

# Evolution of the Foreign Exchange Market and Exchange Balance

January 2019



BANCO CENTRAL  
DE LA REPÚBLICA ARGENTINA

# Transactions in the Foreign Exchange Market and the Foreign Exchange Balance

## Overview

### Foreign Exchange Transactions and Foreign Exchange Balance in January 2019

- ✓ *In January, financial institutions' clients purchased around USD1,300 million in the foreign exchange market; in turn, the ensemble of financial institutions sold USD1,800 million, thereby making the exchange rate stand below the non-intervention range during most of the month, which led the BCRA to purchase USD560 million.*
- ✓ *Companies in the real sector were net sellers of foreign currency for nearly USD1,800 million.*
- ✓ *Within this group, the main sector with net sales in historical terms was "Oilseeds and Grains", amounting to about USD2,000 million, down 8% y.o.y. This could be explained by a greater volume of imports—especially soy beans to be processed in Argentina—which were paid using funds deposited abroad.*
- ✓ *Companies in the "Non-Agricultural Real Sector" recorded net purchases for around USD180 million. This result differs from that of January 2018 when net purchases totaled USD1,830 million. The difference is mainly accounted by a sudden stop in imports that was observed in the past few months.*
- ✓ *"Natural Persons", who mainly demand foreign currency for saving and travelling abroad, made net purchases for about USD1,850 million. This 37% slide against purchases made in January 2018—USD2,900 million—may be explained by a drop in purchases of banknotes for saving and travelling abroad.*
- ✓ *"Institutional Investors and Others"—both residents and non-residents—made net purchases of around USD1,100 million exhibiting a reversal of net sales amounting to USD1,600 million in January 2018.*
- ✓ *In addition to sales on the spot market, financial institutions purchased USD800 million for forward transactions in foreign currency.*
- ✓ *The General Government recorded net inflows for USD200 million, mainly for the issue of debt in foreign and domestic currency. Furthermore, it made net payments to international organizations for USD300 million.*
- ✓ *As a result of the transactions described above, gross international reserves increased by USD 1,005 million along January, totaling USD66,811 million by the end of the month.*

## I. Introduction

This report analyses information on foreign exchange transactions made in January 2019 as gathered by the Exchange Transaction Reporting System administered by the BCRA. Additionally, it relies on information on changes in BCRA's International Reserves due to transactions carried out by BCRA on its own account or on behalf of the National Government, and on changes in the balance of institutions' accounts.<sup>1</sup>

Data collected from institutions include information on every transaction conducted in the forex market by natural or legal persons (including the sector to which they belong, which agrees with the main business activity reported to AFIP (Federal Administration of Public Revenue)), amounts traded, currency denomination, and the reason for the foreign exchange transaction (heading)—such as export or import of goods or services, saving, and financial liabilities, as defined in the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

This report discusses the forex market performance by aggregated transactions in terms of the sector of the trader involved. The analysis of historical statistics is then simplified and information is broken down by sector given that, since July 2017, traders are no longer required to report the reasons (headings) for their transactions through an affidavit; on the contrary, they are only requested to provide such information for statistical purposes, which is undoubtedly a hindrance to the historical comparison of series. This methodology does not change the total net result broken down by sector.<sup>2</sup>

Section II deals with the changes in BCRA's international reserves and analyses the result of foreign exchange transactions for January; data are broken down by sector and by heading.

Additionally, it is worth noting that the Foreign Exchange Balance will still be presented in an analytical format based on data on the Balance of Payments broken down by component and by institutional sector; the remaining information will also be available in online Annexes and in the statistical series related to the Foreign Exchange Market and the Foreign Exchange Balance.<sup>3</sup>

Section III through Section VIII are divided in sectors, each of which comes with a Foreign Exchange Balance which comprises transactions carried out by institutions with their clients in the foreign exchange market and those carried out by the BCRA—either on its own account or on behalf of the National Government.

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<sup>1</sup> Communication "A" 3840, as amended.

<sup>2</sup> Communication "A" 6244. Sectors were grouped into: "Central Bank", "Institutions", "General Government", "Oilseeds and Grains", "Other Real Sectors", "Natural Persons", and "Institutional Investors and Others".

For identification purposes, each sector is defined as follows: "**General Government**" stands for the so-called "Public Sector" and embraces transactions made by the National Treasury directly through its account in foreign currency held with the BCRA; "**Oilseeds and Grains**"; "**Other Real Sectors**" includes the following sectors: "Oil", "Food, Beverages and Tobacco", "Textile and Leather Industries", "Paper, Publishing and Printing Industry", "Chemical, Rubber and Plastic Industries", "Non-Metallic Mineral Products (Cement, Ceramics and Others)", "Manufacture of Common Metals", "Machinery and Equipment", "Automobile Industry", "Other Manufacturing Industries", "Electricity (Generation, Transport, Distribution)", "Gas (Extraction, Transport, Distribution)", "Water", "Commerce", "Transport", "Communications", "Mining", "Agriculture, Livestock and Other Primary Activities", "Construction", "Information Technology", "Gastronomy", "Entertainment" and "Tourism and Accommodation Services"; "**Financial and Foreign Exchange Institutions**" includes the sector's transactions; "**Natural Persons**" is a subsector of "Other Non-financial Private Sectors"; and "**Institutional Investors and Others**" includes "Insurance" as well as the rest of the "Other Non-Financial Private Sectors".

<sup>3</sup> The Central Bank's website ([www.bcr.gov.ar](http://www.bcr.gov.ar)) contains different statistical series of the Foreign Exchange Market (to access statistical series, [click here](#)), together with an annex broken down by sector and main headings (to access statistical Annex of the foreign exchange balance [click here](#)). In addition, the "Main differences between the balance of payments and the foreign exchange balance" are available in the "Publications" section, "Foreign Sector" / "Foreign Exchange Market" subsection; to access the text [click here](#). The results in this section are broken down by the main sectors trading in the forex market in order to set net purchasers apart from net sellers.

Finally, section IX deals with information on the amount traded in the foreign exchange market. This amount stands for transactions made by institutions with their clients—both gross purchases and gross sales—transactions between institutions, and those carried out among institutions and the BCRA.

## II. Result of the Foreign Exchange Market and Changes in BCRA International Reserves

In January, financial institutions' clients purchased around USD1,300 million in the foreign exchange market; in turn, the ensemble of financial institutions sold USD1,800 million, thereby making the exchange rate stand below the non-intervention range during most of the month, which led the BCRA to purchase USD560 million.

**Table II.1 Foreign Exchange Market**

### Result by sector

Equivalent in million dollars

Sector	January 2019
<b>BCRA</b>	- <b>560</b>
<b>Institutions</b>	<b>1.816</b>
<b>Institutions' clients</b>	- <b>1.256</b>

Note: (+) Net Sales; (-) Net purchases

The USD1,005 million increase in BCRA's international reserves may be mainly explained by the purchases made in the forex market, and by the exchange rate movements of various currencies against the US dollar that led to a rise by USD 660 million (for further information, see Sections VII and VIII).

