	47	-73		30	-23	9	31	1.9	1.6
2y	30	3	33	45	-55		33	-17	7	23	1.8	1.9
5y	36	2	36	24	-35		36	-2	7	24	2.0	2.0
10y	40	-2	36	27	-38		43	-2	7	25	1.8	2.1

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 35: TIIE basis swaps vs USD/MXN spot
TIIE basis swaps stand around 34bp



Source: BofA Global Research, Bloomberg

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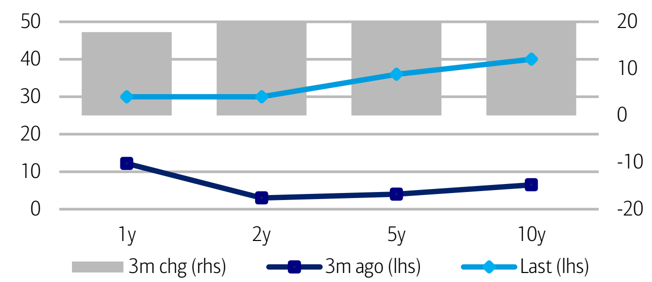
Exhibit 36: Term structure of TIIE basis swaps
TIIE basis swaps are +28bp on average over the past 3m



Source: BofA Global Research, Bloomberg

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Volatility surface: USD/MXN

Exhibit 37: USD/MXN current implied volatilities
3-month ATM implied volatility is at 8.92

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	7.26	7.28	7.94	9.28	10.97
3m	7.92	8.08	8.92	10.48	12.45
6m	8.75	8.97	9.90	11.57	13.69
1y	9.79	10.00	10.99	12.75	14.99

Source: BofA Global Research

BofA GLOBAL RESEARCH

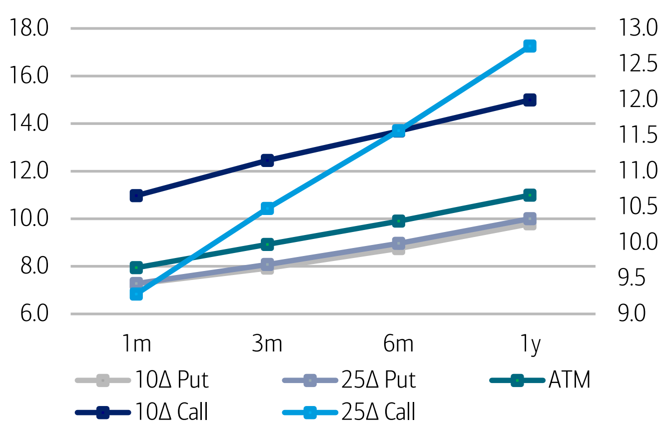
Exhibit 38: USD/MXN 3m z-scores of implied volatilities
3-month z-score of 3-month ATM implied volatility is -2.2

	10Δ Put	25Δ Put	ATM	25Δ Call	10Δ Call
1m	- 1.8	- 2.0	- 2.2	- 2.3	- 2.3
3m	- 1.9	- 2.1	- 2.2	- 2.3	- 2.3
6m	- 2.1	- 2.2	- 2.3	- 2.4	- 2.4
1y	- 2.5	- 2.5	- 2.6	- 2.6	- 2.6

Source: BofA Global Research

BofA GLOBAL RESEARCH

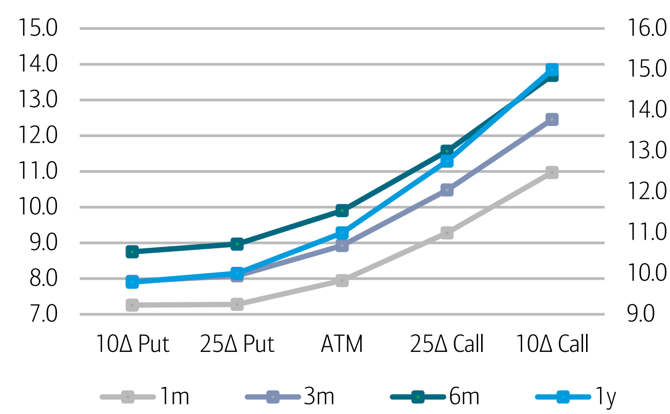
Exhibit 39: Implied volatility term structure
ATM implied volatility term structure is upward sloping



