

Evolution of the Foreign Exchange Market and Exchange Balance

February 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 February 2019

- ✓ *In February, financial institutions' clients purchased around USD406 million in the foreign exchange market; in turn, the ensemble of financial institutions licensed to trade in the foreign exchange market sold USD824 million. As a result, the foreign exchange rate stood below the non-intervention range during the first half of the month, and the BCRA purchased USD418 million.*
- ✓ *Companies in the real sector were net sellers of foreign currency for nearly USD1,500 million.*
- ✓ *Within this group, the main sector with net sales in historical terms was "Oilseeds and Grains", amounting to about USD1,500 million, down 10% 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 "Real Sector Non-Oilseeds and Grains" recorded a result that was virtually neutral. This result differs from that of February 2018 when net purchases totaled USD570 million. The difference can still be accounted for by fewer imports in the past few months.*
- ✓ *"Natural Persons", who mainly demand foreign currency for saving and travelling abroad, made net purchases for USD950 million. This 55% slide against purchases made in February 2018—USD2,100 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 USD600 million exhibiting a reversal of net sales for USD1,100 million in February 2018.*
- ✓ *In addition to sales on the spot market, financial institutions purchased USD220 million for forward transactions in foreign currency.*
- ✓ *The General Government recorded net inflows for USD1,300 million from the issue of bills, mainly in foreign and domestic currency. Furthermore, it made net payments to international organizations for USD350 million.*
- ✓ *As a result of the transactions described above, gross international reserves increased by USD1,204 million along February, totaling USD68,015 million by the end of the month.*

I. Introduction

This report analyses information on foreign exchange transactions made in February 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 February; 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.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 heading (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 "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 February, financial institutions' clients purchased around USD406 million in the foreign exchange market; in turn, the ensemble of financial institutions licensed to trade in the foreign exchange market sold USD824 million. As a result, the foreign exchange rate stood below the non-intervention range during the first half of the month, and the BCRA purchased USD418 million.

Table II.1 Foreign Exchange Market

Result by sector

Equivalent in million dollars

Sector	February 2019
BCRA	- 418
Institutions	824
Institutions' clients	- 406

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

The USD1,204 million increase in BCRA's international reserves over the month may be mainly explained by the net inflow derived from net issues of securities of the General Government for USD1,300 billion (in foreign and domestic currency) and by the purchases carried out in the forex market (for further information, see Sections VII and VIII). Furthermore, payments of interest to international organizations amounted to around USD350 million.

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 USD406 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 February 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	1,4	-0,5	0,1	-0,6	-0,3	-0,1	-0,1
Oilseeds and Grains	1,5	0,0	0,0	0,0	0,0	0,0	1,5
Non-Agricultural Real Sector	0,0	-0,1	-0,1	-0,1	-0,2	0,6	0,0
Natural Persons	0,0	-0,5	0,0	-0,5	-0,1	0,1	-0,9
Institutional Investors and Other	0,0	0,1	0,2	-0,1	0,0	-0,8	-0,6
General Government	0,0	0,0	-0,1	0,1	0,0	0,1	0,0
Institutions (Own Transactions)	0,0	0,0	0,0	0,0	0,0	-0,3	-0,4
Institutions' Result with Clients	1,4	-0,5	-0,1	-0,5	-0,4	-0,4	-0,4

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 February. This sector reported net inflows for USD1,500 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

