

Evolution of the Foreign Exchange Market and Exchange Balance

April 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 April 2019

- ✓ In April, financial institutions' clients purchased USD932 million in the foreign exchange market; in turn, the National Treasury and the ensemble of licensed financial institutions sold USD600 million and USD332 million, respectively. The exchange rate remained within the "Foreign Exchange Benchmark Zone" and the BCRA did not intervene in the forex spot market.
- ✓ Companies in the real sector were net sellers of foreign currency for nearly USD1,700 million.
- ✓ Within this group, the main sector with net sales in historical terms ("Oilseeds and Grains") recorded net sales for USD2,100 million, exceeding the customs trade balance of the sector for around USD1,900 million.
- ✓ Companies in the "Real Sector Non-Oilseeds and Grains" recorded net purchases totaling USD350 million. The USD1,850 million difference against net purchases in April 2018 continued being explained by fewer imports in the last few months.
- ✓ "Natural Persons", who mainly demand foreign currency for saving and travelling abroad, made net purchases for USD1,500 million, down 35% against purchases for USD2,250 million recorded in April 2018.
- ✓ "Institutional Investors and Others"—both residents and non-residents—made net purchases of around USD1,030 million exhibiting a decline vis-à-vis net purchases for USD1,610 million in April 2018.
- ✓ In addition to sales on the spot market, financial institutions made forward net sales of foreign currency for USD230 million.
- ✓ The General Government received the fourth tranche of the stand-by loan arranged with the International Monetary Fund (IMF) for USD10,830 million. In addition, it made net payments for debts for around USD4,800 million, especially bills in foreign currency.
- ✓ As a result of the transactions described above, gross international reserves increased USD5,475 million along April, totaling USD71,663 million by the end of the month.

I. Introduction

This report analyses information on foreign exchange transactions made in April 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. 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.²

Section II deals with the changes in BCRA's international reserves and analyses the result of foreign exchange transactions for April; 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.³

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.

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".

³The Central Bank's website (www.bkra.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 in the "Publicaciones y Estadísticas" section, "Sector Externo" / "Mercado de cambios" 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 April, financial institutions' clients purchased USD932 million in the foreign exchange market; in turn, the National Treasury and the ensemble of financial institutions licensed to trade in the foreign exchange market sold USD600 million and USD332 million, respectively (see Table II.1). On another note, the exchange rate remained within the “Foreign Exchange Benchmark Zone” and the BCRA did not intervene in the forex spot market.^{4 5}

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

Sector	April 2019
BCRA	0
National Treasury	600
Institutions	332
Institutions' clients	-932

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

BCRA's gross international reserves increased USD5,475 million over April mainly due to the disbursement of the fourth tranche of the stand-by agreement executed with the International Monetary Fund (IMF) for USD10,830 million. This rise was partially offset by net settlement of debt held by the General Government for around USD4,800 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 USD932 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 result—as informed by the institutions to the BCRA—is displayed vertically.

⁴ It was known as “non-intervention range” until April 28, 2019. From April 29, 2019 onwards, it has been referred to as “Foreign Exchange Benchmark Zone”.

⁵ To access the release issued by the BCRA about daily auctions of the National Treasury, [click here](#). Furthermore, as a result of the high volatility observed in the last days of the month, the Monetary Policy Council (COPOM) informed on April 29, 2019 that the BCRA would be able to sell US dollars, even if the exchange rate stood below ARS51.448, and that the daily sales would amount to USD250 million, should the exchange rate stand above such level. Furthermore, the BCRA may intervene to counteract episodes of excessive volatility, if necessary (to access the release, [click here](#)).

Table II.2 Foreign Exchange Market
Result of Institutions' Transactions with Clients April 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
Non-Financial Private Sector	2,0	-0,4	-0,1	-1,3	-1,1	0,1	-0,8
Oilseeds and Grains	2,1	0,0	0,0	0,0	0,0	0,0	2,1
Real Sector Non-Oilseeds and Grains	-0,1	-0,1	-0,2	-0,1	-0,3	0,5	-0,4
Natural Persons	0,0	-0,4	0,0	-1,1	-0,3	0,3	-1,5
Institutional Investors and Other	-0,1	0,1	0,1	-0,1	-0,4	-0,7	-1,0
General Government	0,0	0,0	-0,1	0,8	0,0	-0,1	0,6
Institutions (Own Transactions)	0,0	0,0	0,0	0,0	0,0	-0,7	-0,7
Institutions' Result with Clients	1,9	-0,4	-0,1	-0,5	-1,1	-0,8	-0,9

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 April. This sector reported net inflows for USD2,100 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, "Real Sector Non-Oilseeds and Grains" 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, primary income, and 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 around USD350 million in April); they may use the funds so transferred to pay their creditors. 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).

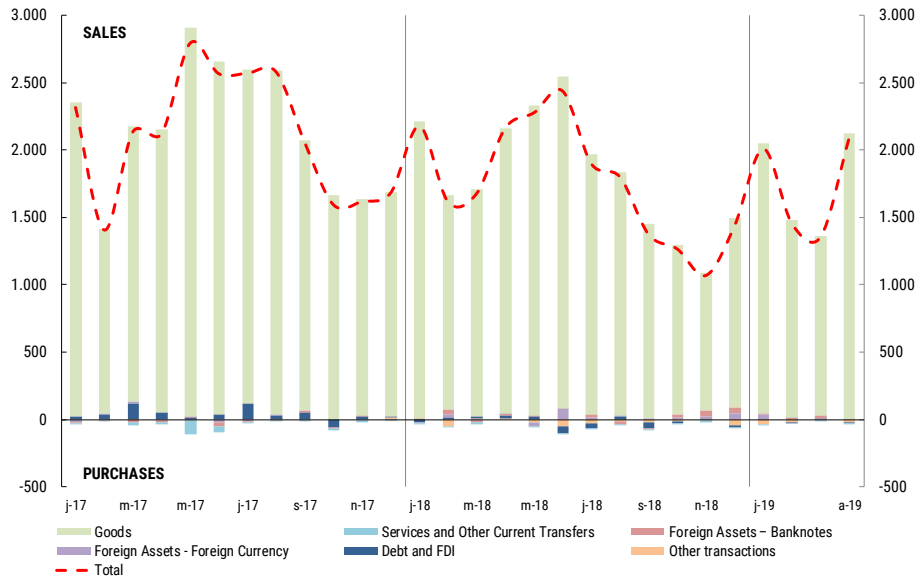
"Natural Persons" (residents) basically demand foreign currency for saving purposes (USD1,070 million in April) and for making trips abroad (around USD400 million).