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 40: Implied volatility smiles
Implied volatility smiles are somewhat skewed



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Peru

FX Views and forecasts

View: bullish*

We turned bullish on PEN amid the recent selloff. The selloff was mostly driven by a combination of the interest rate cuts and positioning. The central bank stepped up FX intervention, prompting a partial retracement. While risks to PEN associated with a deep easing cycle remain, we would not be surprised if BCRP decides to pause the easing cycle to prevent an excessive erosion of carry. We see USD/PEN at 3.75 by 2024-end.

Key macro developments: Inflation keeps declining and is now at 3.02% from 3.24% in December, slightly above the upper celling target band. While some risks to inflation remain, we believe that it should reach 2.4% by 2024-end. As a result, we expect BCRP to keep cutting rates to reach a 4.0% terminal rate in 2024. Moreover, amid the worse than expected GDP contraction of 0.6% in 2023, we revised down our GDP forecast to 2.5% from 2.6% by 2024-end.

On the political front, recent changes in President Boluarte's cabinet should not have a negative market impact. The new Finance Minister – Jose Arista – has already signaled it would pursue a market-friendly fiscal policy by pledging to narrow the fiscal deficit to 2% of GDP by 2024 in compliance with the Fiscal Responsibility Law. Similarly, the new Energy Minister – Romulo Mucho –communicated plans to improve Petroperu corporate governance and ensure it has working capital to operate without a capital injection. In fact, the government recently announced a USD 1.3bn relief package, which includes a state-guaranteed USD 800mn loan and a state-backed USD 500mn credit line.

PEN went through a significant depreciation, which we have strong conviction was not explained by higher risk premium, but rather a combination of positioning and rate cuts. As a response, the central bank stepped in and sold USD 233mn in the spot market, partially reversing the selloff. While our expected monetary policy path implies that Peru will have a negative interest rate differential with the Fed starting in August and for several months, we think BCRP may pause if PEN depreciation resumes.

Valuation: Overvalued by 7% according to our medium-term Compass BEER model. Undervalued by 4.5% according to our long-term Compass FX model.

Positioning: Market short (-8). Hedge funds short (-49), real money long (+25).

Risks to our view: Hawkish BCRP; credit rating downgrades; pause in FX interventions.

Upcoming risk events: BCRP meeting (Mar 7, Apr 11); pension withdrawal bill (1Q24).

Corporate hedging: We recommend hedging amid a deep BCRP easing cycle.

Rates: Lower/steeper. We expect BCRP to cut more than market pricing.

Exhibit 41: USD/PEN forecasts vs forwards

We forecast USD/PEN at 3.74 by 2Q '24

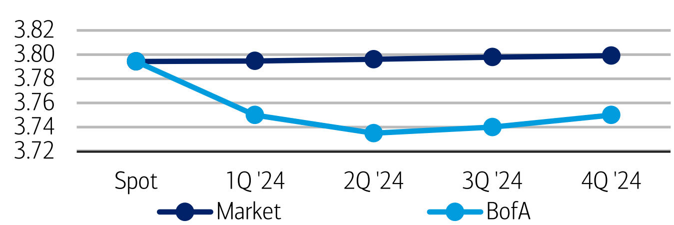
	current	chg		
Spot	3.79	+0.03		
	Forecast		**Forward**	
Period	**current**	**chg**	**current**	**chg**
1Q 2024	3.75	-	3.79	+0.02
2Q 2024	3.74	-0.02	3.80	+0.02
3Q 2024	3.74	-0.02	3.80	+0.02
4Q 2024	3.75	-0.01	3.80	+0.01

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 42: USD/PEN forecasts vs forwards

We are bullish with respect to forwards for 2Q '24



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Uruguay

FX Views and forecasts

View: neutral*

UYU appreciated amid favorable external dynamics, credit rating upgrades and a resilient macro. Strong FDI inflows of about 5% of GDP and a push to exports on the back of a weather normalization and a new pulp mill should continue improving external accounts. We switch to neutral as BCU remained on hold in January, but still some policy risks pressing on UYU. We see USD/UYU at 40.7 by 2024-end.

