

Evolution of the Foreign Exchange Market and Exchange Balance

December 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 December 2019

- ✓ *The BCRA purchased USD1,121 million in the spot forex market in December, out of which USD827 million were sold by institutions' clients, and USD294 million by institutions.*
- ✓ *Companies in the real sector were net sellers of foreign currency for USD1,300 million.*
- ✓ *Within this group, the main sector with net sales in historical terms ("Oilseeds and Grains") recorded sales for USD2,288 million.*
- ✓ *Companies in the "Real Sector Non-Oilseeds and Grains" recorded net purchases totaling USD988 million, particularly for net payments for goods and services.*
- ✓ *Natural persons, who mainly demand foreign currency for saving and for traveling abroad, made net purchases for USD703 million (USD330 million just in exchange for banknotes, and USD374 million for their remaining transactions).*
- ✓ *"Institutional Investors and Others"—both residents and non-residents—made net sales for USD294 million in December.*
- ✓ *In addition to sales on the spot market, financial institutions licensed to trade in the foreign exchange made forward net purchases of foreign currency for USD177 million.*
- ✓ *The National Treasury made payments for USD1,473 million (principal and interest): USD615 million (principal on LETES bills); USD585 million (interest on bonds); and USD175 million (to international organizations). On another note, it recorded financial inflows totaling USD159 million from international organizations.*
- ✓ *As a result of the transactions described above, gross international reserves increased by USD1,009 million, totaling USD44,781 million by the end of December.*

I. Introduction

This report analyses information on foreign exchange transactions made in December 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.¹

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 followed by a breakdown of their transactions by heading.²

It is worth pointing out that, in November and in December, the forex market operated in full under the new regulation implemented in late October (Communication "A" 6815). The most relevant change involves a decrease in the total amount of foreign currency that local citizens can buy to build up foreign assets on a monthly basis—from USD10,000 to USD200; and from USD1,000 to USD100, in the case of non-residents.³

As from December 23, 2019, the new Social Solidarity and Productive Reactivation Act (*Ley de Solidaridad Social y Reactivación Productiva*), published on the Official Gazette, established the Tax for an Inclusive and Solidary Argentina (*Impuesto Para una Argentina Inclusiva y Solidaria*, "PAIS"). This tax implies a 30% surcharge on certain transactions in foreign currency including those for saving or traveling abroad.⁴

The evolution of the historical series submitted together with this report should be analyzed in light of the different forex regulations in force for the period.

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

¹ Communication "A" 3840, as amended.

² Communication "A" 6244. Sectors were grouped into: "Central Bank", "Institutions", "General Government", "Oilseeds and Grains", "Other Real Sectors", "Natural Persons", "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**"; "**Real Sector Non-Oilseeds and Grains**" 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".

³ To access Communication "A" 6815, [click here](#). Furthermore, Communication "A" 6844 included a summary of forex regulations (to access them, [click here](#))

⁴ To access the Social Solidarity and Productive Reactivation Act, [click here](#).

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.⁵

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 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.

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

The BCRA purchased USD1,121 million in the spot forex market in December, out of which USD827 million were sold by institutions' clients, and USD294 million by institutions (see Table II.1).

TABLE II.1 Foreign Exchange Market
Result of the sector
Equivalent in million dollars

Sector	August 2019	September 2019	October 2019	November 2019	December 2019
BCRA	4.319	-281	4.077	-2.156	-1.121
To the National Treasury (directly)	2.250	-1.572	-	-	-
To Financial Institutions in the Foreign Exchange Market	2.069	1.291	4.077	-2.156	-1.121
National Treasury	-1.174	1.572	-	-	-
To the BCRA (directly)	-2.250	1.572	-	-	-
Auctions through the BCRA	1.076	-	-	-	-
Institutions	-620	-43	-9	292	294
Institutions' clients (1 +2 +3)	-2.525	-1.248	-4.067	1.864	827
1.Non-Financial Private Sector	-2.296	-1.249	-4.016	2.057	890
Oilseeds and Grains	2.185	1.784	1.560	2.303	2.288
Real Sector Non-Oilseeds and Grains	-1.708	-377	-1.305	-154	-988
Natural Persons	-1.873	-2.891	-4.285	-374	-703
Institutional Investors and Others	-900	235	14	282	294
2.General Government	92	51	20	-8	40
3.Institutions (Own Transactions)	-321	-51	-72	-186	-103
Memorandum Items					
Change in private sector deposits	-5.541	-5.240	-2.284	-658	992
Change in deposits for Swaps	-3.416	-1.048	-601	-200	175

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

The BCRA's international reserves increased by USD1,009 million over December. This is mainly explained by the purchases carried out by the BCRA in the forex market and the increase in current accounts in foreign currency held by institutions with the BCRA for USD912 million, which were partially offset by net payments of debt in foreign currency made by the National Treasury for USD1,491 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 resulted in net sales amounting to USD827 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

⁵The Central Bank's website (www.bcra.gob.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 the 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 [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.

result—as informed by the institutions to the BCRA—is displayed vertically. The result of forex transactions in pesos and in foreign currency may be set apart from the result of swap transactions (transfers of US dollars abroad in December).⁶