"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 USD1,030 million in April).

III. Oilseeds and Grains

The "Oilseeds and Grains" sector recorded a USD2,100 million surplus in April (see Chart III.1), though exhibiting a fall of 3% y.o.y.

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

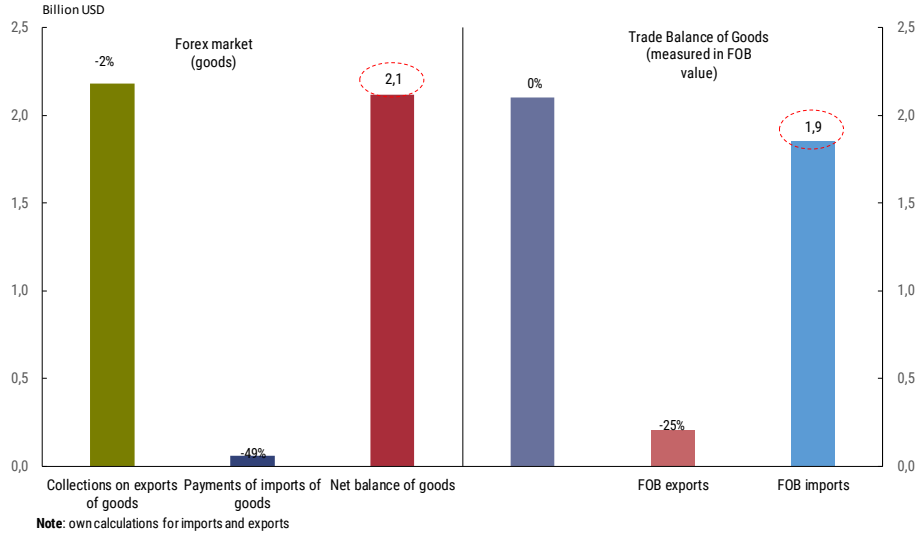


In April, the sector reported collections on exports of goods for USD2,179 million (a figure similar to that recorded on a year on year basis) and payments for imports of goods for USD61 million through the forex market (down 49% y.o.y.).⁶

The sector's net result for "Goods" stood at USD2,118 million and exceeded the expected trade balance of the sector of around USD1,900 million (exports for USD2,100 million, and imports for around USD200 million; see Chart III.2). Higher net inflows of the forex market in terms of customs inflows (around USD220 million) could be explained by pre-export financing or a sale of assets abroad.

⁶ Regarding domestic trade, total purchase levels of soybean recorded were similar to the average of the last 5 harvest seasons; furthermore, it should be underscored that, in the case of the current harvest season, the pricing of purchase contracts has been delayed (1.5 million tons more without a price set compared to previous harvest seasons). In contrast, corn trading increased significantly in line with more production (6 million tons against the average of the five previous harvest seasons).

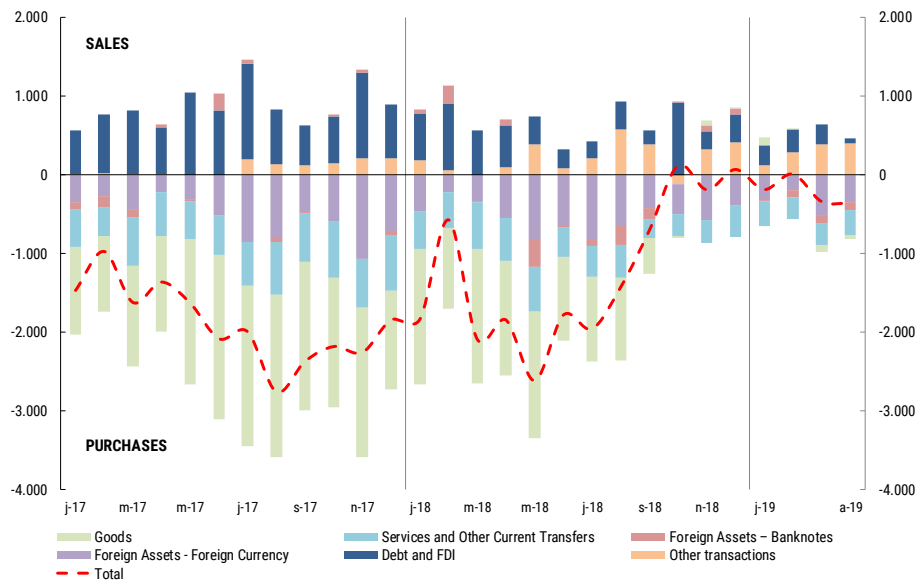
Chart III.2 Foreign Exchange Market and international trade Oilseeds and Grains in april 2019