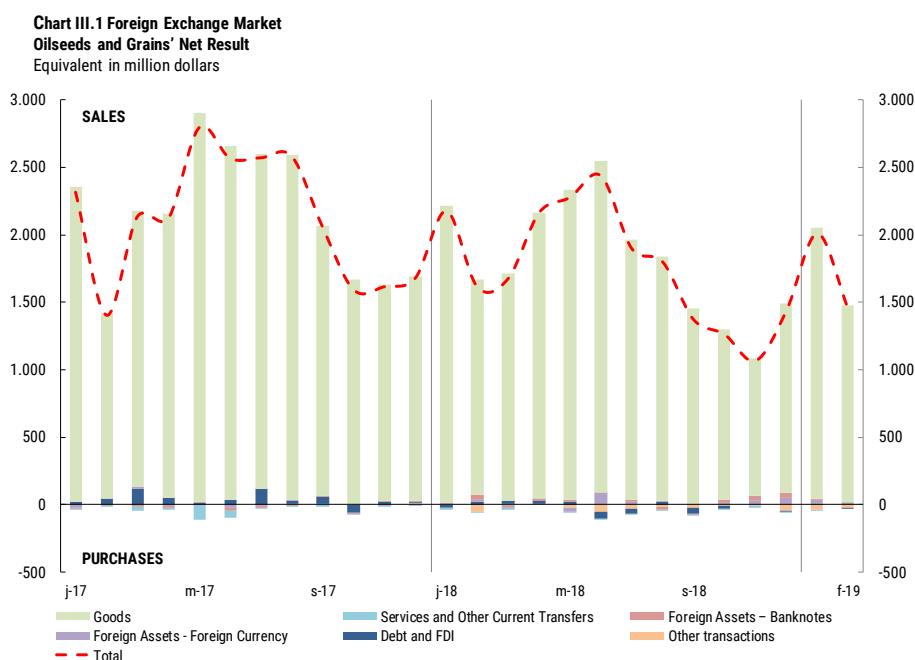
imports of goods and services, for primary income, and for debt securities or loans) but also to make net transfers to their own accounts abroad under the “Foreign Assets – Foreign Currencies” heading (net outflow for around USD200 million in February) in order to subsequently have the chance to make 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) mainly demand foreign currency for saving purposes (around USD500 million in February) and for making trips abroad (around USD470 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 USD600 million in February).

III. Oilseeds and Grains

The “Oilseeds and Grains” sector recorded a USD1,500 million surplus in February (see Chart III.1) in spite of a fall of 10% y.o.y.



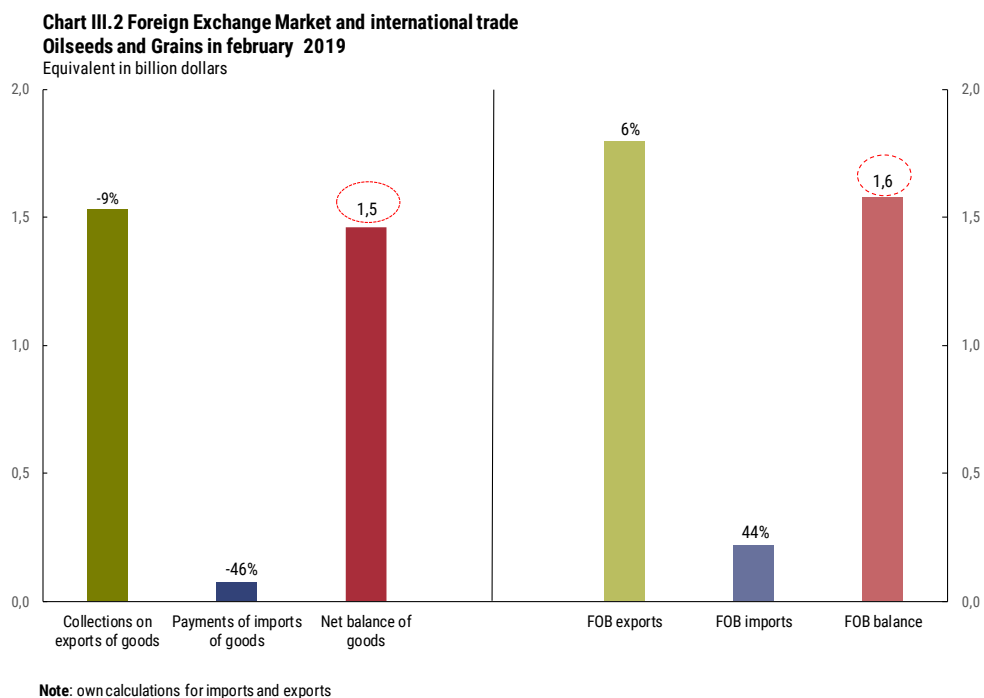
In February, the sector reported collections on exports of goods for USD1,530 million (down 9% y.o.y.) and payments for imports of goods for USD70 million through the forex market (down 46% y.o.y.).

