August 2026

Latin America: **Where Currencies, Commodities, and Earnings Converge**

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Monthly Commentary

English Version

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Latin America: Where Currencies, Commodities, and Earnings Converge

Executive Summary:

> Latin American currencies have diverged meaningfully in 2026, with performance shaped by each country's commodity exposure and the relative attractiveness of its interest-rate differential versus the U.S.

> The region's FX performance also highlights how quickly technical tailwinds can shift, as central-bank decisions, political risk, and changing commodity dynamics begin to reshape the outlook for individual currencies.

> Foreign exchange movements are a major driver of earnings in Latin America, particularly for commodity-exporting economies where revenues are largely denominated in U.S. dollars, and costs are incurred in local currencies. Countries such as Brazil, Chile, and Peru are especially sensitive because of their dependence on globally traded commodities.

> The biggest beneficiaries of currency depreciation are exporters in mining, agriculture, pulp and paper, and energy, while the biggest losers are domestically focused sectors such as airlines, retailers, and telecommunications companies that face significant dollar-linked costs and imports.

So far in 2026, global investors have navigated an investment landscape fraught with heightened volatility and uncertainty. However, a constant throughout the year has been the positive performance of Latin American currencies, amplified by the Iran conflict and the subsequent commodity shock. Therefore, we wanted to dive deeper into the causes of this behavior, its direct relationship to commodities, and how it could directly impact portfolio positioning for specific Latam companies.

Currencies: A Tale of Two Halves

Since Donald Trump took office in early 2025, investors have increasingly questioned whether the U.S. is losing its exceptional status as an investment destination and have looked to other geographies for diversification. **That shift has renewed interest in Latin American assets,**

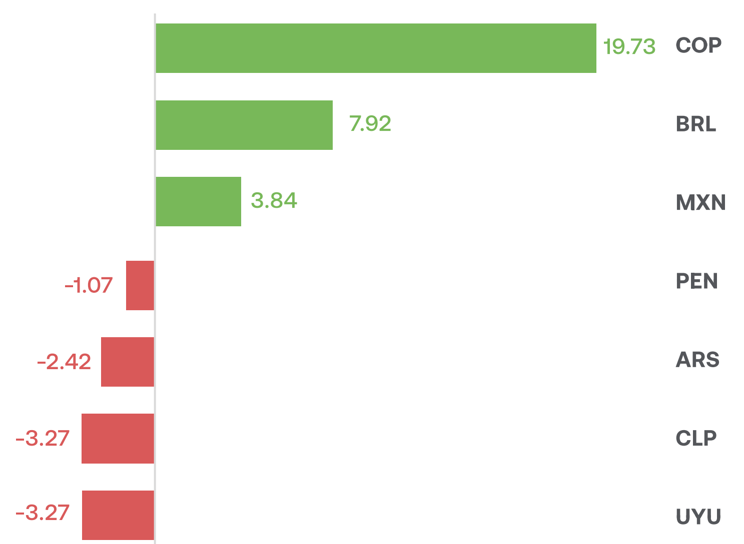
especially currencies. When looking at their year-to-date performance, two factors stand out as potentially strong drivers: an economy's exposure to the oil sector, and the current stage of its monetary policy cycle. The data summarized in Graph 1 demonstrates this.

Graph 1 suggests that the performance of Latin American currencies throughout 2026 has been mainly driven by their oil price correlation and its policy rate differential with the U.S. Year-to-date, the two outperformers of the region are the Colombian peso (COP) and the Brazilian real (BRL). Both economies are net oil exporters and currently exhibit the largest rate differential versus the effective Federal Funds Rate. Oil's support reflects supply shocks from the Iran war, making the timing of any reversal difficult to assess.

In Colombia, BanRep has aggressively hiked rates in 2026 amid unmoored inflation expectations, in contrast to the rest of the region, making high nominal rates attractive to carry trade investors. Additionally, optimism following Abelardo de la Espriella's election as president led to additional support for Colombian assets, further contributing to the COP rally. Still, the rally hit its ceiling after the latest BanRep meeting, in which the central bank held rates steady and announced a plan to buy up to USD 4bn in FX reserves via put-option auctions, triggering a 2.39% one-day depreciation and reminding the market that the COP rally is sensitive to policy shifts. Going forward, those auctions should limit further COP appreciation, while investors may wait for the incoming administration's first moves before adding exposure.