IV. Real Sector Non-Oilseeds and Grains

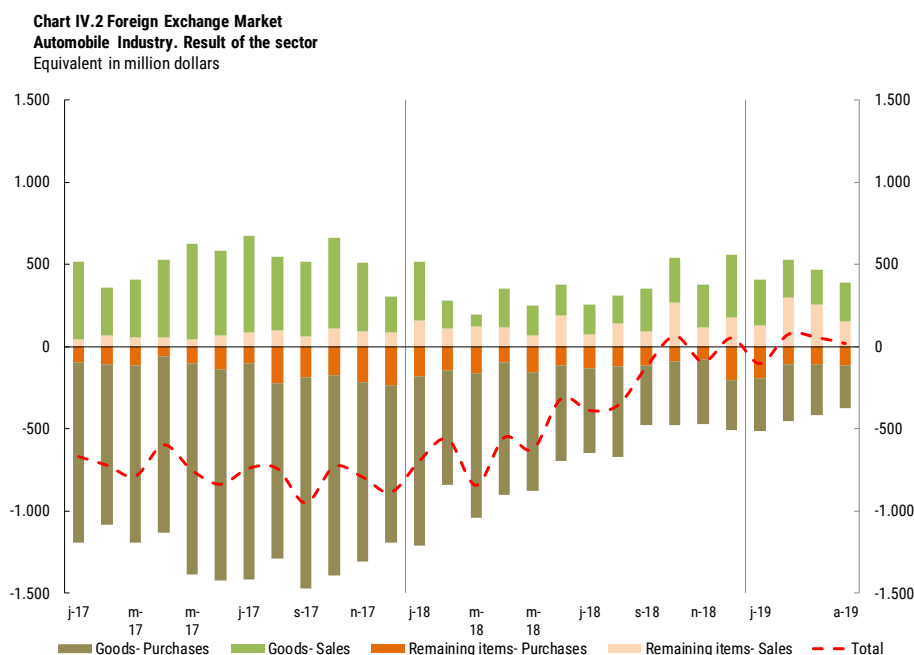
Companies in the “Real Sector Non-Oilseeds and Grains” recorded net purchases totaling USD350 million. The USD1,850 million difference against net purchases in April 2018 continued being explained by fewer imports; this has been the case in the last eight months (see Chart IV.I).

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



The “Automobile Industry” recorded net inflows for around USD20 million, exhibiting a reversal against the net outflow of USD550 million in April 2018 (see Chart IV.2) explained basically by fewer payments for goods. Particularly, this sector reported collections on exports of goods for USD240 million and payments for imports of goods for USD260 million. These gross levels are not in line with estimates of exports/imports of

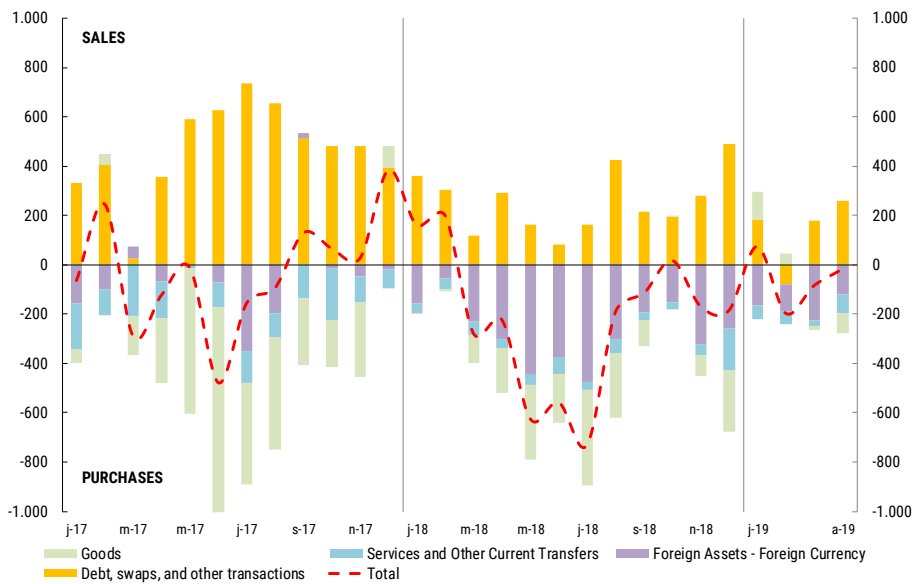
goods (exports for around USD700 million and imports for around USD750 million). This may be explained by the fact that since regulations were eased the companies belonging to the sector have started to (i) regionally offset their commercial liabilities and claims within the same group, only making foreign exchange transactions for their net amounts; (ii) make payments for imports of goods through their accounts held abroad—which could have been funded with collections on exports or by raising debts abroad without settling the resulting foreign exchange in the local market.⁷



In turn, companies belonging to the “Energy” sector recorded a virtually neutral result as a consequence of net purchases of “Goods” and “Services” and transfers to own accounts abroad (from which they could settle part of their foreign liabilities) which were practically funded with domestic deposits in foreign currency, commonly referred to as “swaps” (see Chart IV.3).

⁷ The report corresponding to March 2019 included Box 1, which explained—in depth—the reason why this variation takes place and how it affects statistics reading in the forex market. ([click here](#))