The following table is intended to analyze clients' purchases and sales through institutions in the forex market; such transactions implied a net demand amounting to USD1,256 million. For readers' convenience, each sector's net foreign exchange result analyzed in this report is arranged in horizontal reading direction, and each heading's net foreign exchange result—as informed by the institutions to the BCRA—is displayed vertically.

**Table II.2 Foreign Exchange Market**  
Result of Institutions' Transactions with Clients January 2019  
Equivalent in billion dollars

Sector/Main Headings	Goods	Travel and Passenger Transport, and Others with Cards	Remaining Services and Other Current Transfers	Foreign Assets - Banknotes	Foreign Assets - Foreign Currency	Debt, FDI, and other transactions	Total
<b>Non-Financial Private Sector</b>	<b>2,0</b>	<b>-0,7</b>	<b>-0,1</b>	<b>-1,3</b>	<b>-0,7</b>	<b>-0,4</b>	<b>-1,1</b>
Oilseeds and Grains	2,0	0,0	0,0	0,0	0,0	0,0	2,0
Non-Agricultural Real Sector	0,1	-0,2	-0,2	0,0	-0,3	0,4	-0,2
Natural Persons	0,0	-0,6	0,0	-1,2	-0,2	0,2	-1,9
Institutional Investors and Other	-0,1	0,2	0,0	-0,1	-0,2	-1,0	-1,1
<b>General Government</b>	<b>0,0</b>	<b>0,0</b>	<b>-0,1</b>	<b>0,4</b>	<b>0,0</b>	<b>-0,2</b>	<b>0,1</b>
<b>Institutions (Own Transactions)</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>-0,2</b>	<b>-0,2</b>
<b>Institutions' Result with Clients</b>	<b>2,0</b>	<b>-0,7</b>	<b>-0,2</b>	<b>-0,9</b>	<b>-0,6</b>	<b>-0,9</b>	<b>-1,3</b>

Note: (+) Net Sales; (-) Net purchases

This type of presentation allows underscoring different behaviors.

As shown in Chart III.1 of the following section, "Oilseeds and Grains" was the main net supplier of foreign currency in the forex market over January. This sector reported net inflows for USD2,000 million for virtually all concepts included in "Goods" (collections on exports net of payments for imports), which is reasonable enough as it proves to be the main exporting sector in the economy.

Since the date foreign exchange regulations were relaxed, "Non-Agricultural Real Sector" companies are not only allowed to pay their foreign liabilities under specific headings on a case-by-case basis (payments for imports of goods and services, for primary income, and for debt securities or loans) but also to make net transfers to their

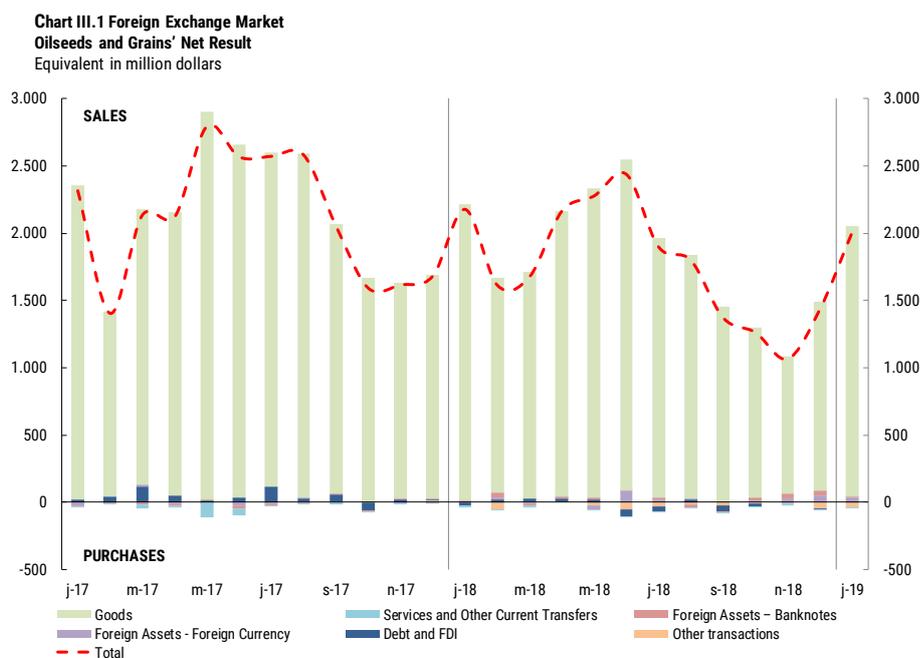
own accounts abroad under the “Foreign Assets – Foreign Currencies” heading (net outflow for USD300 million in January) in order to subsequently make payments to their creditors with the funds so transferred. Furthermore, the companies in this sector have exhibited the highest amounts of foreign currency derived from inflows net of financial liabilities and foreign direct investment (FDI).

“Natural Persons” (residents) basically demand foreign currency for saving purposes (USD1,200 million in January) and for making trips abroad (USD600 million).

“Institutional Investors and Others” comprises investment funds, pensions funds, hedge funds, insurance companies, and other legal persons not included in the previous classifications—both residents and non-residents—whose most significant transactions involve changes in portfolio (net outflow of USD1,000 million in January).

### III. Oilseeds and Grains

The “Oilseeds and Grains” sector recorded a USD2,000 million surplus in January (see Chart III.1) in spite of a fall of 8% y.o.y.

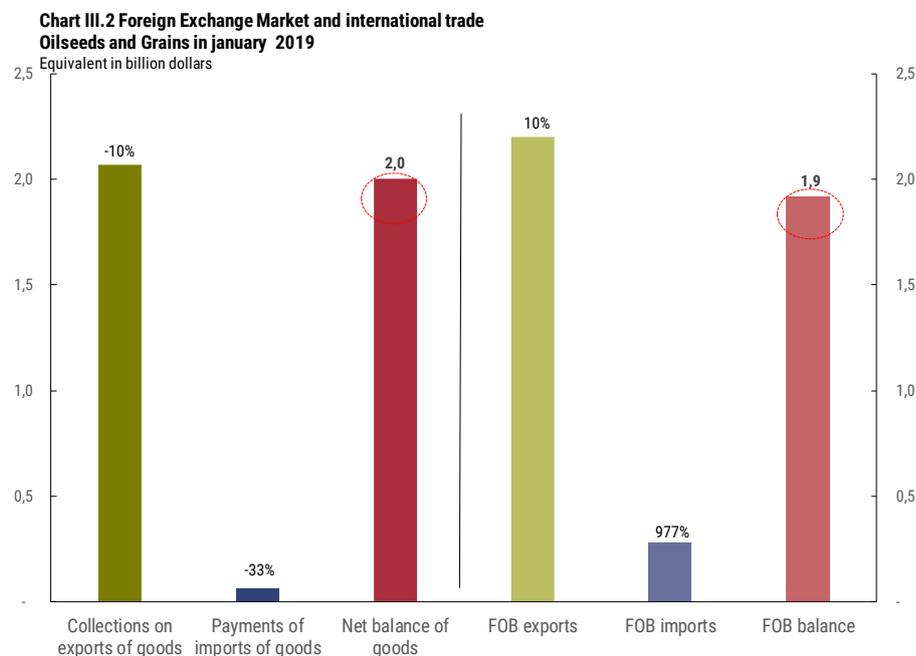


In January, the sector reported collections on exports of goods for USD2,070 million (down 10% y.o.y.) and payments for imports of goods for USD65 million through the forex market (down 32% y.o.y.).