The sector's net result for "Goods" stood at USD1,460 million and was in line with the expected foreign exchange balance of the sector of around USD1,600 million (exports for USD1,800 million, and imports for about USD200 million).⁴ Lower gross volumes transacted in the forex market against total customs duties could be explained by

⁴The Central Bank's website (www.bcra.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 heading (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 "Publicaciones" section, "Sector Externo" / "Informe de la Evolución del Mercado de Cambios y Balance Cambiario" 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.

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.

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.

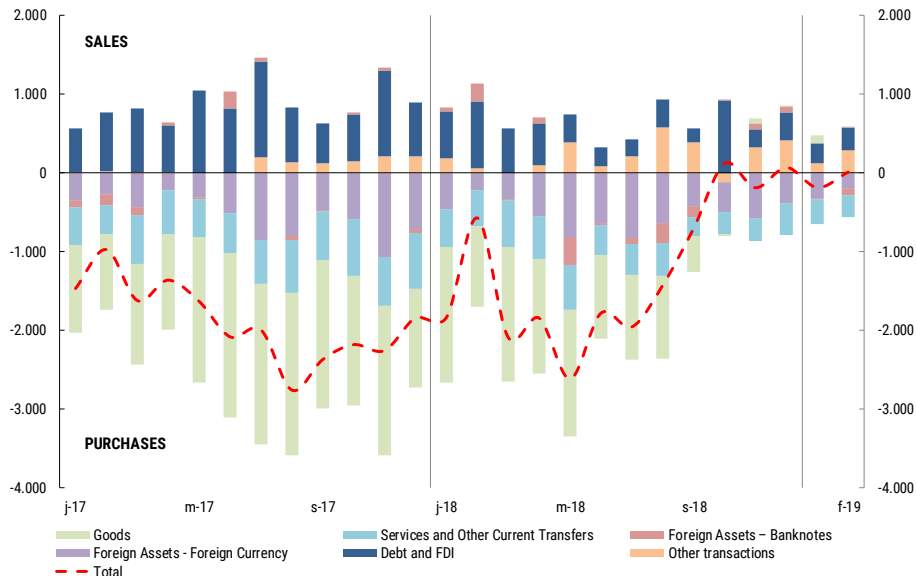


IV. Real Sector Non-Oilseeds and Grains

Companies in the “Real Sector Non-Oilseeds and Grains” recorded a result that was practically neutral vis-à-vis February 2018, when net purchases amounted to USD570 million.

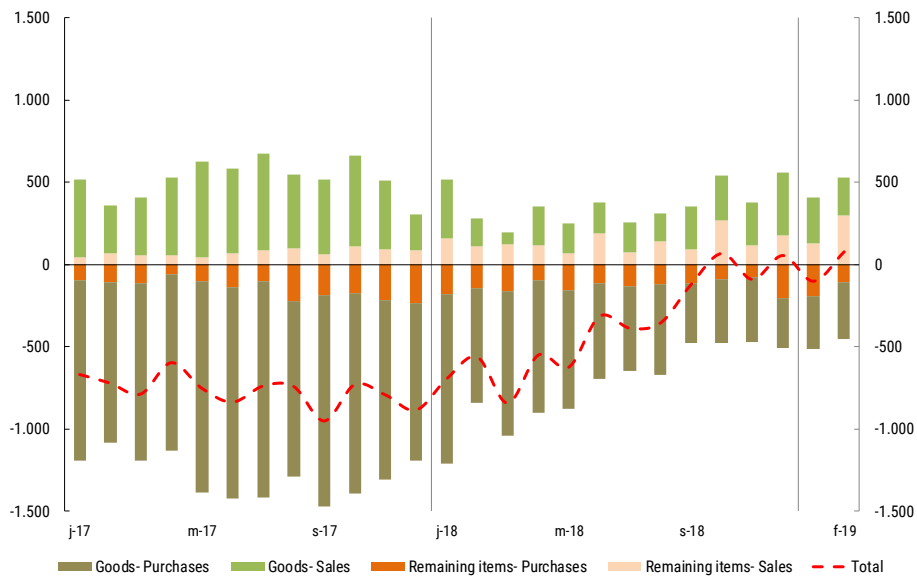
The difference was accounted for by fewer imports in the past five months (see Chart IV.1).