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

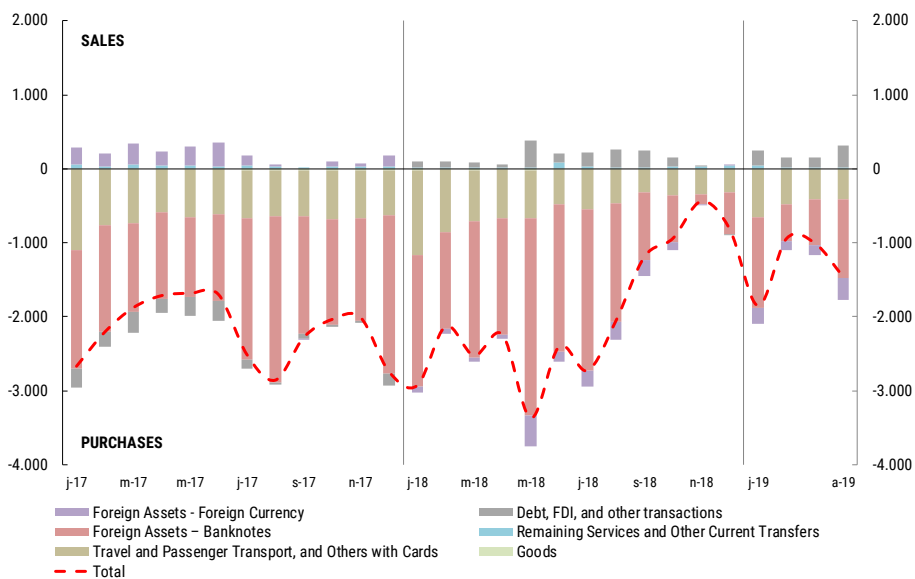


Finally, the remaining companies within the “Real Sector Non-Oilseeds and Grains” recorded net purchases for USD350 million, down USD710 million y.o.y. This drop resulted from a reversal in the flows reported in the items included in “Goods” for USD750 million, which went from net payers to net sellers.

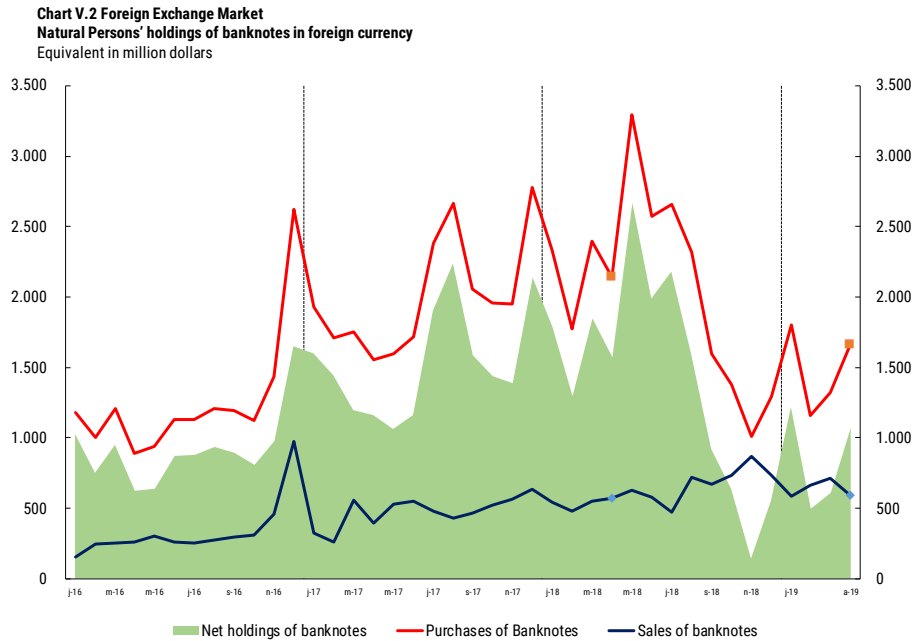
V. Natural Persons

In April, the net demand for foreign currency by “Natural Persons” totaled USD1,500 million, up around USD450 million against March. Nevertheless, net purchases slid by 35% y.o.y. (see Chart V.1).

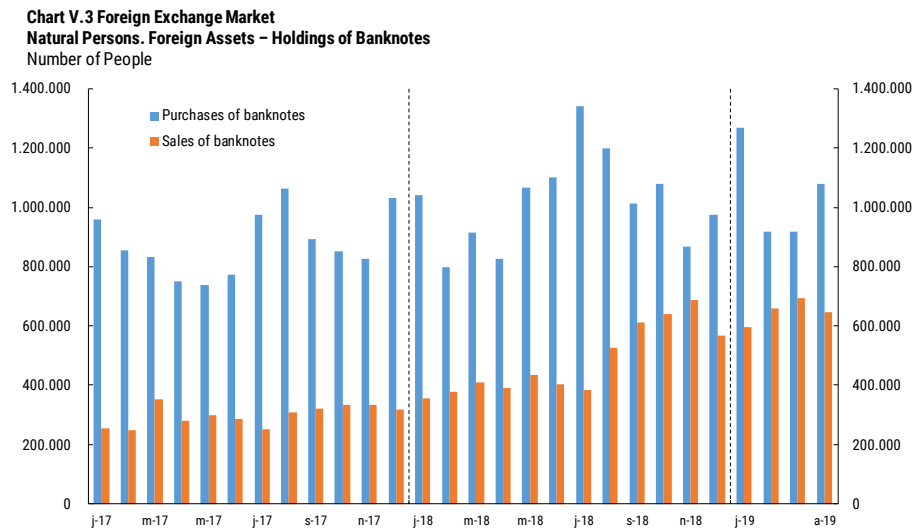
Chart V.1 Foreign Exchange Market
Natural Persons. Net result of the sector
 Equivalent in million dollars



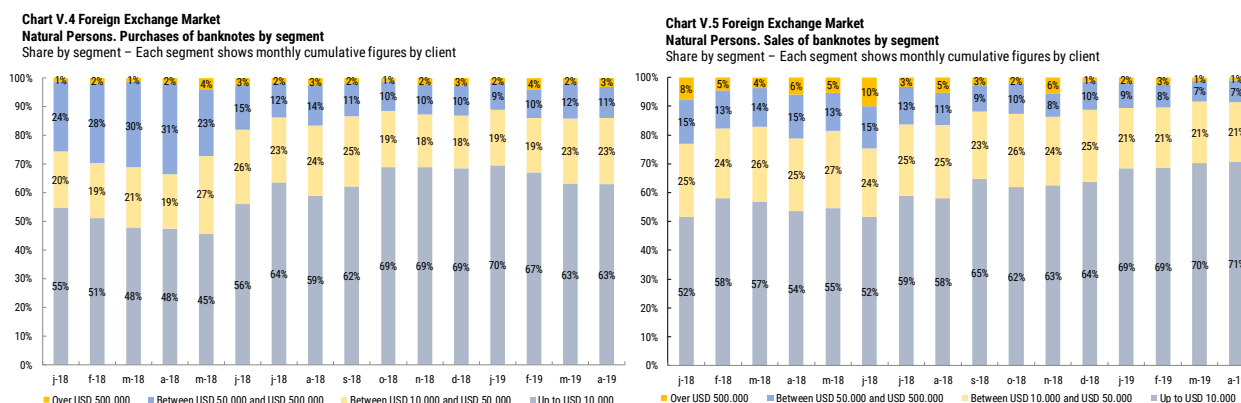
Net purchases of banknotes made by natural persons fell y.o.y. due to both fewer gross purchases (total of USD1,664 million) while gross sales remained at similar values (USD594 million).