The sector's net result for "Goods" stood at USD2,000 million and was in line with the expected foreign exchange balance of around USD1,900 million (i.e., exports for nearly USD2,200 million, up 10% y.o.y.—due to a rise in wheat exports—minus imports for about USD300 million, up 977% y.o.y.).<sup>4</sup> Lower gross volumes transacted in the forex market against total customs duties could be explained by the fact that payments to non-residents suppliers were made out of funds deposited abroad—i.e., with funds that were never brought into the local market.

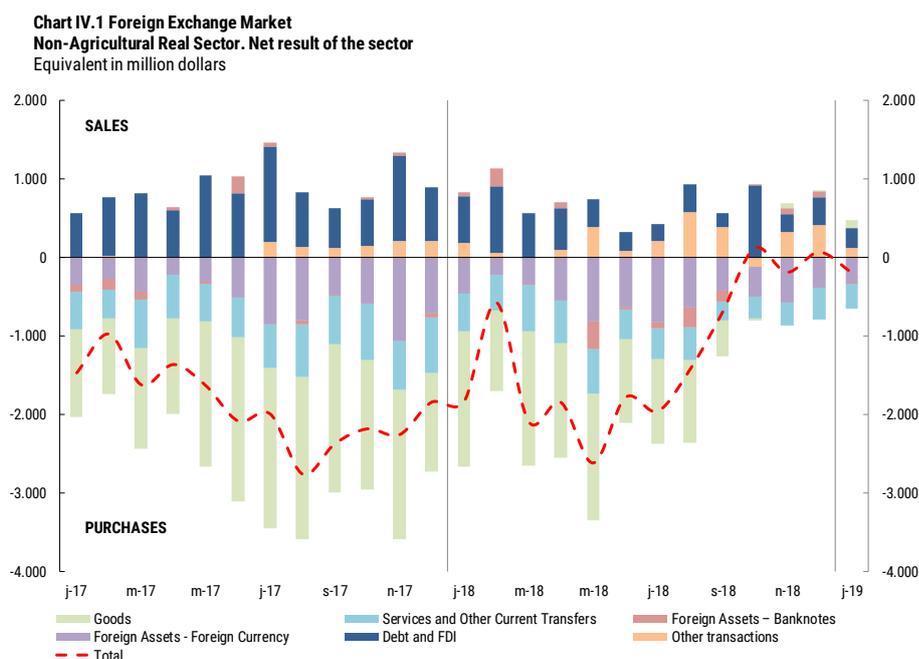
<sup>4</sup> Own estimation based on data provided by Office of the Under Secretary for Agricultural and Livestock Markets reporting to the Ministry of Production and Labor and historical data of the Foreign Trade Consultation System of INDEC (Argentina's National Institute of Statistics and Censuses).

Similarly, a y.o.y. drop in the sector's net inflows can be explained by a rise in imports which were paid with funds deposited abroad. This increase particularly involved soy beans—to be processed in Argentina—due to the drought that hit the 2017/18 harvest season.

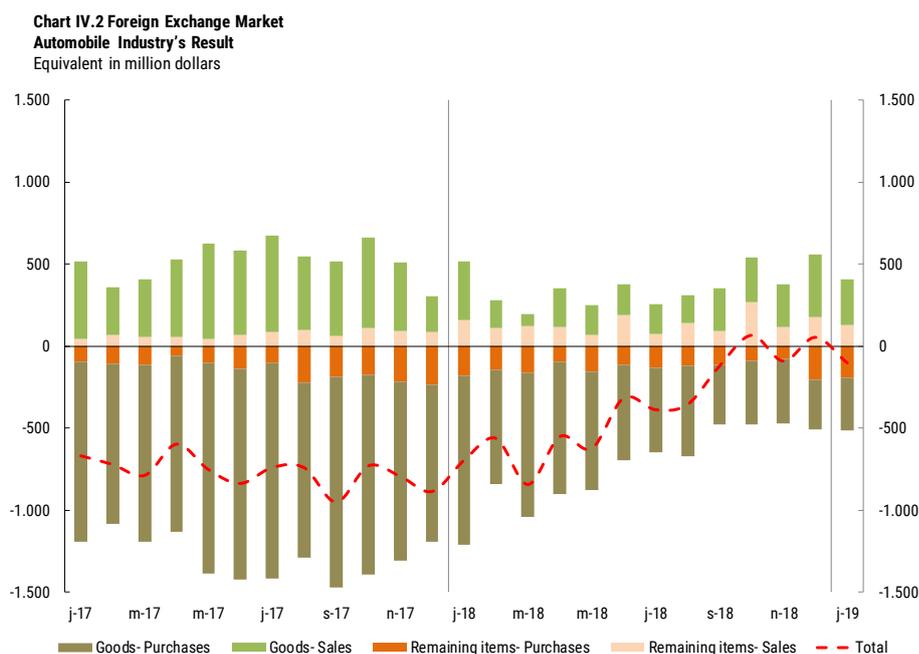


#### IV. Non-Agricultural Real Sector

Companies in the “Non-Agricultural Real Sector” recorded net purchases totaling USD180 million. This result differs from that of January 2018 when net purchases totaled USD1,830 million. The difference is mainly accounted for by a sudden stop in imports observed in the past few months (see Chart IV.1).