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

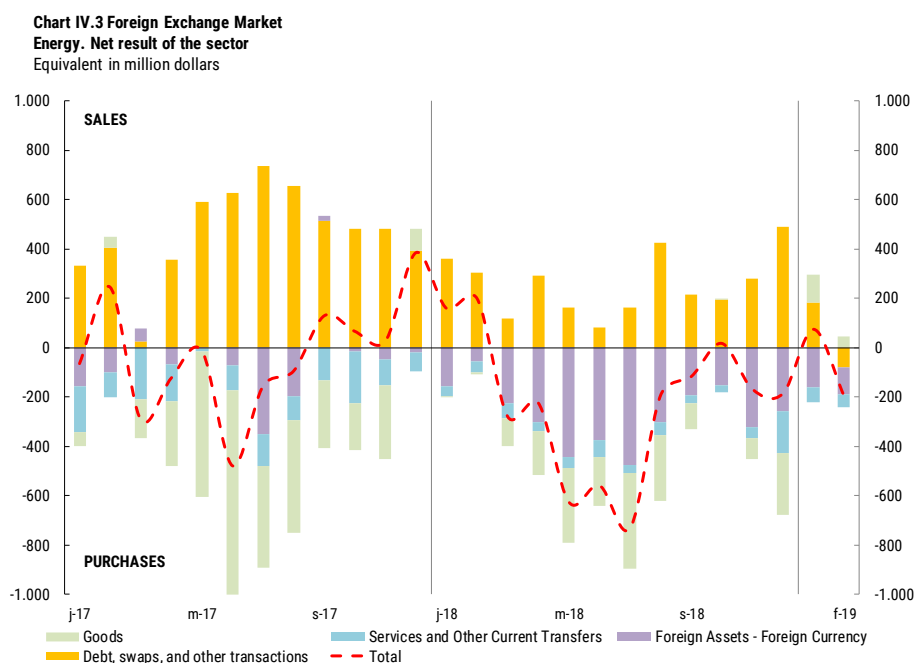


The “Automobile Industry” recorded net inflow for around USD100 million, exhibiting a reversal against the net outflow of USD560 million in February 2018 (see Chart IV.2) explained by fewer payments for goods and higher income from direct investment. Particularly, this sector reported collections on exports of goods for USD230 million and payments for imports of goods for USD350 million. These gross levels are not in line with customs duties estimates (exports for around USD500 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.

Chart IV.2 Foreign Exchange Market
Automobile Industry's Result
 Equivalent in million dollars



In turn, companies belonging to the “Energy” sector recorded net purchases for around USD200 million, which may be explained by net purchases of banknotes for nearly USD220 million, and by transfers of funds to their own accounts held abroad for USD110 million against which they would pay part of their foreign debts. These changes were partly offset by net inflows from the import of goods (see Chart IV.3).