TABLE II.2 Foreign Exchange Market
Result of Institutions' Transactions with Clients December 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	Net Swaps	Debt, FDI, Portfolio, and Other Transactions	Total
Non-Financial Private Sector	2,0	-0,5	-0,1	-0,2	0,4	-0,2	-0,4	0,9
Oilseeds and Grains	2,4	0,0	0,0	0,0	0,0	0,0	-0,1	2,3
Real Sector Non-Oilseeds and Grains	-0,3	-0,2	-0,3	0,1	0,1	0,1	-0,5	-1,0
Natural Persons	0,0	-0,4	0,0	-0,3	0,2	-0,2	0,0	-0,7
Institutional Investors and Others	-0,1	0,1	0,2	0,0	0,0	-0,1	0,2	0,3
General Government	0,0	0,0	-0,2	0,2	0,0	0,0	0,0	0,0
Institutions (Own Transactions)	0,0	0,0	0,0	0,0	0,0	0,0	-0,1	-0,1
Institutions' Result with Clients	2,0	-0,5	-0,3	0,0	0,4	-0,2	-0,5	0,8
Results for forex transactions	2,0	-0,5	-0,3	0,0	0,1	0,0	-0,5	0,8
Results for swap transactions	0,0	0,0	0,0	0,0	0,3	-0,2	0,0	-

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 market over December. This sector reported net inflows for USD2,288 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.

Companies in the "Real Sector Non-Oilseeds and Grains" made net purchases totaling USD988 million particularly to make net payments for goods and services and to repay domestic loans in foreign currency.

"Natural Persons" basically demanded foreign currency for saving purposes (USD330 million in December) and for expenses paid on cards for consumption abroad (USD388 million). Furthermore, they transferred USD196 million from their own accounts abroad, especially credited to domestic accounts in foreign currency; this triggered a rise in domestic deposits in foreign currency albeit it produced a neutral result in the forex market.

"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. In this regard, in view of the regulatory changes implemented since early September, the sector recorded net inflows for USD294 million.⁷

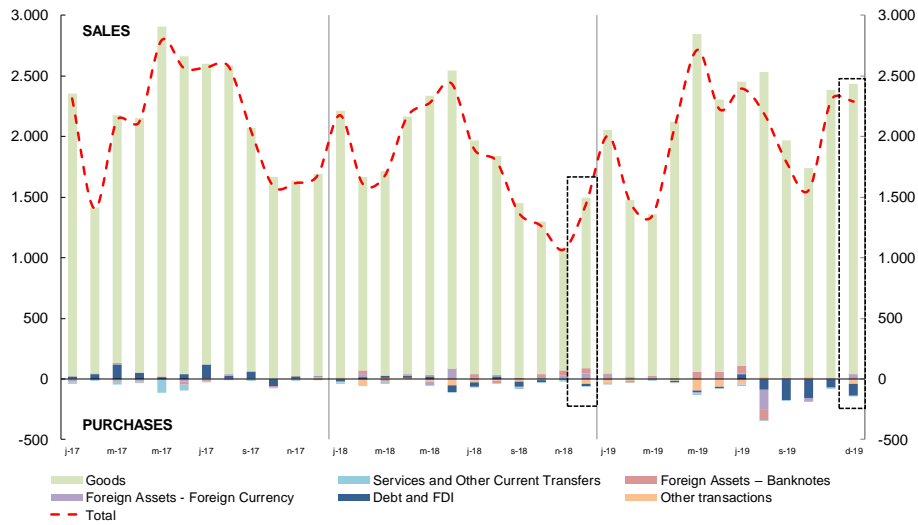
III. Oilseeds and Grains

The "Oilseeds and Grains" sector had a USD2,288 million surplus in December (see Chart III.1), increasing sales by around 60% y.o.y.

⁶ Although swaps are not precisely forex transactions, they are recorded in forex statistics. They involve a transfer of foreign currency from abroad to a domestic account opened by a client in foreign currency and/or a debit of funds deposited locally for their transfer abroad. Inflows are recorded under the transfer heading (positive sign). In addition, there is a second record where the same amount is entered under a negative sign for the crediting of funds. Contrariwise, a payment abroad from a domestic account in foreign currency is entered under the payment heading with a negative sign, and the debit from the account, under a positive sign. Consequently, the total result of swap transactions in the forex market is neutral.

⁷ Calculations based on data on shipment published by the Ministry of Agriculture, Livestock and Fisheries.

**Chart III.1 Foreign Exchange Market
Oilseeds and Grains Net result of the sector**
Equivalent in million dollars



With respect to the “Goods” heading, the sector recorded foreign currency sales for collections on exports for USD2,486 million (up 71% y.o.y.) and purchases for imports payments for USD90 million. By the same token, a 180% y.o.y. rise was observed in Affidavits of Foreign Sale (*Declaraciones Juradas de Ventas al Exterior*) as reported by the Ministry of Agriculture, Livestock and Fisheries. They totaled USD3,200 million, being mostly long term foreign sales.

As far as the method of collections on exports is concerned, there was a 22 p.p. increase in the share of export pre-financing loans and of early collections in total collections of December on a year-on-year basis (going from 45% to 67% of the total). In this same vein, the trade balance of goods estimated at USD1,800 million (exports for USD1,850 million and imports for USD50 million) was USD600 million below the net foreign exchange result for goods. This would mean that the sector was indebted.⁸