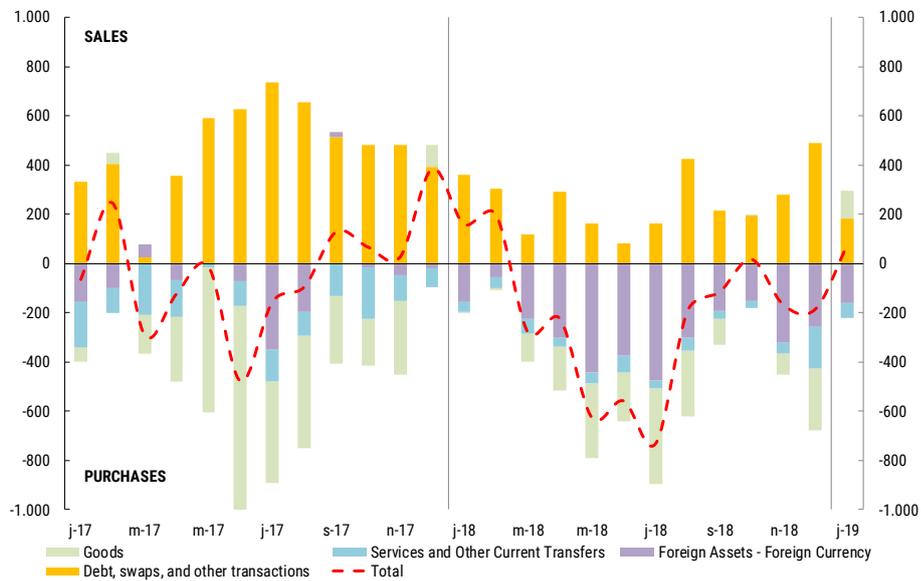


The “Automobile Industry” posted net purchases for around USD100 million, exhibiting a drop against USD700 million net outflows recorded in January 2018 (see Chart IV.2). Particularly, this sector reported collections on exports of goods for about USD280 million and payments for imports of goods for USD320 million. These gross levels are not in line with customs duties estimates (exports for around USD300 million and imports for around USD600 million). This may be explained by the fact that since regulations were eased the companies belonging to the sector have started to (i) regionally offset their commercial liabilities and claims within the same group, thus making net foreign exchange transactions; (ii) make payments for imports of goods through their accounts held abroad—which are funded with collections on exports or by raising debts abroad without settling the resulting foreign exchange in the local market.



In turn, companies belonging to the “Energy” sector recorded net sales for around USD100 million, which may be explained by net inflows in exchange for goods, inflows for financial debt, and direct investments by non-residents. These changes were partly offset by transfers of funds to own accounts held abroad against which they pay part of their foreign debts (see Chart IV.3).

**Chart IV.3 Foreign Exchange Market**  
**Energy. Net result of the sector**  
 Equivalent in million dollars

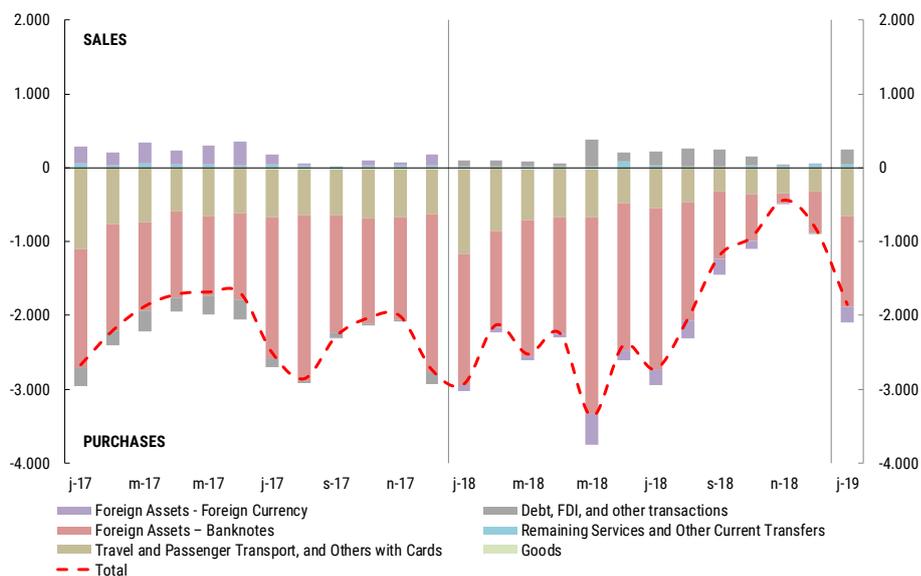


Finally, the remaining companies included in the “Non-Agricultural Real Sector” posted net purchases for USD150 million, thereby reversing the performance evidenced in the last three months. Outflows fell by USD1,150 million y.o.y. mostly due to a reversal in the net outflow reported for imports of goods, lower net payments for services, and fewer transfers in foreign currency to own accounts held abroad.

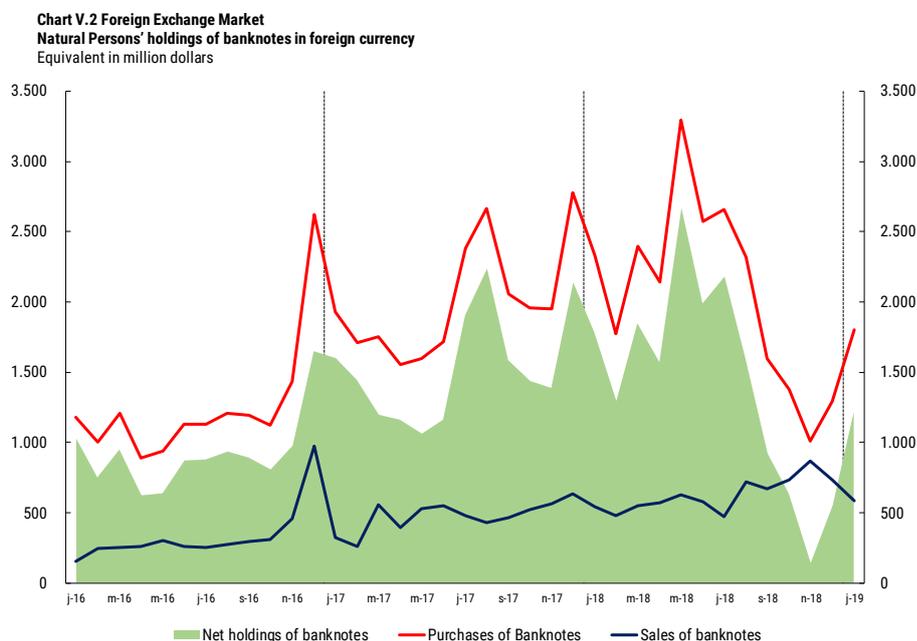
## V. Natural Persons

In January, there was a new rise in net demand for foreign currency by "Natural Persons" against December 2018. This may be accounted for by a seasonal increase in the demand for foreign currency for travelling abroad during summer vacations (see Chart V.1). Nevertheless, net purchases totaled around USD1,850 million over the month, falling 37% y.o.y.