Key macro developments: Inflation was stable in January at 5.1% yoy, the same level it finished 2023, but is still off the recent 3.9% low. Core inflation is now at 4.3% yoy (vs 4.5% yoy previously), below the center of the 3-6% target range. We now forecast inflation at 5.5% (vs 5.3% previously) this year. BCU cut rates 25bp to 9% in December (accumulating 325bp cuts in 2023) and remained on hold in January. We forecast BCU will cut rates to 8.5% (vs 8% previously) by 2024-end amid higher US rates.

We still expect GDP growth declined to 1.1% in 2023 (from 4.9% in 2022), amid the drought and slower global growth including neighbors Argentina and Brazil. The severe drought in 2023 would have shaved more than 2% of GDP. We expect a 3.3% rebound in 2024 GDP amid weather normalization, pulp mill production (opened in June 2023 and could add about 1% of new exports annually) and FDI. This includes potential investments in renewable energy (a hydrogen plant and others).

Elections in October 2024 generate some noise, but the political system in Uruguay is perceived as moderated and less polarized than the region. The national union of workers (CGT) seeks a plebiscite to abolish the pension reform law (retirement age back to 60 years, eliminate AFAP pension administrators and minimum pension above minimum wage), but our base case is the reform will remain in place.

The pension reform increased the retirement age to 65 years and changed the calculation of pensions to improve the sustainability of the system (see A week to remember). The system remains mixed (pay-as-you-go component and individual capitalization). Structural progress led to rating upgrades last year.

Risks to our view: Weak FDI; weak soybean harvest; higher election risks.

Upcoming risk events: BCU meeting (Apr 10, May 16); general election and pension reform referendum (Oct).

Corporate hedging: We recommend hedging amid possibility of a slight reversal of recent outperformance.

Rates: Lower/steeper. We expect further cuts from BCU, but more slowly.

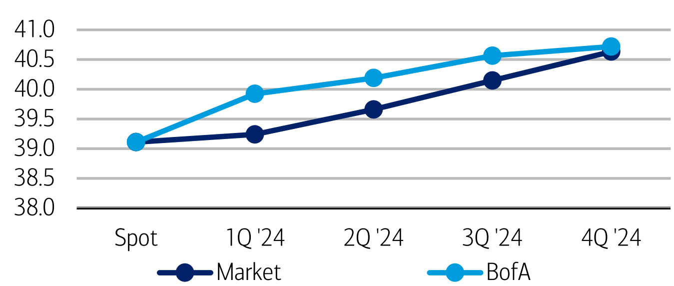
Exhibit 43: USD/UYU forecasts vs forwards
We forecast USD/UYU at 40.2 by 2Q '24

	current	chg		
Spot	39.1	+0.1		
	Forecast		Forward	
Period	current	chg	current	chg
1Q 2024	39.9	-0.6	39.24	-0.1
2Q 2024	40.2	-0.4	39.66	-0.1
3Q 2024	40.6	-0.3	40.15	-0.1
4Q 2024	40.7	-0.3	40.63	-0.0

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 44: USD/UYU forecasts vs forwards
We are bearish with respect to forwards for 2Q '24



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Central America & Caribbean

Costa Rica

View: bullish*

We are bullish CRC amid aggressive growth in labor productivity, stronger external accounts, falling public debt, a cautious BCCR despite deflation, as well as a medium-term USD view and Eurobond issuance that will increase the domestic supply of dollars. We see CRC/USD at 505 by 2024-end.