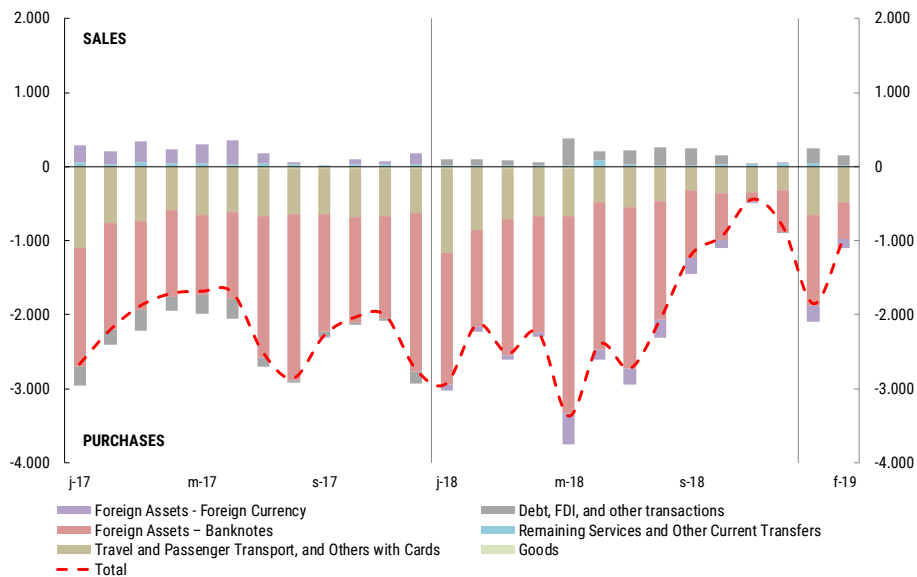


Finally, the remaining companies included in the “Real Sector Non-Oilseeds and Grains” evidenced net sales for USD130 million, which implies an increase of USD350 million y.o.y., basically as a result of a reversal in flows reported for the export of goods (going from net payers to having net inflows) and lower net payments for services.

V. Natural Persons

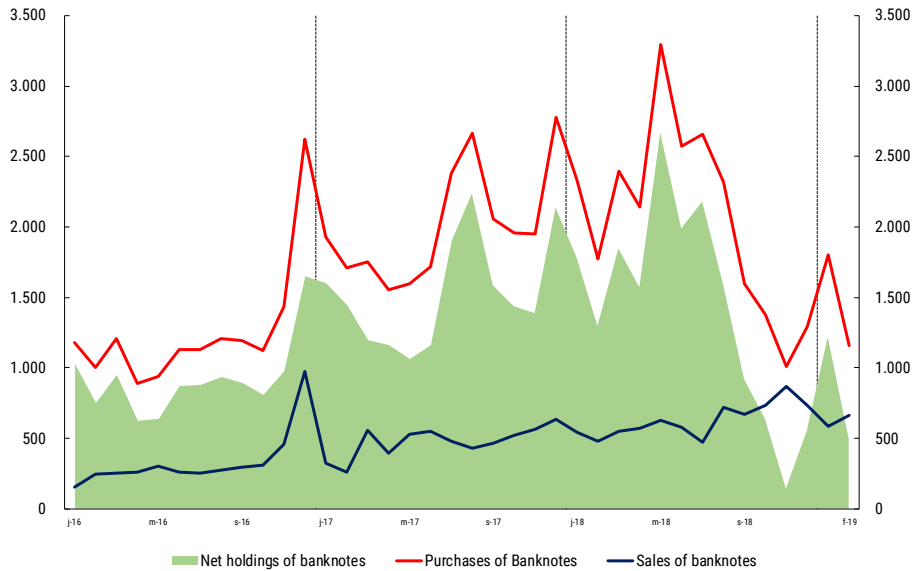
Following the rises observed for two months in a row, the net demand for foreign currency by “Natural Persons” decreased in February; this was mainly accounted for by a reduction in net purchases of banknotes for saving purposes (see Chart V.1). Net purchases totaled USD950 million over the month, falling 55% y.o.y.