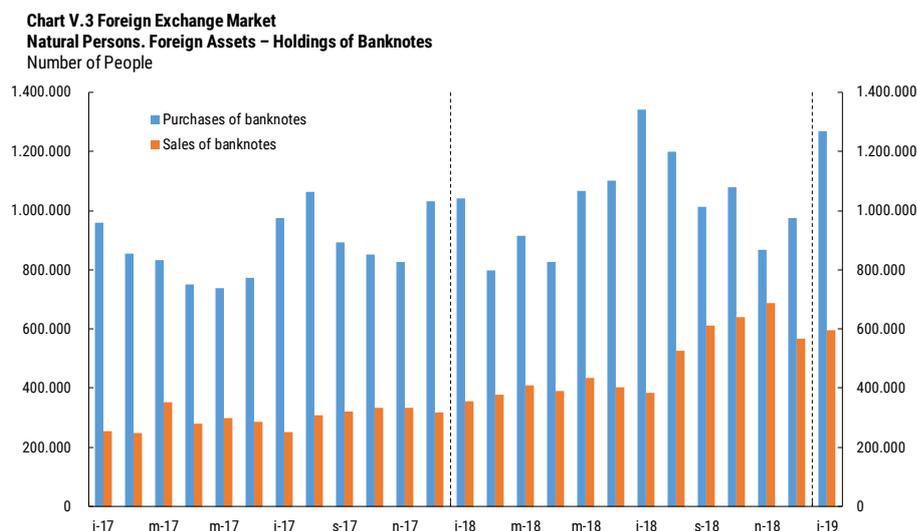
**Chart V.1 Foreign Exchange Market**  
**Natural Persons' Net Result**  
 Equivalent in million dollars



Net purchases of banknotes made by natural persons increased against December due to more gross purchases (USD1,802 million) and fewer gross sales (USD585 million).

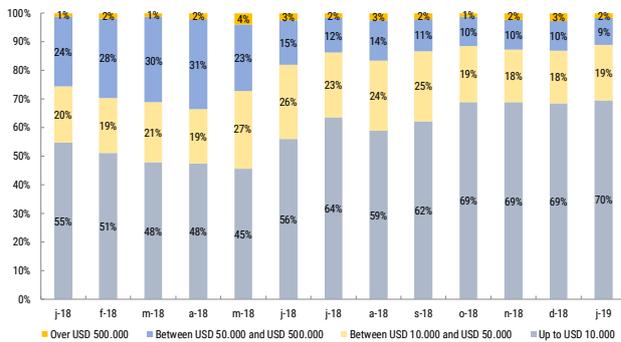


The number of clients selling banknotes in the forex market was in line with the figures recorded in December (600,000 persons). However, it was almost twice the number of clients in January 2018 (350,000 persons). In turn, the number of clients who purchased banknotes in the forex market rose by nearly 300,000 against the previous month, totaling 1,260,000 persons (see Chart V.3).

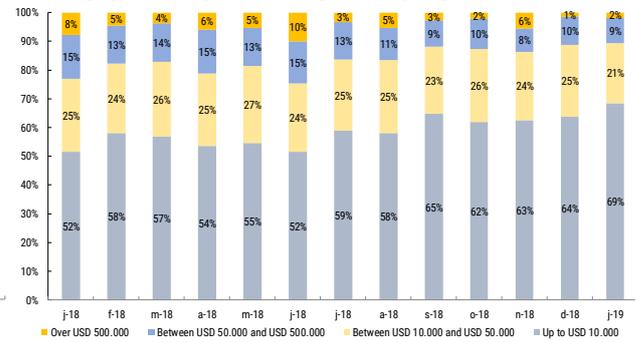


As is usually the case, natural persons' foreign exchange transactions account for the lowest amounts: 69% of gross sales, and 70% of gross purchases in January were below USD10,000 (see Chart V.4 and Chart V.5). Gross sales per capita amounted to USD1,000, while gross purchases per capita stood at USD1,422.

**Chart V.4 Foreign Exchange Market**  
**Natural Persons. Purchases of banknotes by segment**  
 Share by segment – Each segment shows monthly cumulative figures by client

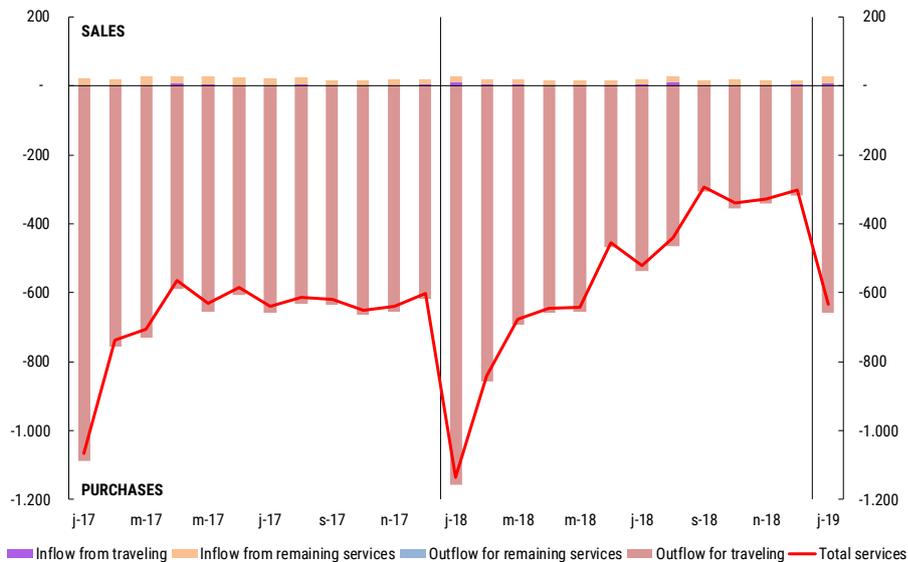


**Chart V.5 Foreign Exchange Market**  
**Natural Persons. Sales of banknotes by segment**  
 Share by segment – Each segment shows monthly cumulative figures by client



In turn, natural persons' net outflows for payments of services totaled around USD630 million, particularly of "Travel, and Other Expenses Paid with Cards", which amounted to USD650 million, down 49% y.o.y. (see Chart V.6).<sup>5</sup>

**Chart V.6 Foreign Exchange Market**  
**Natural Persons Services**  
 Equivalent in million dollars



Finally, net inflows for primary and secondary income totaled USD25 million, mainly as a result of retirement and pension collections from abroad.