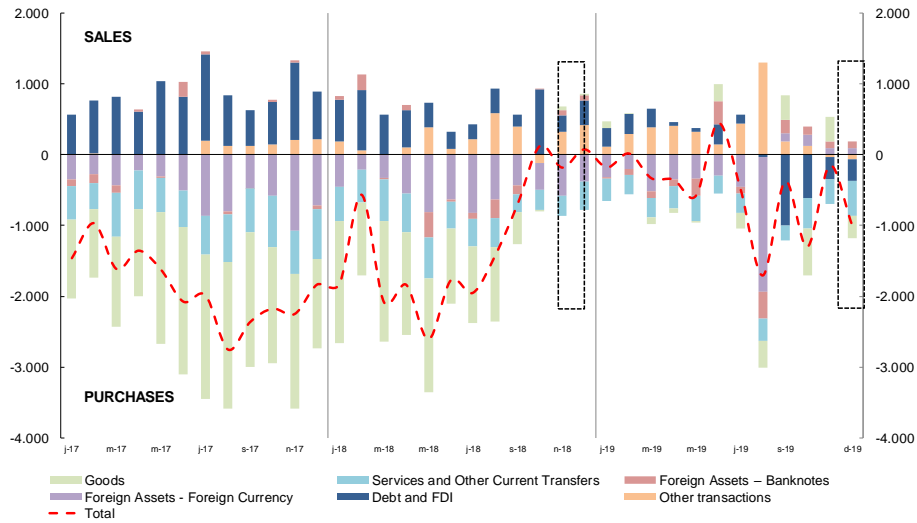
Regarding the domestic trade of commodities during the 2018/2019 harvest season, average purchases of soybean agreed with those recorded in the past 5 harvest seasons, while average purchases of corn increased by 18 million tons against the average of the past 5 harvest seasons, and posted higher production levels. In turn, corn for the 2019/20 harvest season recorded a faster trading pace. In late December, soybean and corn purchases increased 251% and 231%, respectively, vis-à-vis the previous season.

IV. Real Sector Non-Oilseeds and Grains

Companies in the “Real Sector Non-Oilseeds and Grains” made net purchases totaling USD988 million, particularly to repay loans for USD368 million, and to make net payments for goods and services for USD317 million and USD235 million, respectively (see Chart IV.1).

⁸These records exclude inflows or outflows from subscribing securities in the primary market and outflows from the payment of principal or interest through accounts of the National Treasury, given that these transactions are not carried out through institutions in the forex market.

Chart IV.1 Foreign Exchange Market
Real Sector Non-Oilseeds and Grains. Net result of the sector
 Equivalent in million dollars



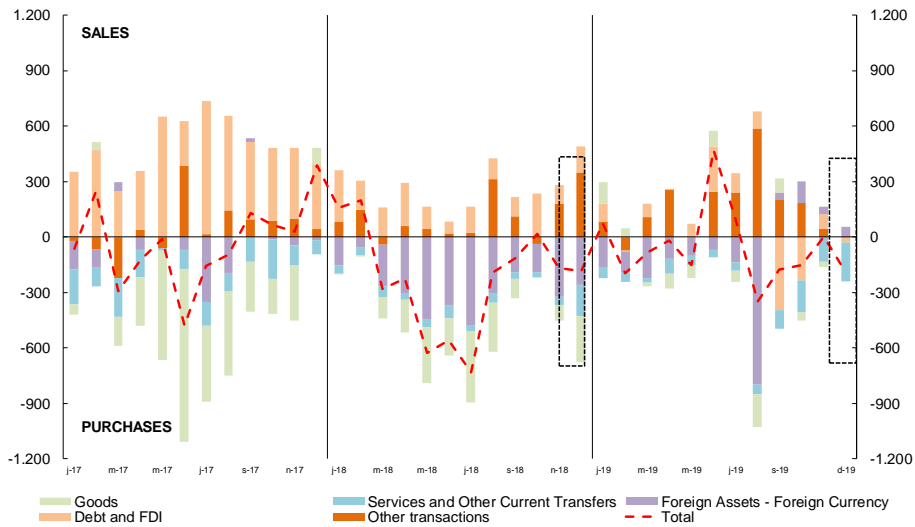
In this group, companies making up the “Automobile Industry” recorded net purchases for USD164 million, exhibiting a reversal of around USD220 million y.o.y. (see Chart IV.2). Naturally, volumes traded were in line with those of the previous three months given the obligation to enter and settle exports of goods and, record the payments of imports. Prior to the regulatory changes implemented in September, the sector regionally offset commercial liabilities and claims within the same group—thus making net foreign exchange transactions—, and made payments for imports of goods through accounts held abroad funded with collections on exports or by raising debts without settling the resulting foreign exchange in the local market.

Chart IV.2 Foreign Exchange Market
Automobile Industry. Result of the sector
 Equivalent in million dollars



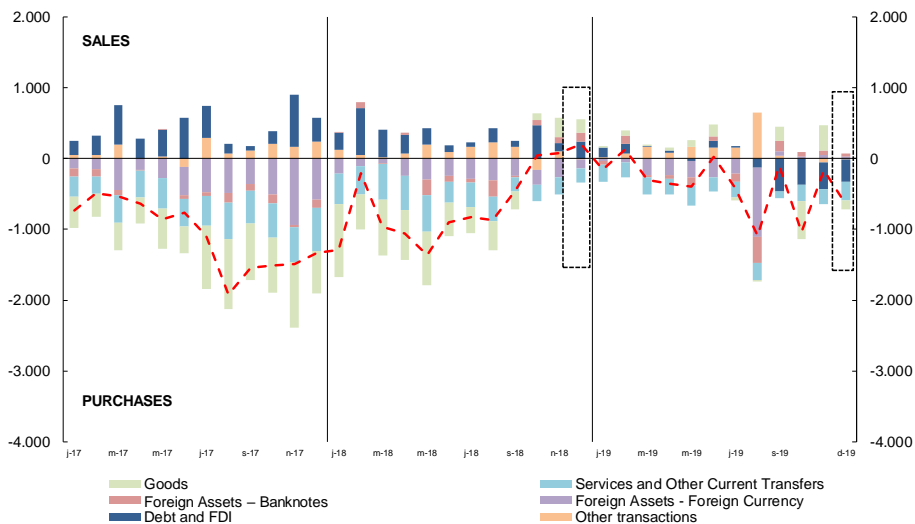
In turn, companies belonging to the “Energy” sector recorded net purchases for USD188 million resulting from the payment of debts held abroad for USD182 million, mainly interest (see Chart IV.3).