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



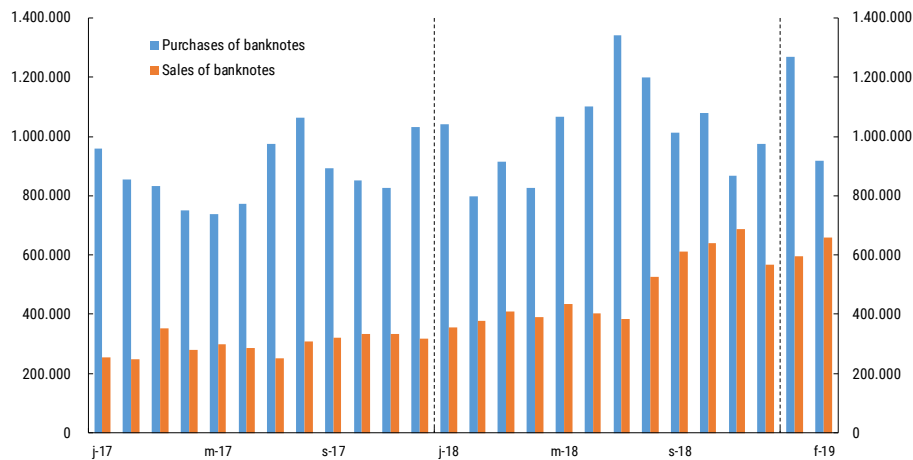
Net purchases of banknotes made by natural persons fell y.o.y. due to both fewer gross purchases (USD1,269 million) and more gross sales (USD663 million).

Chart V.2 Foreign Exchange Market
Natural Persons' holdings of banknotes in foreign currency
 Equivalent in million dollars



The number of clients selling banknotes in the forex market rose once again against the previous month (660,000 persons) and 75% y.o.y. (380,000 persons). In turn, the number of clients who purchased banknotes in the forex market fell by around 350,000 clients against January 2019, totaling 920,000 (see Chart V.3).

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



As is usually the case, natural persons' foreign exchange transactions account for the lowest amounts: 69% of gross sales, and 67% of gross purchases in February were below USD10,000 (see Chart V.4 and Chart V.5). Gross sales per capita amounted to USD1,025, while gross purchases per capita stood at USD1,286.

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

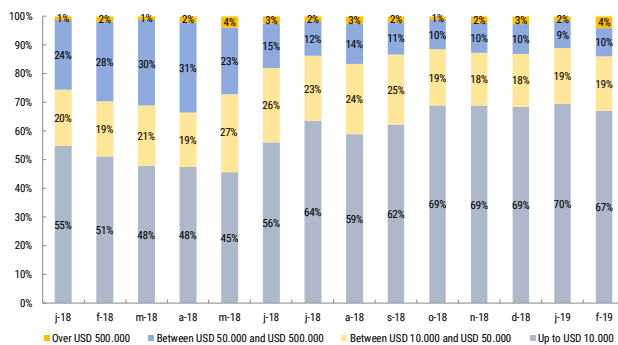
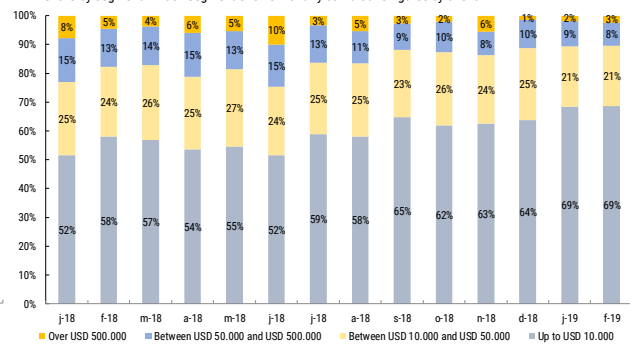
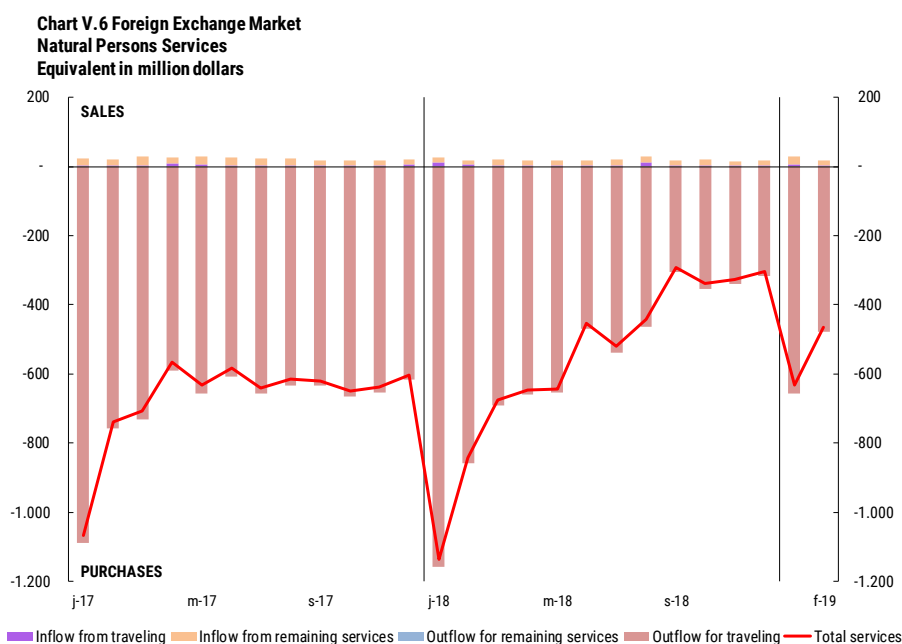