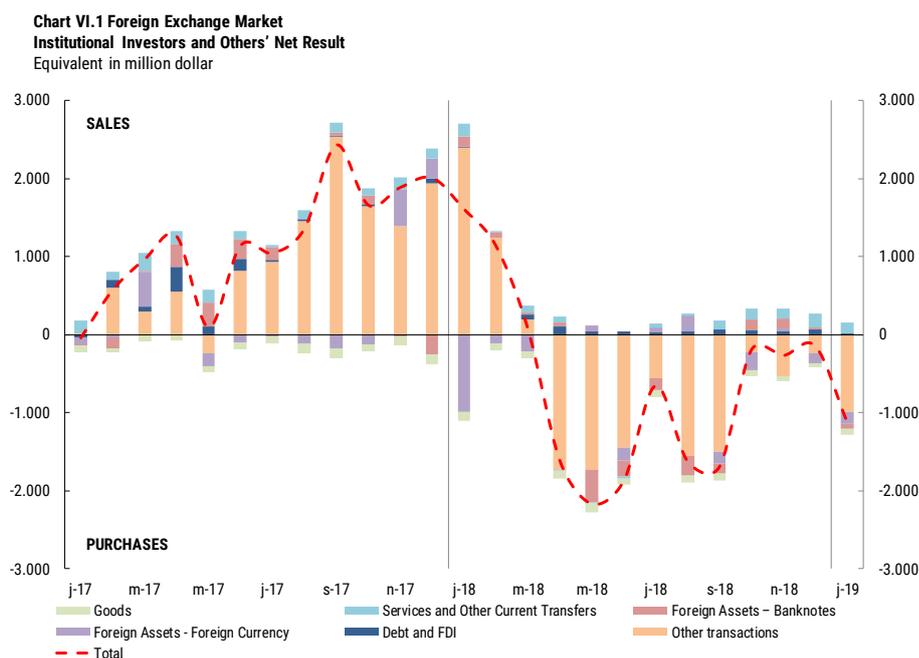
<sup>5</sup> It is worth pointing out that the transfers made to international credit card issuers include purchases made by Argentine residents either during their stay abroad or on a remote basis. Likewise, inflows of foreign exchange include non-resident's remote purchases from Argentine suppliers. It is worth underscoring the relevance of the information included in Box 1 of the Foreign Exchange Market and Foreign Exchange Balance Report of January 2018 and in the entry in the Blog entitled "Ideas de Peso", *How much do Argentiniens spend when travelling abroad? How much do foreigners spend when visiting our country?* The analyses of the result of "Travel and Passenger Transport" involves collections and payments made outside the forex market, especially because as estimates suggest nonresidents—unlike Argentinians—tend to use alternative channels to make foreign exchange transactions. Likewise, it should also be noted that the foreign exchange account for paying services includes payments for non-travel related services (for example, remote e-commerce).

## VI. Institutional Investors and Others

“Institutional Investors and Others”—both residents and non-residents—made net purchases of around USD1,115 million exhibiting a reversal of net sales for about USD1,600 million evidenced in January 2018.

The results of transactions in this sector are mostly displayed under the headings “Foreign Assets”—for transactions carried out by residents—, and “Portfolio Investments”—for transactions carried out by non-residents.

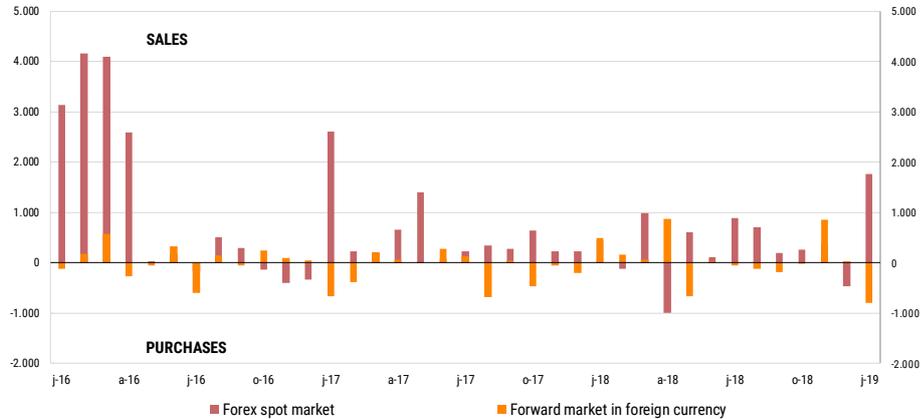
In turn, the result of transactions with banknotes within the "Investors and Others" sector was virtually neutral; however, gross purchases and sales totaled USD1,500 million, respectively.



## VII. Financial and Foreign Exchange Institutions

In January, financial institutions sold USD1,800 million in the forex market and purchased USD800 million in the forward market (see Chart VII.1.).

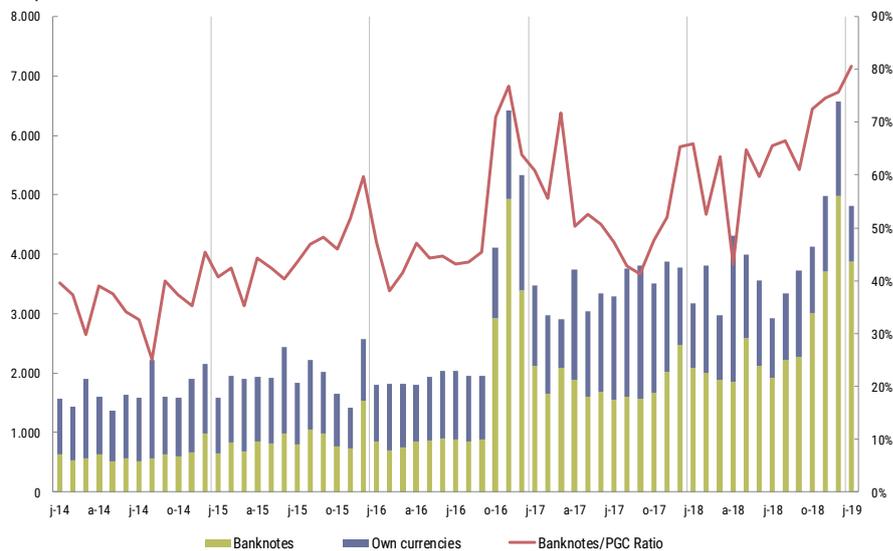
**Chart VII.1 Forex spot and forward market in foreign currency  
Institutions**  
Equivalent in million dollars



In particular, they used their own funds (around USD700 million) for underwriting securities in the primary market and recorded loans for USD500 million from foreign lenders.

Financial institutions ended the month with a General Exchange Position of USD4,816 million, down USD1,760 million against December 2018; this is mainly explained by the amount of foreign exchange sales in the forex market. Even though this drop affected, in particular, the stock of their banknotes in foreign currency, the banknote/total General Exchange Position ratio reached a peak (see Chart VII.2).<sup>6</sup>