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



Finally, the remaining companies in the “Real Sector Non-Oilseeds and Grains” recorded net purchases for USD636 million, which evidenced a USD843 million reversal in y.o.y. terms (net sales for USD208 million). This change was virtually observed in flows from “Goods” and in changes in the domestic and foreign financial debt; in both cases there was a shift from net sellers to net purchasers.

Chart IV.4 Foreign Exchange Market
Real Sector Non-Oilseeds and Grains. Rest of the sector
 Equivalent in million dollars

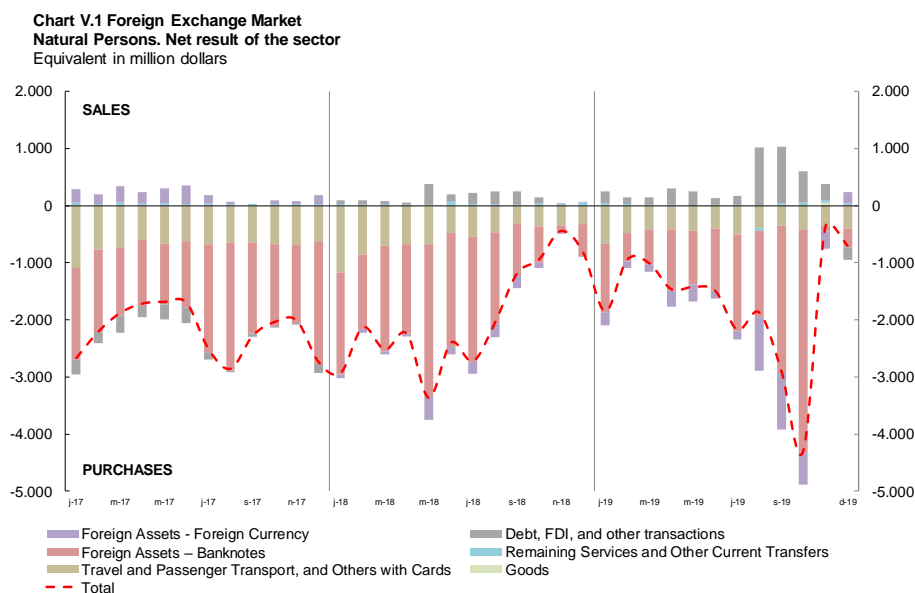


V. Natural Persons

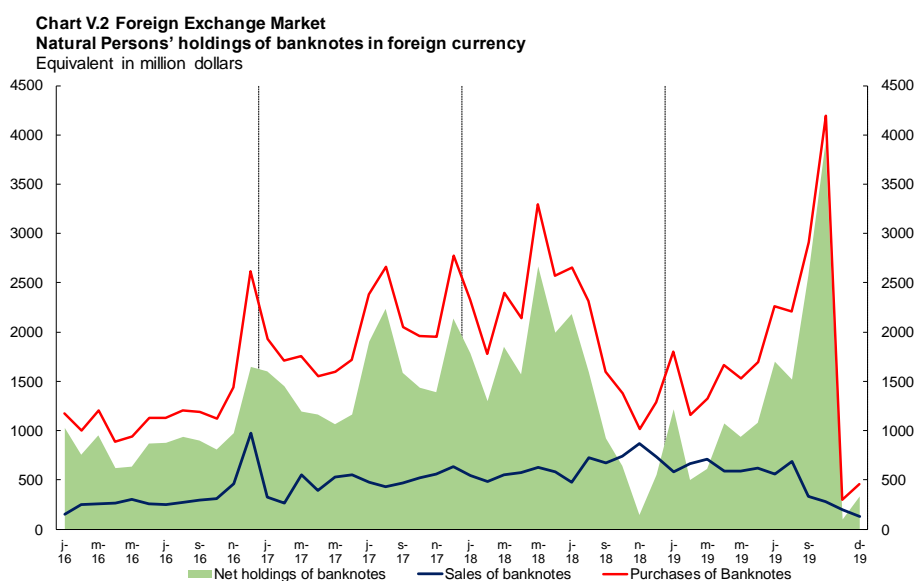
In December, individuals purchased foreign currency up to USD200 for building up foreign assets, posting guarantees securing derivatives transactions, and for personal transfers (Communication “A” 6815, as supplemented).

The “PAIS” tax was levied as from December 23, 2019 on the purchase of foreign currency without a specific purpose; the purchase of passenger transport services with foreign destination; and on transactions paid with purchasing, debit, and credit cards.

Amid this context, “Natural Persons” made total net purchases for USD703 million. The increase in purchases for USD330 million against the previous month was explained by more net purchases of banknotes (see Chart V.1).