The number of persons selling banknotes in the forex market totaled 645,000 in April—declining against the previous month—after three months of rises; however, there was a 66% hike against the number of persons that sold banknotes over the same month in 2018 (390,000 persons). In turn, 1,090,000 persons purchased banknotes in the forex market in April, evidencing a rise both against the previous month and in y.o.y. terms (18% and 30%, respectively; see Chart V.3).



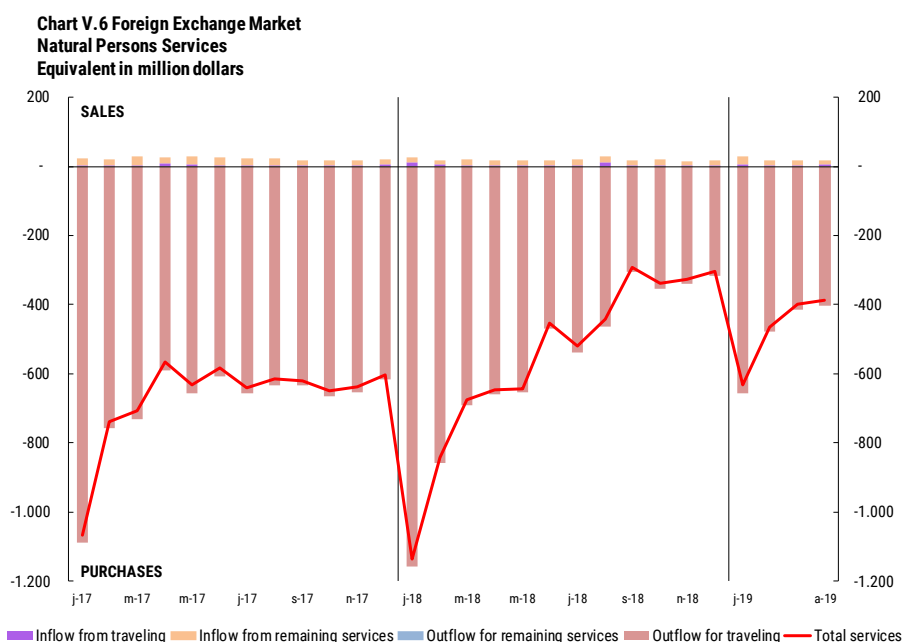
As is usually the case, natural persons' foreign exchange transactions accounted for the lowest amounts: 63% of gross purchases, and 71% of gross sales in April were below USD10,000 (see Chart V.4 and Chart V.5). Consequently, gross sales per capita amounted to USD941, while gross purchases per capita stood at USD1,568. Such amounts had totaled USD1,497, and USD2,626, respectively the previous year.



In turn, natural persons' net outflows for payments of services totaled USD382 million, particularly of "Travel and Other Expenses Paid with Cards", which evidenced a net outflow of USD397 million and a 39% y.o.y. drop, in line with a decrease in outbound tourism, as shown in international tourism statistics (See Chart V.6).⁸

⁸It 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. It is worth underscoring 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).

⁹ To access the latest technical report on International Tourism Statistics, [click here](#).



Finally, net inflows for primary and secondary income totaled USD5 million, basically as a result of retirement and pension collections from abroad.

VI. Institutional Investors and Others

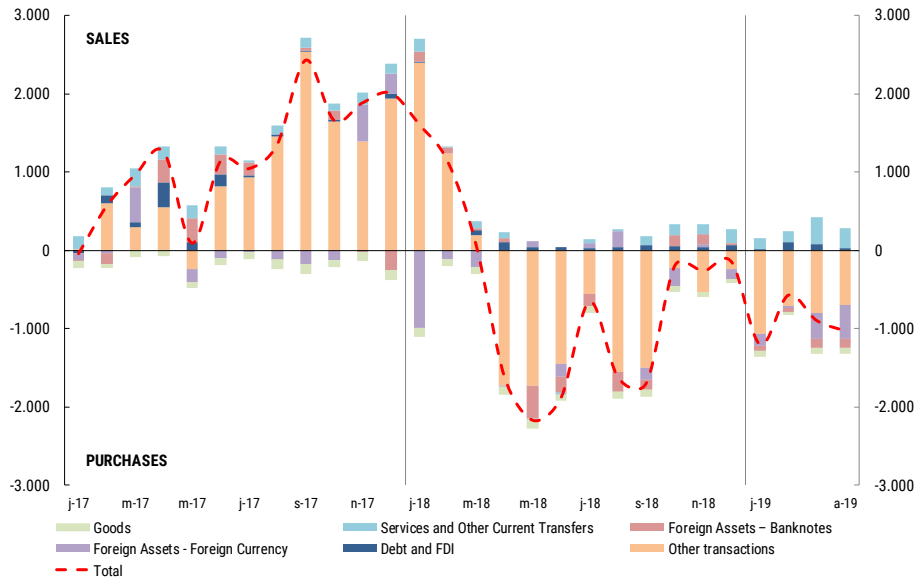
“Institutional Investors and Others”—both residents and non-residents—recorded net purchases for USD1,030 million in April, down USD580 million y.o.y.