Key macro developments: Costa Rica is achieving a remarkable combination of strong growth and deflation. We believe that this apparent puzzle can be explained because Costa Rica's growth has become more export-led since the outbreak of the pandemic. Export-led growth is having at least three additional desirable effects on the macroeconomy: 1) a decline in the natural unemployment rate, with favorable implications for monetary policy, 2) an improvement in balance of payments, and 3) perhaps a stronger fundamental value of the Costa Rican Colon, which can be critical to bring down the public debt ratio (see 'Jaguar economy and the spillovers from export-led growth,' 27 February 2024).

Upcoming risk events: BCCR (Apr 25, Jun 20).

Corporate hedging: We do not recommend hedging.

Dominican Republic

View: bullish*

We expect DOP to remain relatively resilient amid strong growth and contained policy risks. While BCRD may continue to ease monetary policy, this reduction will take place in tandem with the US. This effectively implies that the rate differential should remain constant, limiting DOP depreciation. We see USD/DOP at 60.0 by 2024-end.

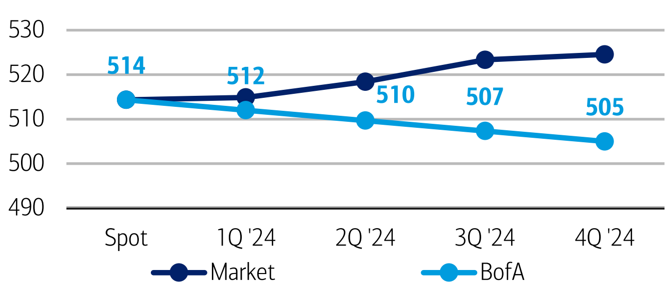
Key macro developments: We continue to believe that DomRep might emerge as the growth star of LatAm in 2024. We foresee strong growth amid lower interest rates, a business-friendly presidential election, favorable terms of trade amid lower oil prices, and robust tourism. GDP growth surprised to the upside at 2.4% in 2023 amid a sharp recovery in the second half of the year led by construction. This recovery implies a carryover effect for 2024. Thus, we revised up our GDP forecast to 5.3% from 5.1% by 2024-end. Finally, we think tourism will continue leading growth as government expect a 10% growth in tourist (double of the GDP growth).

Upcoming risk events: BCRD (Mar 31, Apr 30), pension reform (ongoing), general election (May 19).

Corporate hedging: We do not recommend hedging.

Exhibit 45: USD/CRC forecasts vs forwards

We are bearish with respect to forwards for 2Q '24



Source: BofA Global Research, Bloomberg

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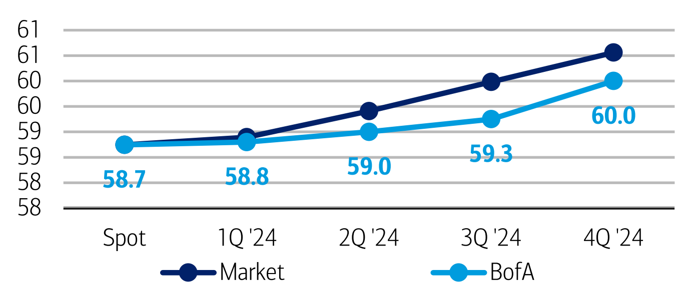
Exhibit 46: USD/DOP forecasts vs forwards

We are bullish with respect to forwards for 2Q '24



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

FX models

Short term: Compass 30

Exhibit 47: Compass 30 signals for LatAm currencies
Signals: Short BRL, Neutral CLP, Short COP, Neutral MXN, Neutral PEN

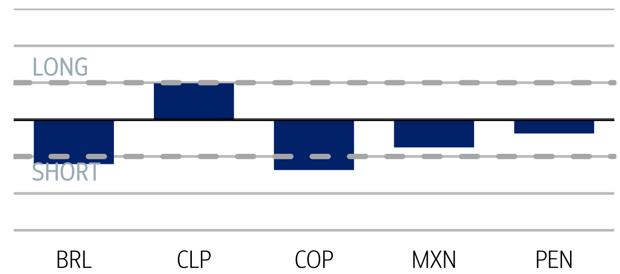
	Spot	Forecast	Forward	Exp Ret	Std Dev	Signal
BRL	4.97	5.05	4.99	-1.20	1.98	Short
CLP	967	951	968	1.81	3.68	Neutral
COP	3,926	4,006	3,947	-1.49	2.17	Short
MXN	17.05	17.27	17.14	-0.74	1.97	Neutral
PEN	3.78	3.80	3.78	-0.38	2.04	Neutral

Source: BofA Global Research. Signals as of 2/29/2024

BofA GLOBAL RESEARCH

Compass30 uses macroeconomic and financial variables to predict currency returns over the following 30 days. For more details about the model, see our Compass 30 Viewpoint.