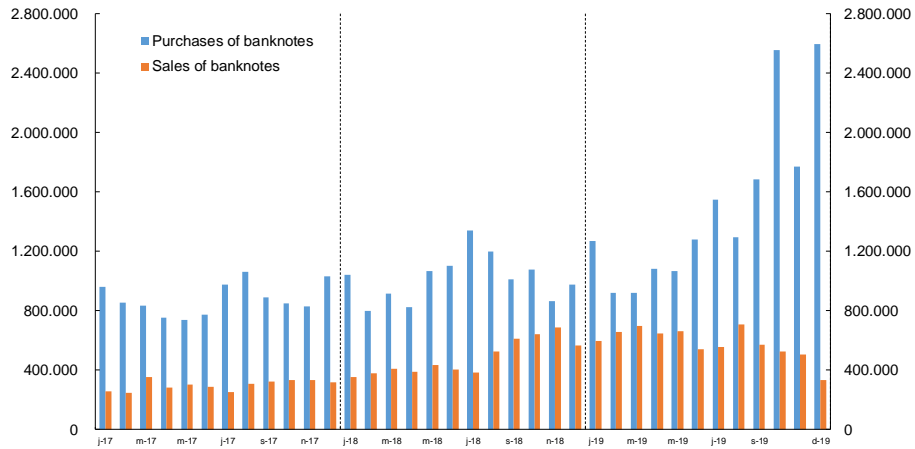


Net purchases of banknotes by natural persons totaled USD330 million in December (see Chart V.2). This result was explained by gross purchases for USD460 million and gross sales for USD130 million (see Chart V.2).



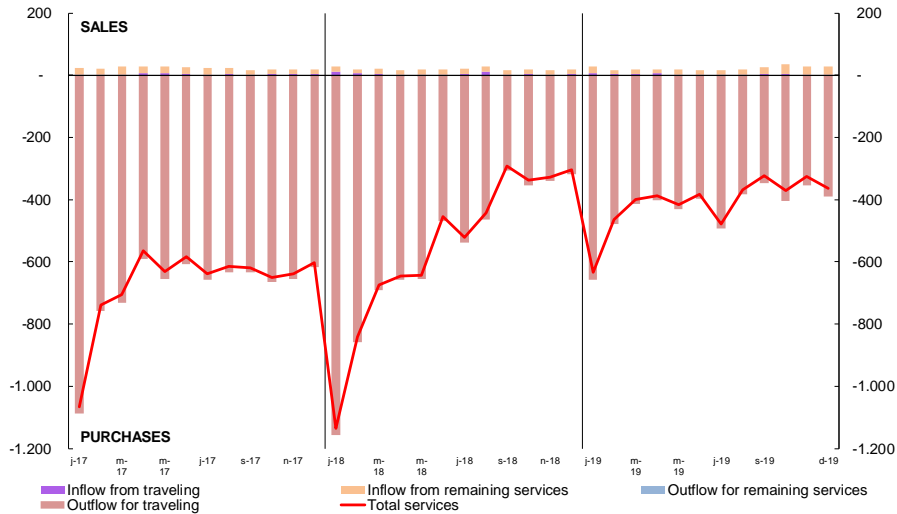
In December, 2,600,000 natural persons purchased banknotes, and 330,000 made sales in the forex market (see Chart V.3). Per capita gross purchases stood at USD178 while per capita gross sales stood at USD400.

Chart V.3 Foreign Exchange Market
Natural Persons. Foreign Assets – Holdings of Banknotes
 Number of People



In turn, natural persons' net outflows for payments of services totaled USD363 million, particularly of "Travel, and Other Expenses Paid with Cards", which amounted to USD388 million, up 24% y.o.y. (see Chart V.4).^{9 10}

Chart V.4 Foreign Exchange Market
Natural Persons Services
 Equivalent in million dollars



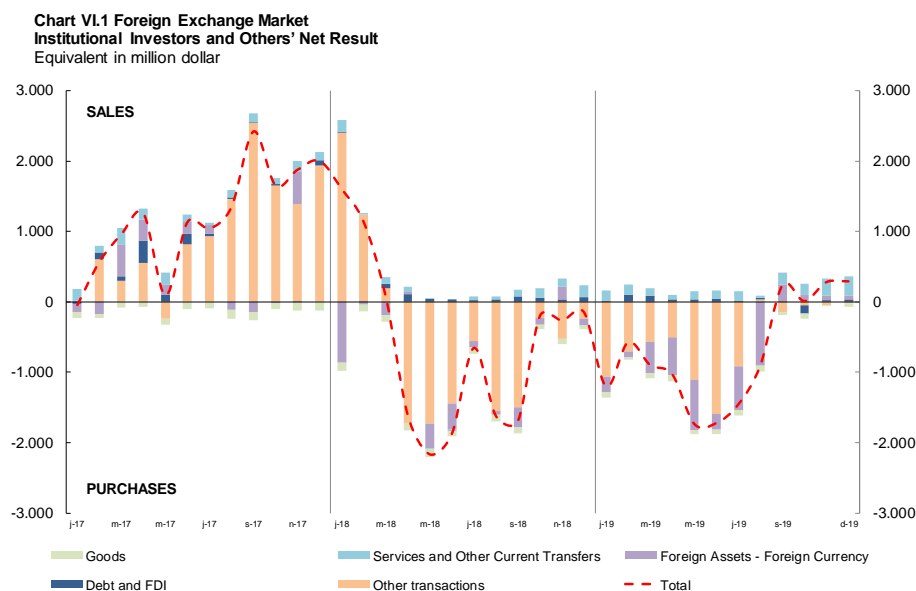
Finally, net inflows for primary and secondary income totaled USD22 million, basically related to current transfers.

⁹ 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. In turn, inflows of foreign exchange include non-resident remote purchases from Argentine suppliers.

¹⁰ To access the latest technical report on International Tourism Statistics [click here](#).