Chart V.5 Foreign Exchange Market
Natural Persons. Sales of banknotes by segment
 Share by segment – Each segment shows monthly cumulative figures by client



In turn, natural persons' net outflows for payments of services totaled around USD450 million, particularly of "Travel, and Other Expenses Paid with Cards", which amounted to USD470 million, down 44% y.o.y. (see Chart V.6).⁵

⁵It 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 Argentiniens—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).



Finally, net inflows for primary and secondary income totaled USD13 million, basically as a result of retirement and pension collections from abroad.

VI. Institutional Investors and Others

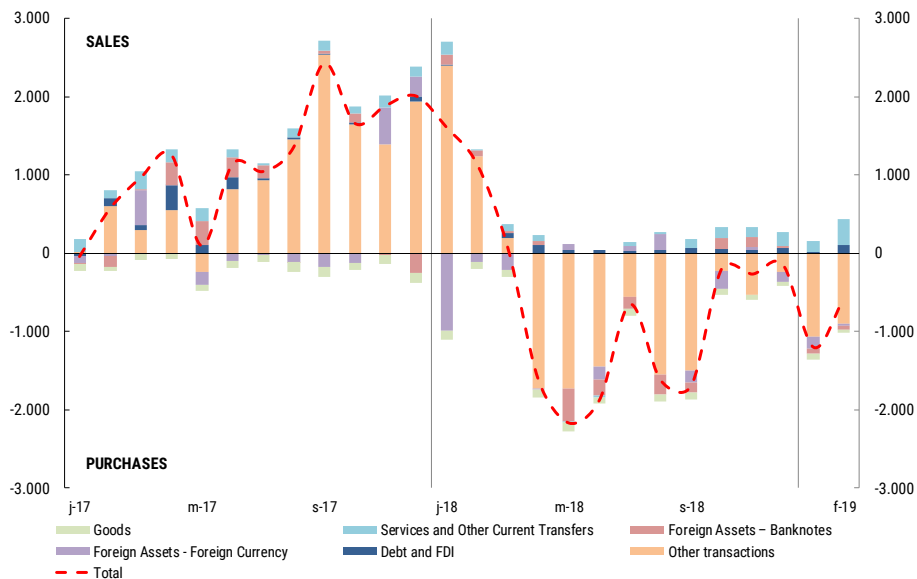
“Institutional Investors and Others”—both residents and non-residents—made net purchases of around USD600 million exhibiting a reversal of net sales for about USD1,100 million evidenced in February 2018.

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.

Like in January, the result of transactions with banknotes within the “Investors and Others” sector was virtually neutral; however, gross purchases and sales totaled USD1,600 million, respectively.