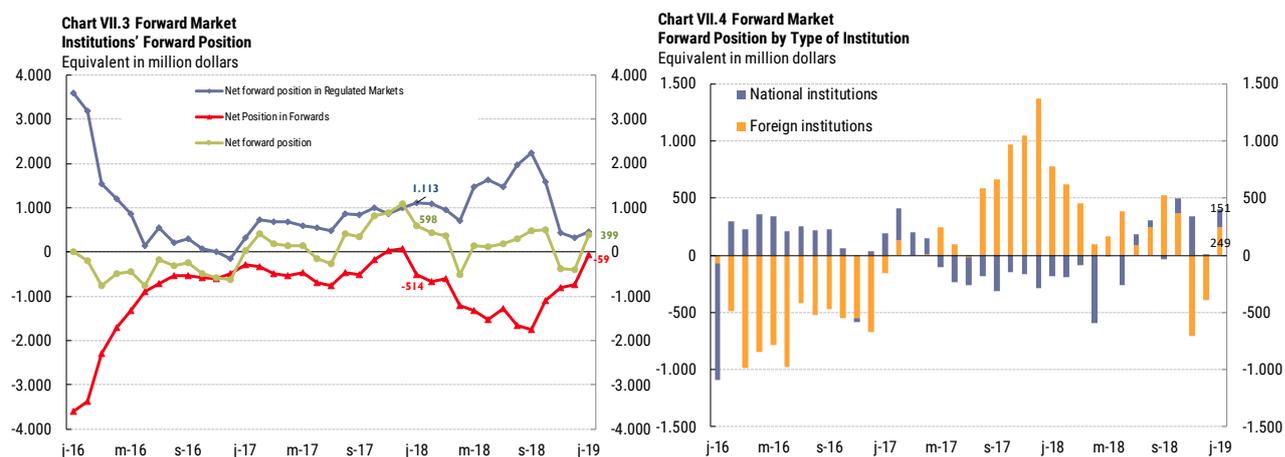
**Chart VII.2 Exchange Balance  
Institutions' Exchange Position (PGC)**  
Equivalent in million dollar



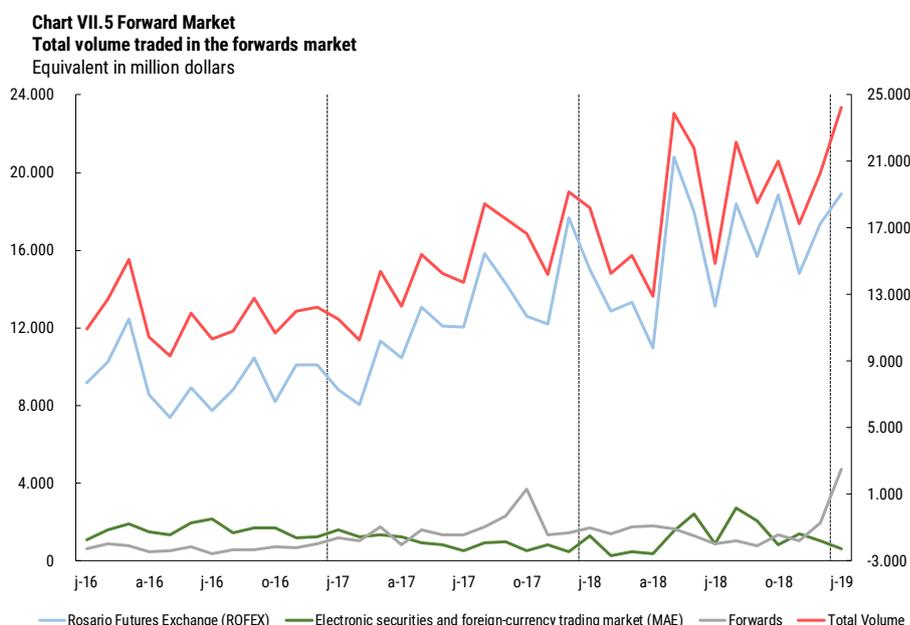
<sup>6</sup> The General Exchange Position is defined in the Annex to Communication "A" 6244, subparagraph 4.7. Communication "A" 6237—effective since May 4, 2017—provides that institutions with forex trading license may freely determine the amount and use of their liquid external assets in foreign currency (General Exchange Position). However, institutions are still subject to the limits established for the Net Global Position in Foreign Currency.

Regarding forward markets in foreign currency, financial institutions exhibited a net long position of USD399 million by end-January. January's net purchases were made in regulated markets and through contracts with clients (Forwards) for USD123 million and USD667 million, respectively (see Charts VII.3 and VII.4).

Foreign institutions made net purchases for USD641 million. In turn, national institutions' purchases amounted to USD151 million.



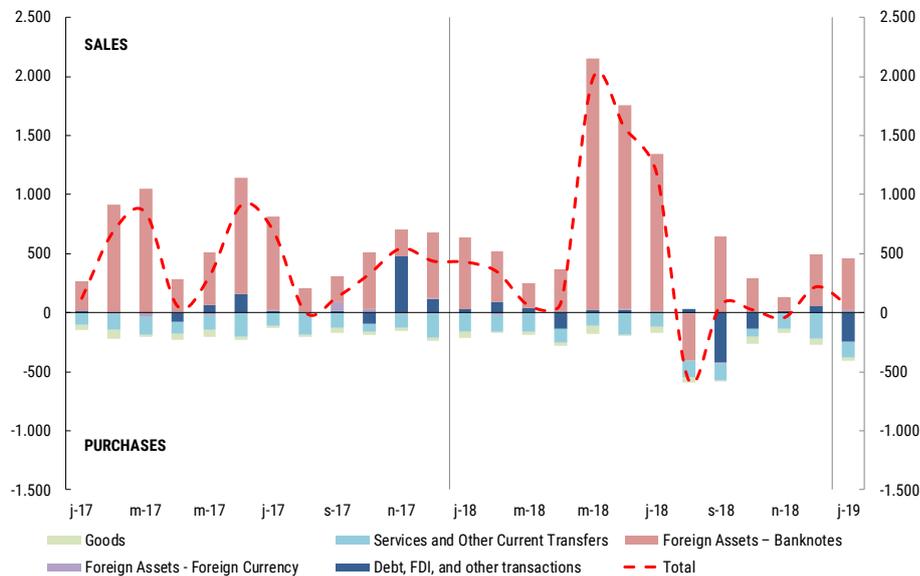
The volume traded in forward markets totaled USD24,231 million in January, i.e.: USD1,100 million on a daily basis. Unlike previous months, a rise in the volume traded (19% y.o.y.) is explained by a hike in the turnover in the Mercado a Término de Rosario (ROFEX) and in direct transactions with clients or "Forwards" which virtually went up by USD2,800 million (i.e., 20% of the total traded) (see Chart VII.4).



### VIII. General Government and the Central Bank

In January, the General Government recorded net sales in the forex market for USD61 million, mainly due to pesification of domestic deposits in foreign currency (see Chart VIII.1).

**Chart VIII.1 Foreign Exchange Market**  
**General Government's Net Result**  
 Equivalent in million dollars



As regards transactions involving BCRA's international reserves, the General Government recorded an inflow of USD3,222 million, mainly from the issue of debt in foreign and domestic currency. Likewise, it paid back principal and interest of debt securities (LETES in foreign currency, Discount and International Bonds) for USD3,000 million and to international organizations for USD300 million (see Chart VIII.2).