Brazil also benefits from a favorable commodity-export base, as seen throughout 2026. **Combined with a still-high Selic rate at 14.00%, this has kept the Real attractive for carry trades even as the Brazilian central bank (COPOM) began easing.** Zooming in on the Brazilian macroeconomic scenario, it is worth noting that even if the COPOM continues cutting rates, persistent inflation risks and unanchored inflation expectations argue for a gradual path. Furthermore, Brazilian assets face increased political

Graph 1: Latam currencies are telling a tale of two halves – YTD Spot returns (%)



Source: Bloomberg, Insigneo Data as of July 31, 2026 risk ahead of the October presidential election. According to the latest available polls, right-leaning candidate Flávio Bolsonaro is trailing incumbent President Lula, who launched his campaign with a speech that highlighted Brazil's place in an unstable world, called for increased defense spending and promised to protect the country's reserves of critical minerals and rare earths.

In Mexico, even if the carry trade looks less attractive than it did in 2024, when the monetary policy rate peaked, the rate differential between Mexico and the U.S. still positions the Mexican peso (MXN) as an attractive carry trade. This has been reflected in the MXN's performance this year. Oil exposure also helps, even though Pemex's increased domestic refining has reduced exports. A nominal rate differential near 260bps and the current oil tailwind both remain supportive of the currency.

At the other side of the spectrum, the Peruvian sol (PEN) and Chilean peso (CLP) are among this year's laggards. Both economies are more tied to copper than oil, and its price volatility has weighed down their currencies. **Both countries also have the smallest policy rate differentials relative to the U.S., reducing the appeal of currency exposure.**

The Argentinian peso's (ARS) narrative for 2026 has shifted. It began the year appreciating on carry trade inflows underpinned by Milei's midterm victory, which allowed the central bank to accumulate reserves and stabilized the currency around 2Q26. However, the ARS has depreciated sharply since June as carry trades unwound and political uncertainty rose alongside President Milei's declining approval ratings. According to local analysts, the ARS could end the year at ~1,673–1,700, ~12% weaker than current levels. That depreciation would still be consistent with the country's crawling peg system and an inflation rate that remains above 30%.

A Critical Intersection: Where Currencies Meet Commodities

Foreign exchange fluctuations are among the most important earnings drivers for Latin American companies because the region sits at the intersection of global commodity markets and volatile emerging-market currencies. Most commodities are priced and sold in U.S. dollars, while labor, transportation, taxes, and a significant portion of operating expenses are incurred in local currencies. This creates substantial earnings leverage to movements in the U.S. dollar. Countries with export sectors concentrated in commodities tend to be the most exposed. Chile and Peru stand out as the region's most structurally sensitive economies due to their dependence on copper and other metals exports combined with their status as net oil importers. In Chile, for example, the Chilean peso is closely tied to copper market fundamentals, and periods of declining copper prices or weaker global demand often lead to currency depreciation and deteriorating terms of trade. Peru faces a similar dynamic through its dependence on copper, gold, and zinc exports. As one of the region's largest exporters, Peru generates approximately USD 107.5 billion in annualized exports. In both countries, a stronger dollar and weaker domestic currency increase the local-currency value of export revenues and can bolster producer margins, although they also raise the cost of imported fuel, machinery, and other dollar-linked inputs. Mexico and Colombia display somewhat lower structural sensitivity because of more diversified economies and energy-related offsets, while Argentina remains a special case where exchange-rate policy and capital controls often affect exporter behavior as much as commodity prices themselves. Across the region, commodity composition matters enormously: Chile and Peru are vulnerable when copper prices fall, and oil prices rise simultaneously, while Colombia's oil and coal exports provide a natural support for the peso through stronger terms of trade.

Brazil occupies a unique position within this framework as Latin America's largest and most diversified commodity exporter. The Brazilian Real is one of the most actively traded and volatile emerging-market currencies, making exchange-rate fluctuations a major determinant of corporate earnings. Brazil's export basket spans iron ore, soybeans, oil, pulp, agricultural products, and metals, all of which are largely priced in dollars. Consequently, BRL depreciation generally boosts local-currency revenues and profitability for exporters, while appreciation creates a translation headwind. Vale, one of the world's largest mining companies and Brazil's third-largest commodity exporter, generates approximately USD 41.3 billion in annualized revenue, with the vast majority of sales linked to globally priced commodities while maintaining a significant domestic cost base in Reals. Agricultural producers experience similar effects because crops such as soybeans and corn are priced in dollars globally. Even within the energy sector, exchange-rate moves can have meaningful effects; company disclosures indicate that a 5% appreciation in the BRL can materially alter revenue and the profitability metrics in certain natural gas operations. More broadly, the relationship between commodities and currencies becomes self-reinforcing through terms-of-trade dynamics. Rising commodity prices attract capital inflows, boost export earnings, and support domestic currencies, partially offsetting exporters' revenue windfalls. Conversely, falling commodity prices often coincide with currency weakness, amplifying earnings volatility. Mexico illustrates another important variation: because the Peso serves as a liquid proxy for emerging-market risk sentiment, currency moves can significantly alter reported financial results.