Exhibit 48: Compass 30 signals for LatAm currencies
Signals: Short BRL, Neutral CLP, Short COP, Neutral MXN, Neutral PEN



Source: BofA Global Research. Signals as of 2/29/2024

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Medium term: Compass BEER

Exhibit 49: Compass BEER valuations for LatAm currencies
The average misalignment in LatAm is 11.4% overvaluation

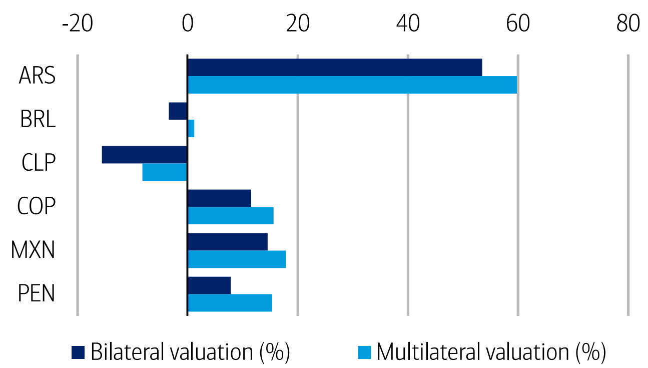
Currency	Spot	Fair value vs USD	Bilateral valuation (%)	Multilateral valuation (%)
ARS	842	1,438	53.5	59.8
BRL	4.97	4.80	-3.4	1.2
CLP	967	827	-15.6	-8.2
COP	3,926	4,405	11.5	15.6
MXN	17.1	19.7	14.5	17.8
PEN	3.78	4.09	7.8	15.3

Source: BofA Global Research. Fair values as of 2/28/2024

BofA GLOBAL RESEARCH

Compass BEER is our medium-term valuation model for EM currencies. It estimates real exchange rate fair values based on macro fundamentals. For more information about the model, see our Compass BEER Viewpoint.

Exhibit 50: Compass BEER valuations for LatAm currencies
The average misalignment in LatAm is 11.4% overvaluation



Source: BofA Global Research. Fair values as of 2/28/2024

BofA GLOBAL RESEARCH

Long term: Compass FX

Exhibit 51: Compass FX valuations for LatAm currencies
The average misalignment in LatAm is 6% overvaluation

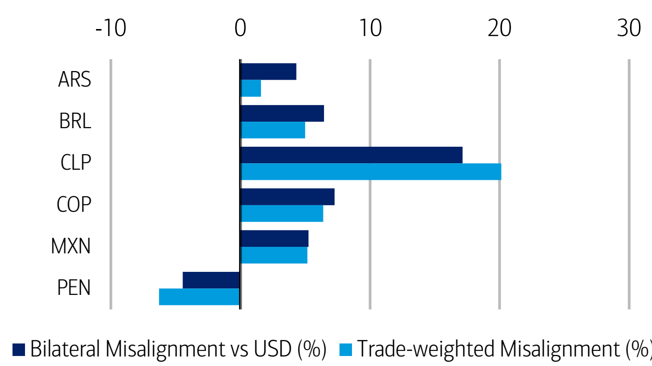
	Spot	Fair Value vs USD	Bilateral Misalignment vs USD (%)	Trade-weighted Misalignment (%)
ARS	841	879	4.3	1.6
BRL	4.98	5.32	6.5	5.0
CLP	989	1,193	17.1	20.1
COP	3,959	4,269	7.3	6.4
MXN	17.1	18.0	5.3	5.2
PEN	3.80	3.64	-4.5	-6.3

Source: BofA Global Research. Fair values as of 2/27/2024

BofA GLOBAL RESEARCH

Compass FX provides estimates of long-term equilibrium exchange rates for 22 emerging market currencies, both trade-weighted and bilateral (vs the USD and EUR). For more information about the model, see our Compass FX Viewpoint.