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.

The heading “Other Transactions” in Chart VI.1 includes the purchase and sale of securities in the secondary market which, in the forex market, are registered under the name of the financial institution involved. The counterparties to these transactions can be non-financial private sector residents and non-residents and, therefore, they are included in “Institutional Investors and Others”. In April, these changes totaled a net outflow of USD640 million, a level similar to that of March.

Finally, “Institutional Investors and Others” purchased foreign assets for USD540 million, out of which USD430 million were transferred to own accounts held abroad, and USD110 million were used for saving purposes. The latter continued exhibiting high levels of gross purchases and sales, exceeding USD1,950 million in each case.

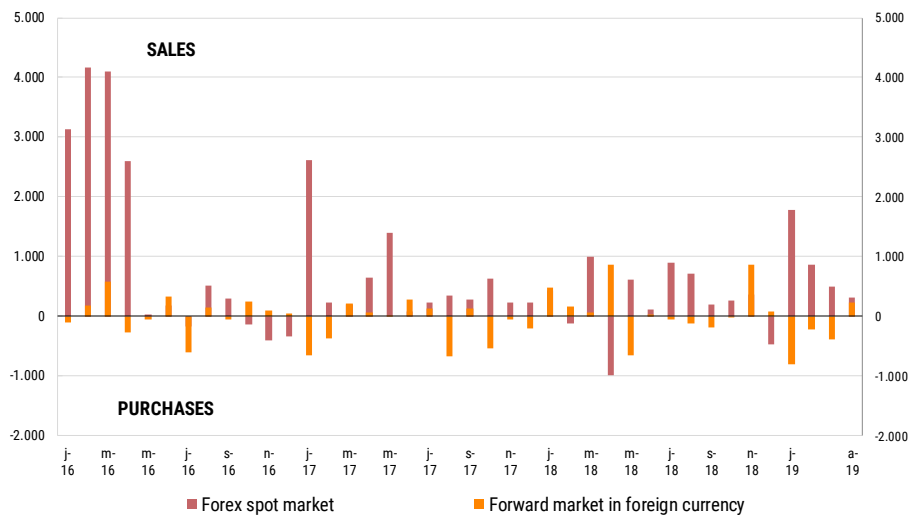
**Chart VI.1 Foreign Exchange Market
Institutional Investors and Others' Net Result**
Equivalent in million dollar



VII. Financial and Foreign Exchange Institutions

In April, financial institutions licensed to trade in the foreign exchange market sold USD332 million in the forex spot market. Moreover, they sold USD230 million in net terms in the forward market (see Chart VII.1).

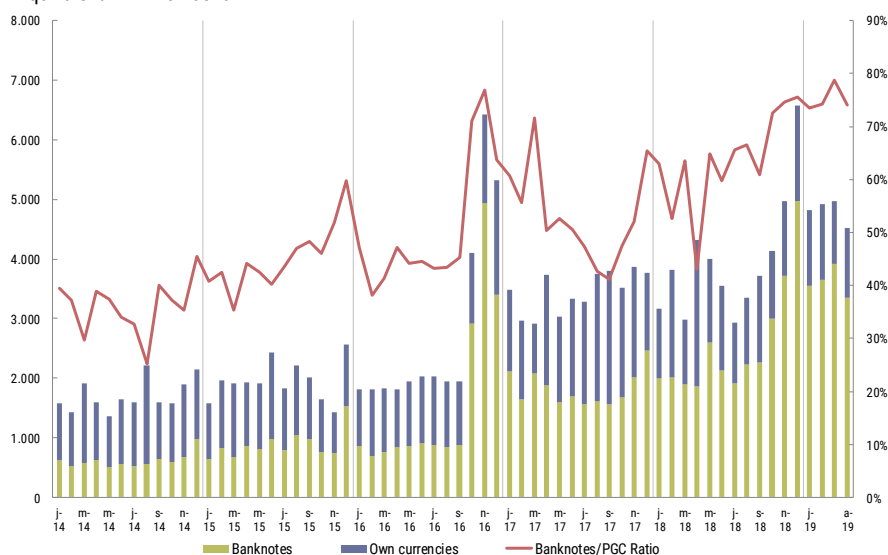
**Chart VII.1 Forex spot and forward market in foreign currency
Institutions**
Equivalent in million dollars



Institutions conducted transactions on their own account: underwriting of securities in the primary market (around USD550 million) and making net payments of debt of USD160 million.

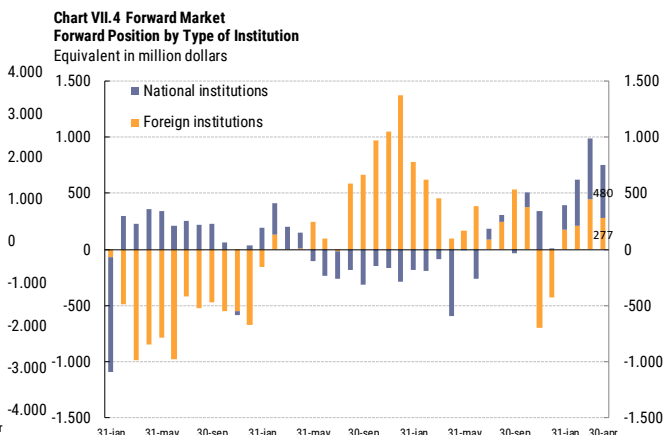
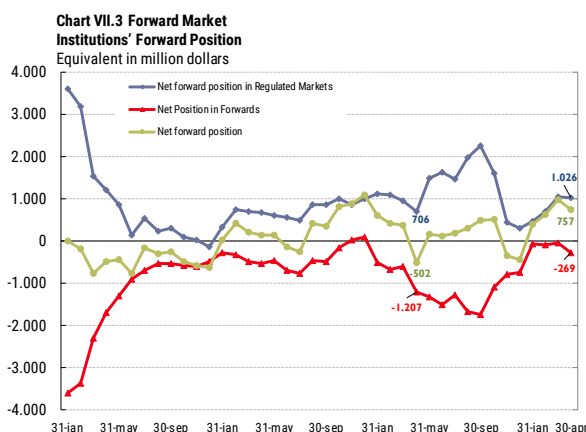
On the other hand, institutions ended April evidencing a General Exchange Position for USD4,514 million; from such amount, around USD3,300 million correspond to holdings of foreign currency banknotes. The General Exchange Position stock fell by USD450 million against March due to a drop in their banknote holdings (see Chart VII.2).¹⁰