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At the company level, the largest beneficiaries of local-currency depreciation tend to be firms with dollar-denominated revenues and predominantly domestic cost bases. The clearest examples are found in mining, pulp and paper, and agriculture. Suzano is among the most FX-sensitive companies in Latin America, with more than 90% of revenue tied to dollar-denominated pulp exports. Management estimates that every USD 0.10 movement in the BRL/USD exchange rate affects annual EBITDA by roughly 3%, illustrating direct transmission from foreign exchange into profitability. To mitigate currency fluctuations, companies like Suzano maintain substantial hedging programs, with derivatives expected to contribute approximately R$1.5 billion in 2026 and R$3.6 billion in 2027 for this company. Other highly exposed Brazilian exporters include Klabin, Vale, SLC Agrícola, BrasilAgro, and Minerva Foods. SLC Agrícola generates effectively USD-linked revenues while roughly 55% of its cost base is denominated in BRL, creating significant operating leverage to currency movements. Minerva derives approximately 60% of its revenue from exports, making BRL fluctuations a primary earnings variable. Similar dynamics extend beyond Brazil to companies such as Grupo México, Antofagasta, and Ecopetrol, whose commodity revenues are largely linked to dollar pricing. As a result, Brazil, Peru, and Argentina rank among the world's five most commodity-exposed equity markets, making their equity performance particularly sensitive to broad movements in the U.S. dollar and global commodity cycles.

However, foreign exchange sensitivity in Latin America extends well beyond commodity producers. A second group of companies faces more balanced or two-sided exposure, where export benefits are partially offset by imported inputs, foreign-currency debt, or operational costs tied to the dollar. Industrial firms such as WEG earn a significant share of revenue abroad and therefore see translated earnings decline when the BRL strengthens. Pemex similarly generates substantial dollar-linked revenues while maintaining a large peso-denominated cost structure. Utilities generally exhibit lower sensitivity because financing is often local currency based; nevertheless, currency movements can still affect consolidated earnings, as illustrated by Enel Americas, where FX fluctuations reduced EBITDA by approximately USD 130 million in a recent year. The most negatively exposed sectors are domestically oriented companies that earn revenues in local currency but face significant USD-linked costs. Retailers such as Walmart de México, FEMSA, Falabella, and Cencosud experience margin pressure when local currencies weaken because imported merchandise and inventory become more expensive. Airlines represent perhaps the most structurally disadvantaged group: carriers such as LATAM Airlines and Gol receive ticket revenues primarily in local currencies but face substantial dollar-denominated expenses through fuel, aircraft leases, maintenance contracts, and financing costs, causing depreciation to directly compress margins. Financial institutions including Itaú Unibanco, Bradesco, Banco do Brasil, and Credicorp are less exposed through direct transaction channels but remain highly sensitive through macroeconomic effects as exchange-rate fluctuations influence inflation, interest rates, credit quality, and loan demand.

It is easy to see how Latin America's biggest FX winners are exporters in mining, pulp and paper, agriculture, and select energy businesses where dollar revenues meet local-currency costs, while airlines, retailers, telecommunications firms, and other domestically focused sectors bear the greatest downside from currency weakness because of their dependence on imported goods, dollar-linked expenses, or foreign-currency liabilities.

In summary, Latin American currencies have been among the region's strongest-performing assets in 2026, supported by higher commodity prices and attractive interest rate differentials. This environment has generally favored commodity exporters, particularly in the oil, mining, agriculture, and pulp and paper industries, while creating challenges for more domestically focused sectors such as retailers and airlines. For investors, the close relationship between currencies, commodities, and corporate earnings remains a key factor in identifying opportunities and managing risks across Latin American portfolios. ■

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House View Matrix

Global Asset Allocation	Tactical (Up to 3 Months)	Cyclical (Up to 12 Months)
Equities	NEUTRAL	OVERWEIGHT
Fixed Income	NEUTRAL	NEUTRAL
Cash	NEUTRAL	NEUTRAL
US Equities[1]	NEUTRAL	OVERWEIGHT
European Equities	NEUTRAL	NEUTRAL
Japanese Equities	OVERWEIGHT	NEUTRAL
Emerging Market Equities	OVERWEIGHT	OVERWEIGHT
Chinese Equities	OVERWEIGHT	NEUTRAL
US Treasuries[2]	NEUTRAL	NEUTRAL
Investment Grade Fixed Income	OVERWEIGHT	NEUTRAL
High Yield Fixed Income	NEUTRAL	NEUTRAL
Emerging Market Sovereign	NEUTRAL	OVERWEIGHT
US Dollar	NEUTRAL	UNDERWEIGHT
Energy[3]	NEUTRAL	UNDERWEIGHT
Precious Metals	NEUTRAL	OVERWEIGHT

[1] Relative to global equities in USD

[2] Relative to aggregate fixed income markets in USD

[3] Relative to an overall commodity allocation

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