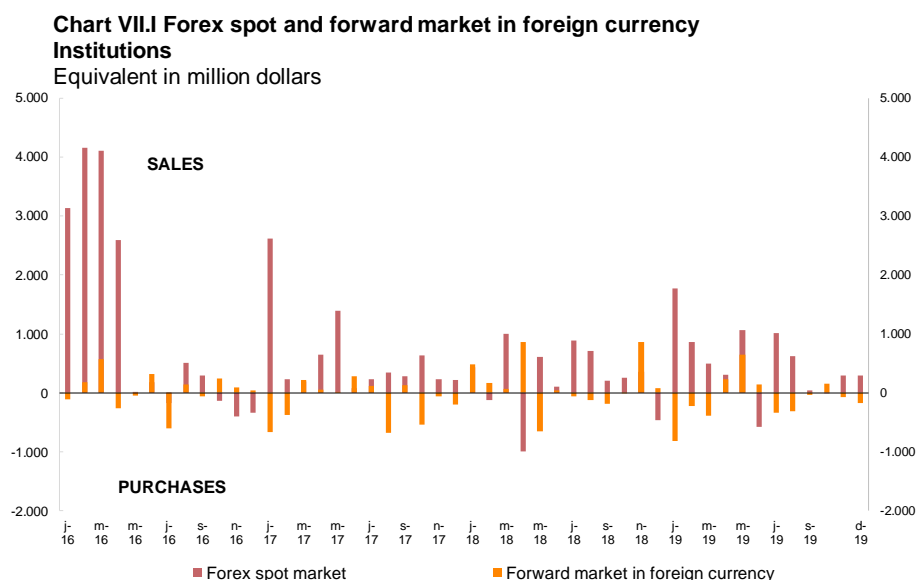
VI. Institutional Investors and Others

This sector recorded net inflows totaling USD294 million in December, mainly explained by net sales for services, especially those related to tourism by non-residents in Argentina.



VII. Financial and Foreign Exchange Institutions

In December, financial and exchange institutions sold USD294 million in the spot forex market and purchased USD177 million in the forward market (see Chart VII.1.).

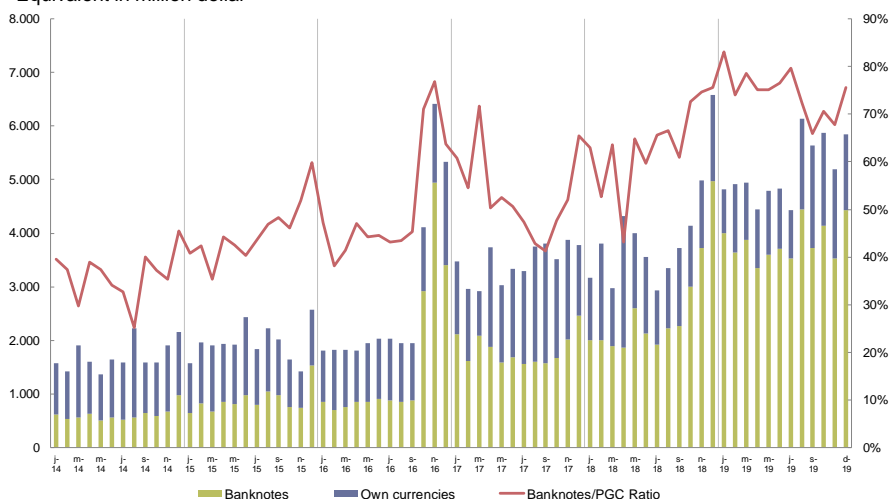


In addition, institutions used their own funds (USD103 million), mainly to pay financial debt and interest.

On the other hand, institutions ended December evidencing a General Exchange Position for USD5,849 million, out of which 76% corresponded to holdings of foreign currency banknotes (USD4,425 million). This General Exchange Position increased USD648 million against the end of the previous month. This change was mainly mirrored in

holdings of banknotes due to a rise in clients' deposits in foreign currency in the second half of December, typical year-end seasonal performance (see Chart VII.2).

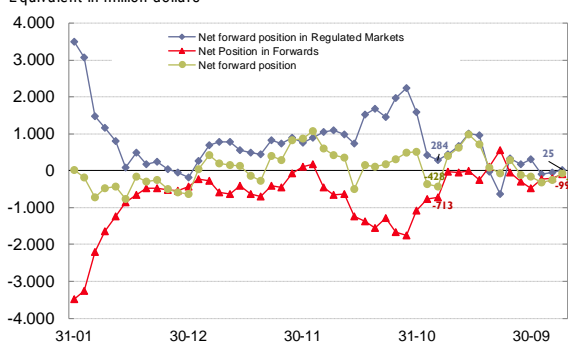
**Chart VII.2 Exchange Balance
Institutions' Exchange Position (PGC)**
Equivalent in million dollar



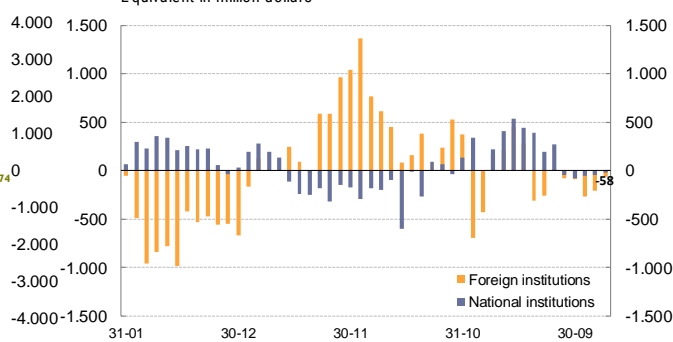
On another note, institutions ended December exhibiting a net forward short position in foreign currency of USD74 million. They purchased USD65 million in regulated markets and USD112 million from their clients directly (Forwards) over the month (see Charts VII.3).