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

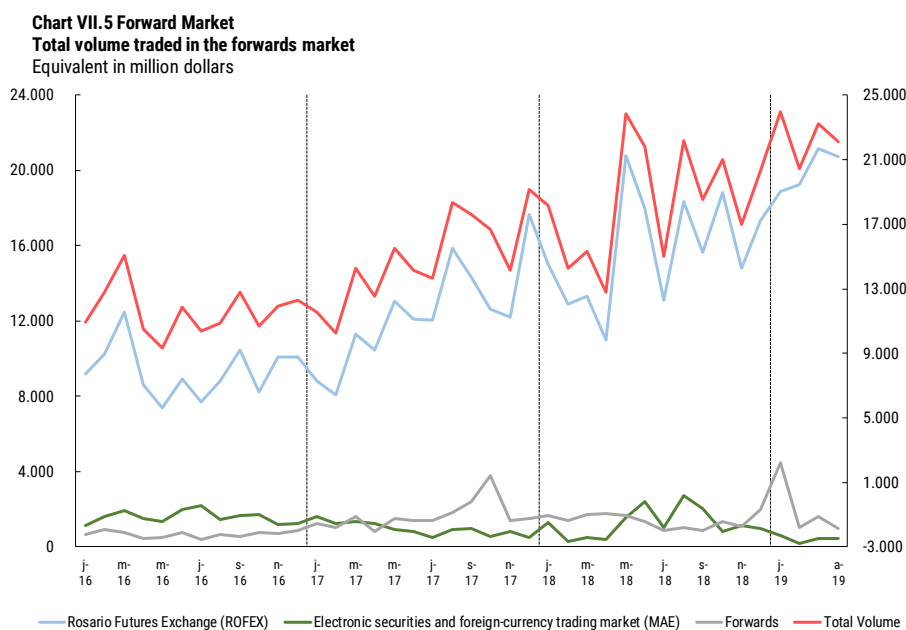


On another note, financial institutions ended April exhibiting a net forward long position in foreign currency of USD757 million. Institutions sold USD217 million directly to clients (Forwards) and USD15 million in regulated markets over April (see Charts VII.3 and VII.4). Foreign institutions made net sales for USD173 million. In turn, national institutions' sales amounted to USD58 million.

¹⁰The 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.



The volume traded in forward markets totaled USD22,150 million in April; in other words, around USD1,165 million on a daily basis.¹¹The total amount fell 5% against the previous month as a result of drops in all trading areas. As is usually the case, transactions carried out in the Mercado a Término de Rosario (ROFEX) accounted for 94% of the total volume (see Chart VII.5).

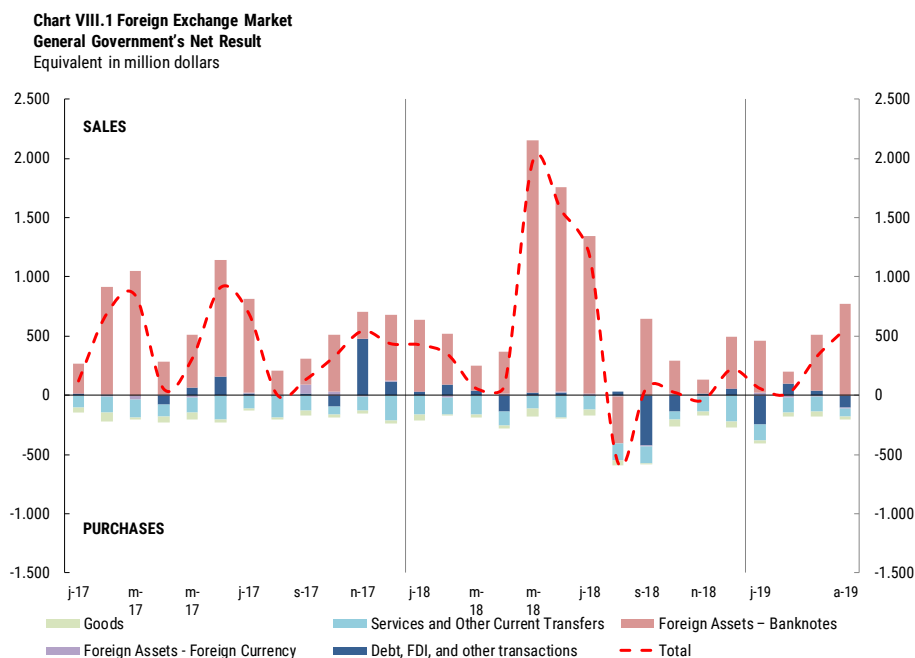


VIII. General Government and Central Bank

In April, the General Government recorded net sales in the forex market through licensed financial institutions for USD562 million, mainly out of deposits in foreign currency with local institutions (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.

Furthermore, the National Treasury sold USD600 million through the daily auction system using foreign currency deposited in its account held with the BCRA.