Exhibit 52: Compass FX valuations for LatAm currencies
The average misalignment in LatAm is 6% overvaluation



Source: BofA Global Research. Fair values as of 2/27/2024

BofA GLOBAL RESEARCH

Forecast details

Exhibit 53: BofA quarter-end FX forecasts
We are bearish ARS, bullish BRL, bearish CLP, bearish COP, bearish MXN, bullish PEN

	Forecasts							
Currency	**2024 Q1**	**2024 Q2**	**2024 Q3**	**2024 Q4**	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**
USD/ARS (official)	1000	1300	1700	2200	2700	3200	3800	4500
USD/ARS (blue chip)	1400	1690	2125	2640	3105	3520	3990	4500
USD/BRL	4.90	4.88	4.80	4.75	4.78	4.82	4.90	5.00
USD/CLP	960	955	952	950	950	950	950	950
USD/COP	4,000	4,050	4,075	4,100	4,125	4,150	4,200	4,250
USD/CRC	512	510	507	505	508	512	515	518
USD/DOP	58.8	59.0	59.3	60.0	60.5	61.0	61.5	62.0
USD/MXN	17.8	18.0	18.3	18.5	18.7	18.9	19.1	19.5
USD/PEN	3.75	3.74	3.74	3.75	3.76	3.78	3.79	3.80
USD/UYU	39.9	40.2	40.6	40.7	41.4	41.6	42.0	42.1

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 54: BofA LatAm FX forecasts vs Consensus
We are overall more bullish than Consensus in Q1 24

	2024 Q1			2025 Q1		
Currency	**BofA**	**Consensus**	**% Diff**	**BofA**	**Consensus**	**% Diff**
USD/ARS (official)	1000	1023	-2.2%	2700	2226	21.3%
USD/BRL	4.90	4.94	-0.8%	4.78	5.03	-5.0%
USD/CLP	960	898	6.9%	950	857	10.9%
USD/COP	4,000	4,030	-0.7%	4,125	4,132	-0.2%
USD/CRC	512	527	-2.8%	508	539	-5.8%
USD/DOP	58.8	59	0.4%	60.5	59	1.9%
USD/MXN	17.8	17.4	2.5%	18.7	18.7	0.2%
USD/PEN	3.75	3.77	-0.6%	3.76	3.74	0.5%
USD/UYU	39.9	41.3	-3.2%	41.39	60.8	-31.9%

Source: BofA Global Research, Consensus Economics

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List of acronyms:

- ARS: Argentinian peso
- Banxico: Central Bank of Mexico
- BanRep: Central Bank of Colombia
- BCB: Central Bank of Brazil
- BCCh: Central Bank of Chile
- BCCR: Central Bank of Costa Rica
- BCRA: Central Bank of Argentina
- BCRD: Central Bank of Dominican Republic
- BCRP: Central Bank of Peru
- BCU: Central Bank of Uruguay
- BRL: Brazilian real
- CAMARA: Chilean Average Chamber Index
- CLP: Chilean peso
- COP: Colombian peso
- CRC: Costa Rican colon
- DomRep: Dominican Republic
- DOP: Dominican peso
- EUR: Euro
- EM: Emerging market
- FDI: Foreign direct investment
- FX: Foreign exchange
- GDP: Gross domestic product
- IBR: Reference Banking Indicator
- IMF: International Monetary Fund
- LatAm: Latin America
- MXN: Mexican peso
- PEN: Peruvian sol
- SOFR: Secured Overnight Financing Rate
- TIIE: Interbank Equilibrium Interest Rate
- USD: US dollar
- UYU: Uruguayan peso
- yoy: Year over year

Special Disclosures

Some of the securities discussed herein should only be considered for inclusion in accounts qualified for high risk investment.

Disclosures

Important Disclosures

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