In December, foreign institutions made net purchases for USD145 million and national institutions made purchases for USD32 million (see Chart VII.4).

**Chart VII.3 Forward Market
Institutions' Forward Position**
Equivalent in million dollars

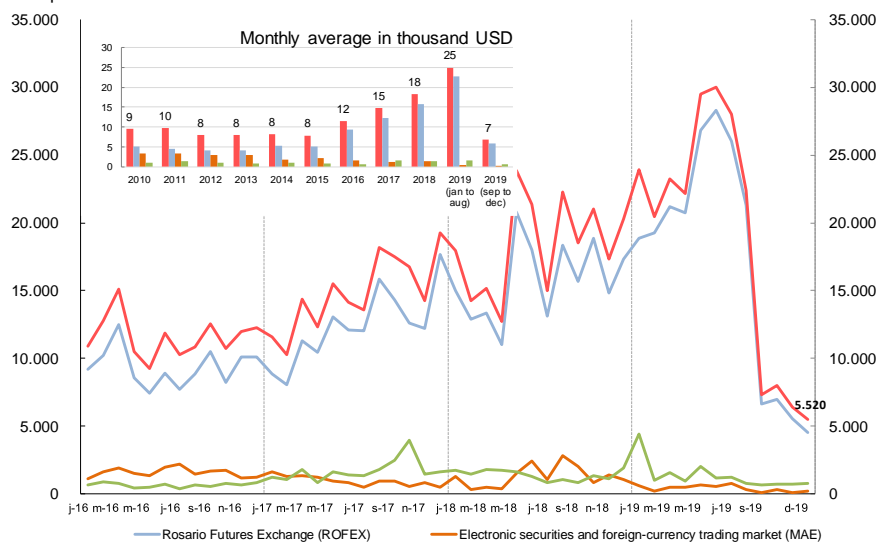


**Chart VII.4 Forward Market
Forward Position by Type of Institution**
Equivalent in million dollars



The volume traded in forward markets totaled USD5,520 million in December, i.e.: USD291 million on a daily basis¹¹. The total traded decreased by 14% compared to the previous month and 73% y.o.y. Transactions carried out in the Mercado a Término de Rosario (ROFEX) accounted for 82% of the total volume (see Chart VII.5).

Chart VII.5 Forward Market
Total volume traded in the forward market
 Equivalent in million dollars

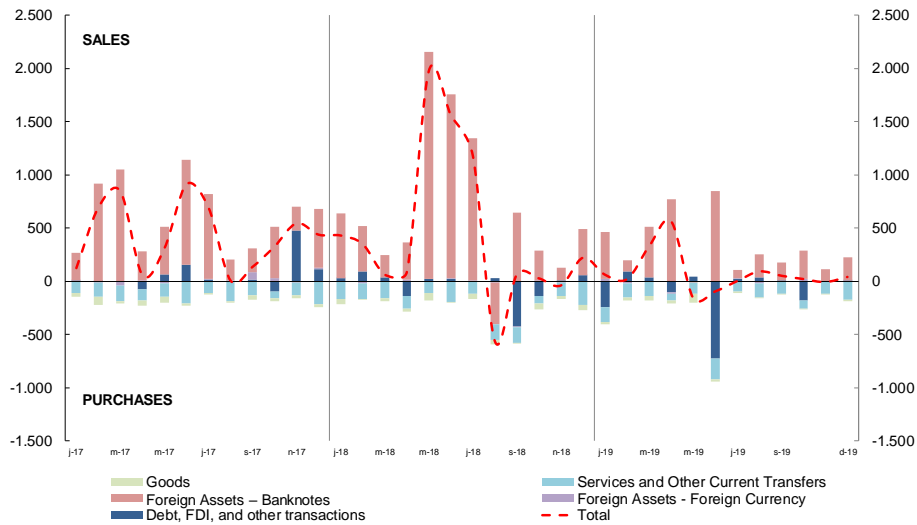


VIII. General Government and Central Bank

In December, the General Government recorded net sales in the forex market through licensed financial institutions for USD40 million (see Chart VIII.1).

¹¹The chart includes the total volume traded in the ROFEX, the transactions arranged by institutions in the Electronic Securities and Foreign Currency Trading Market (MAE), and with Forwards. This information comes from the Forward Transactions Reporting Scheme (Communication "A" 4196, as amended) and postings on the websites of MAE and ROFEX.

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



As mentioned in Section II, the BCRA made net purchases from institutions in the forex spot market for USD1,121 million.

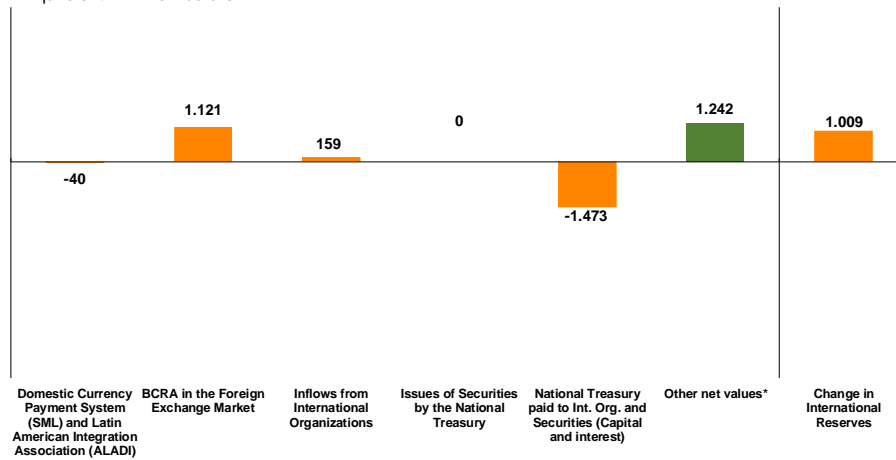
Regarding other factors accounting for the change in international reserves of the BCRA, payments were made for forex transactions arranged through the Domestic Currency Payment System (SML) in force with Brazil and Uruguay and through ALADI (Latin American Integration Association) for USD40 million.