Furthermore, the BCRA purchased USD560 million in the forex market given the fact that the exchange rate remained most of the month below the non-intervention range<sup>7</sup>. Additionally, the BCRA made payments for forex transactions arranged through the Domestic Currency Payment System (SML) in force with Brazil and Uruguay and through ALADI (Latin American Integration Association) for USD84 million.<sup>8</sup>

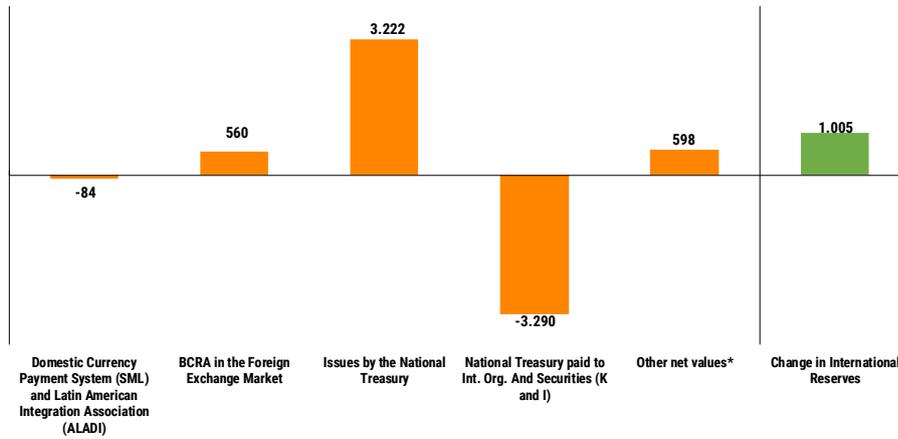
Finally, profits from the exchange rate movements of various currencies, particularly the yuan, against the US dollar amounted to USD660 million over the month.

As a result of the transactions described above, gross international reserves increased by USD 1,005 million along January, totaling USD66,811 million by the end of the month.

<sup>7</sup> Purchases in the forex market were made through daily auctions in accordance with the guidelines defined by the Monetary Policy Council informed at the beginning of the year ([click here](#)).

<sup>8</sup> Click the following link to see the definition of [non-intervention range](#).

**Chart VIII.2 Change in BCRA's International Reserves – January 2019**  
Equivalent in million dollars

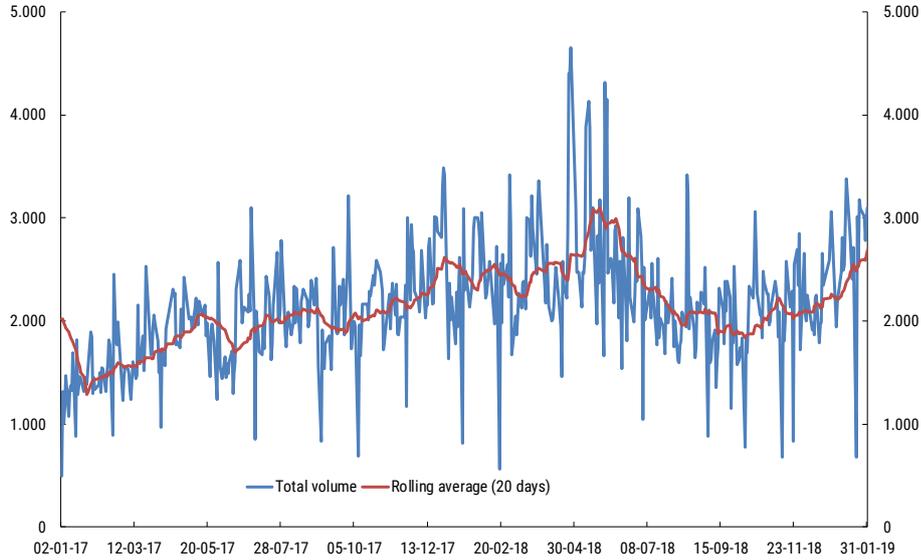


\*Note: It includes – among other transactions – changes in institutions' accounts in foreign currency excluded from other headings, income on reserves, adjustments by type of swap and valuation, purchase-sale of securities, transactions in accounts of the National Treasury, and BCRA's transactions.

## IX. Volumes Traded in the Foreign Exchange Market

In January, the volume traded in the forex market totaled USD58,000 million, up 12% y.o.y. This total stands for a daily volume of about USD2,640 million, up 12% y.o.y. (see Chart IX.1).<sup>9</sup>

**Chart IX.1 Foreign Exchange Market**  
Volume traded daily evolution  
Equivalent in Million dollars

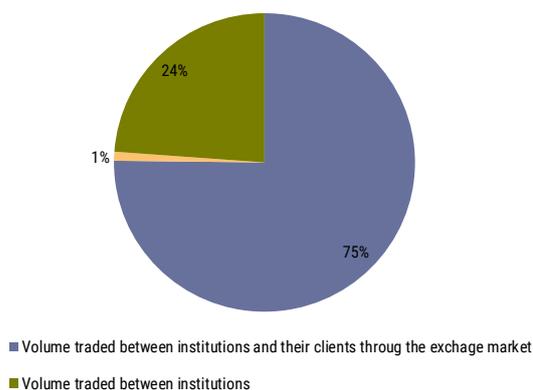


<sup>9</sup> In the BCRA's website there is a quarterly ranking of volumes traded with clients in the forex market broken down by institution (to access the Ranking, [click here](#)).

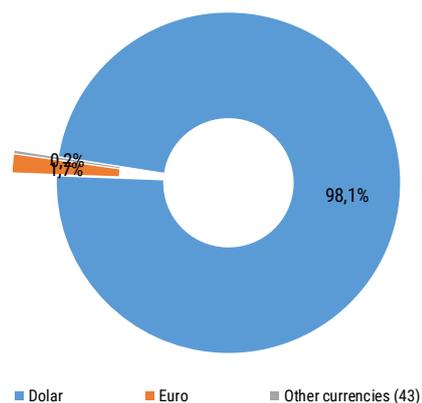
Transactions between institutions and their clients accounted for 75% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System (SIOPEL)—represented 24%; in turn, the volume traded between institutions and the BCRA accounted for the remaining 1% (see Chart IX.2).<sup>10</sup>

As usual, most of the volume traded between licensed institutions and their clients was concentrated in a few number of institutions (the first ten accounted for 86% of such volume) and in the foreign currency used, 98% share of USD-denominated transactions in the volume traded (see Chart IX.3).

**Chart IX.2 Foreign Exchange Market**  
Total Volume and Share. January 2019



**Chart IX.3 Foreign Exchange Market**  
Volume with clients by currency. January 2019



Finally, 95% of foreign exchange transactions between financial institutions and foreign exchange institutions were made in the private sector. Public banks and foreign exchange institutions accounted for the remaining 5% (4,5% and 0.5%, respectively).

<sup>10</sup> The volume traded between licensed institutions and their clients excludes the following items: clients' underwriting of LEBAC Bills, swap transactions with foreign parties (around USD2,900 million in January 2019), and purchases of foreign exchange to pay card bills for expenses incurred abroad (around USD170 million for the month under study).