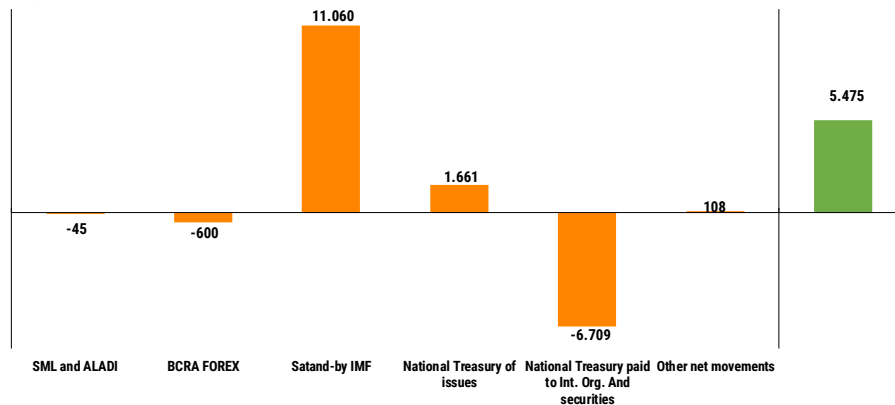
Moreover, the General Government received: i) USD10,830 million under the fourth tranche of the stand-by loan arranged with IMF ; ii) USD1,661 million through the issue of Bills; and iii) USD70 million as a net inflow of debt with international organizations. Likewise, it paid back principal and interest of debt securities (particularly, LETES in foreign currency) for around USD6,500 million (see Chart VIII.2).

The exchange rate was within the “Foreign Exchange Benchmark Zone” and the BCRA did not intervene in the forex spot market.

Furthermore, 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 USD45 million.

As a result of the transactions described above, gross international reserves increased by USD5,475 million along April, totaling USD71,663 million by the end of April.

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

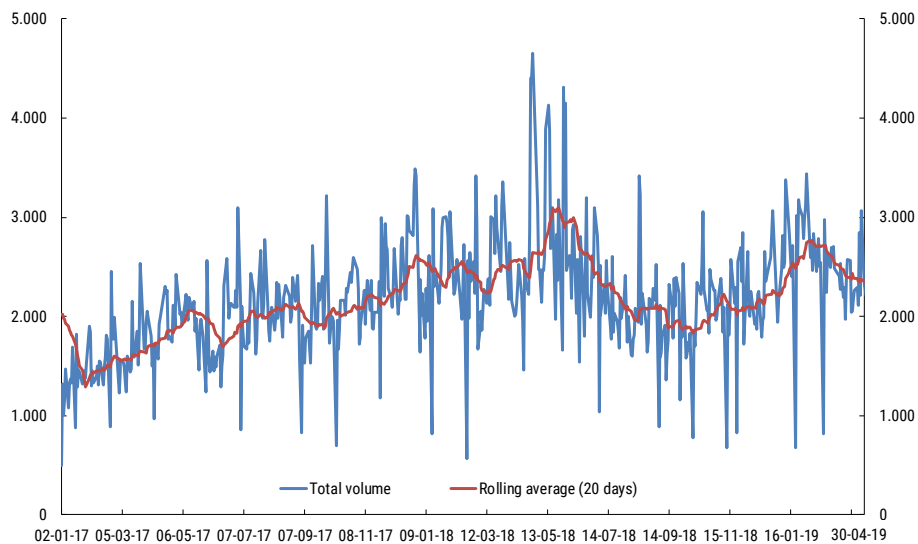


*Note: It includes – among other transactions – changes in institutions' accounts in foreign currency excluded from other headings, income on reserves, adjustments by type of swap and valuation, purchase-sale of securities, transactions in accounts of the National Treasury, and BCRA's transactions.

IX. Volumes Traded in the Foreign Exchange Market

In April, the volume traded in the forex market totaled USD49,750 million, remaining practically unchanged in y.o.y. terms. This total involved a daily volume of around USD2,600 million (see Chart IX.1).¹²

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



Transactions between institutions and their clients accounted for 72% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System (SIOPEL)—represented

¹²In 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](#)).

27%; in turn, transactions between institutions and the BCRA on behalf of the National Treasury accounted for the remaining 1% (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 206 institutions, the first ten accounted for 84% of such volume) and in the foreign currency used; USD-denominated transactions had a 98% share in the total traded with clients (see Chart IX.3).

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

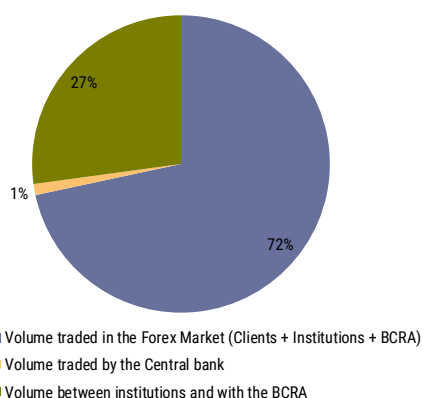
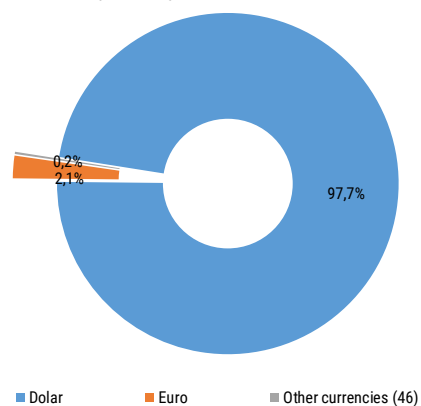


Chart IX.3 Foreign Exchange Market
Volume with clients by currency. April 2019



Finally, 94,7% 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 5,3% (5% and 0.3%, 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 USD3,400 million in April 2019), and purchases of foreign exchange to pay card bills for expenses incurred abroad (around USD200 million for the month under study).