The National Treasury made payments for USD1,473 million (principal and interest) using international reserves. The following should be underscored: USD615 million (principal on LETES bills); USD585 million (interest on bonds); and USD175 million (to international organizations). On another note, it recorded financial inflows totaling USD159 million from international organizations.

Finally, financial institutions raised their holdings with the BCRA by USD912 million promoted by an increase in non-financial private sector domestic deposits in foreign currency.

As a result of the transactions described above, gross international reserves increased by USD1,009 million, totaling USD44,781 million by the end of December.

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

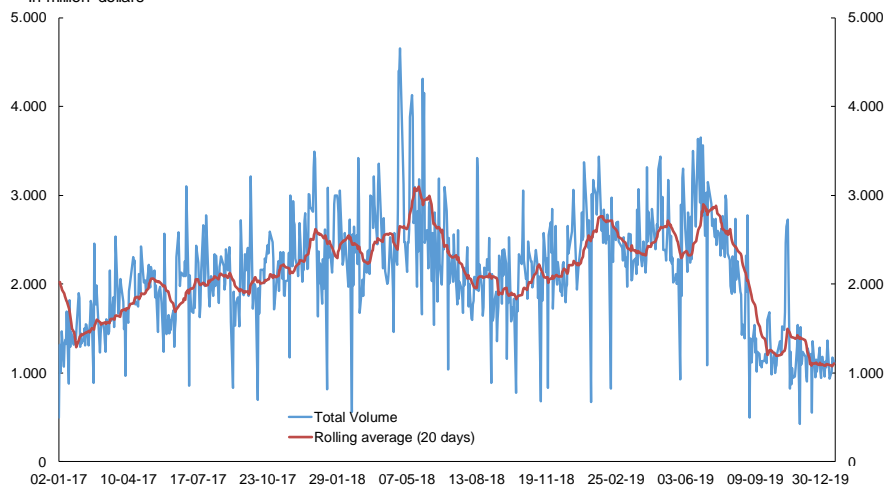


*Note: It includes—among other transactions—changes in institutions' accounts in foreign currency excluded from other headings, income on reserves, adjustments by type of swap and valuation, purchase-sale of securities, transactions in accounts of the National Treasury, and BCRA's

IX. Volumes Traded in the Foreign Exchange Market

Against the backdrop of a forex market with tighter regulations and controls, the volume traded in December totaled USD20,808 million, slightly below the level of November and down 49% y.o.y. This total involved a daily volume of around USD1,100 million (see Chart IX.1). The y.o.y. decline in the volume was mainly explained by a fall in transactions between licensed institutions and their clients (47% fall) and by transactions carried out between financial and exchange Institutions (64% fall).¹²

Chart IX 1. Forex Market
Volume traded daily evolution
In million dollars



¹² 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 73% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System (SIOPEL)—represented 20%; in turn, transactions between institutions and the BCRA stood for the remaining 7% (see Chart IX.2).¹³

As usual, most of the volume traded between licensed institutions and their clients was concentrated in a few number of institutions (out of 273 institutions, the first ten accounted for 85% of such volume) and in the foreign currency used; USD-denominated transactions had a 95.2% share in the total traded with clients (see Chart IX.3), followed by Euros, which accounted for 4.3% of the total.

Chart IX.2 Foreign Exchange Market
Total volume and share. December 2019

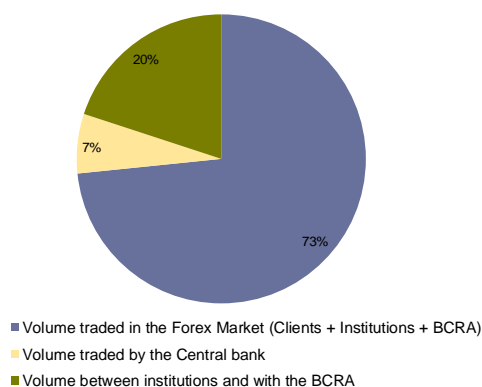
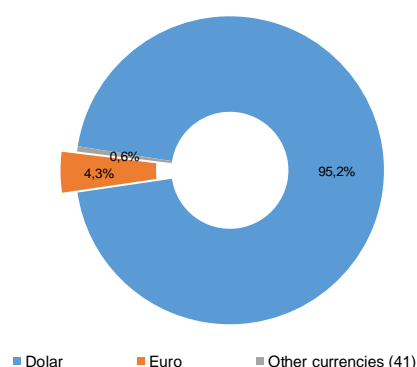


Chart IX.3 Foreign Exchange Market
Volume with clients by currency. December 2019



Finally, 88.6% of foreign exchange transactions were conducted between private-sector financial institutions and foreign exchange institutions. Public banks and foreign exchange institutions accounted for the remaining 11,4% (10,7% and 0.7%, respectively).

¹³ The volume traded between licensed institutions and their clients excludes the following items: clients' underwriting of LEBAC Bills, swap transactions with foreign parties (around USD1,450 million in December 2019), and purchases of foreign exchange to pay card bills for expenses incurred abroad (around USD218 million for the month under study).