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 February, these changes totaled a net outflow of USD630 million, evidencing a reversal in y.o.y. terms, with net inflows for USD790 million.

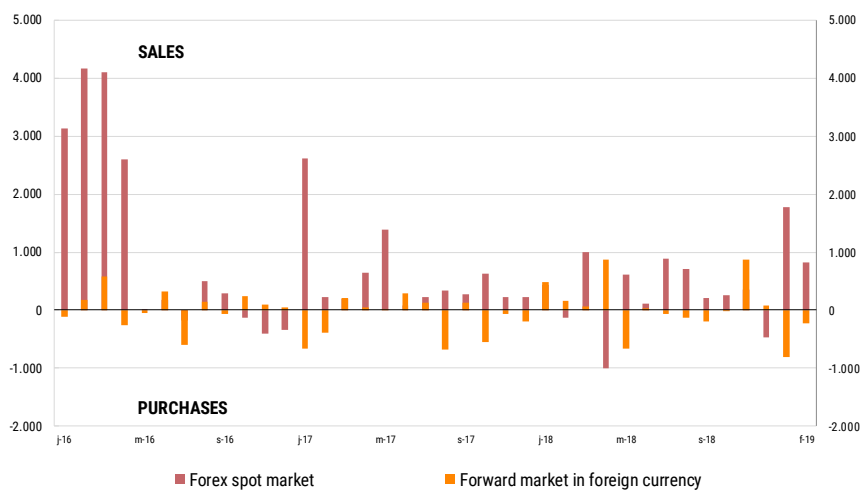
**Chart VI.1 Foreign Exchange Market
Institutional Investors and Others' Net Result**
Equivalent in million dollar



VII. Financial and Foreign Exchange Institutions

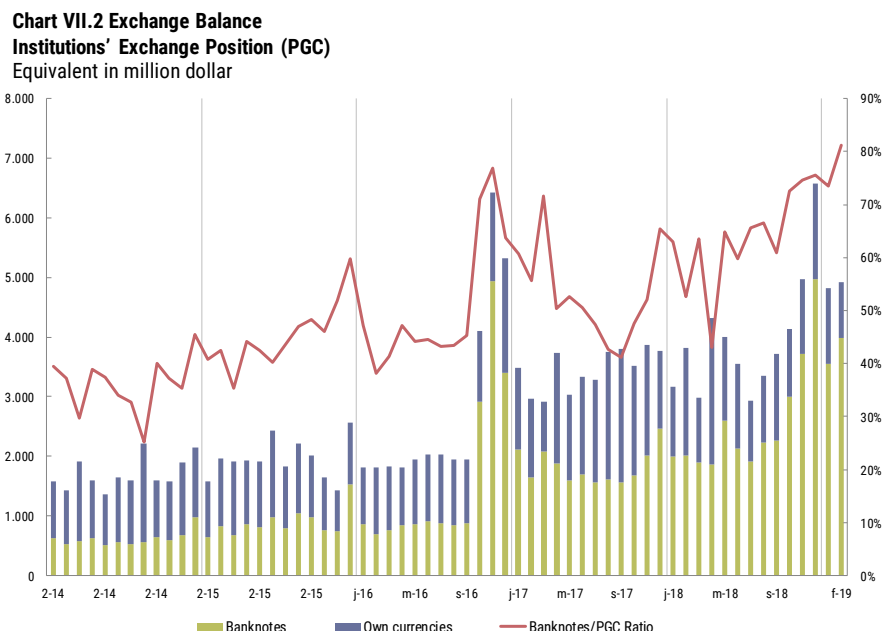
In February, licensed financial institutions sold USD800 million in the forex market and purchased around USD250 million in the forward market (see Chart VII.1.).

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



In particular, financial institutions used their own funds for underwriting securities in the primary market (around USD500 million), which were partially offset by net inflows (USD150 million) basically arising from the sale of interest in local companies to investors, net of payments of loans held abroad.

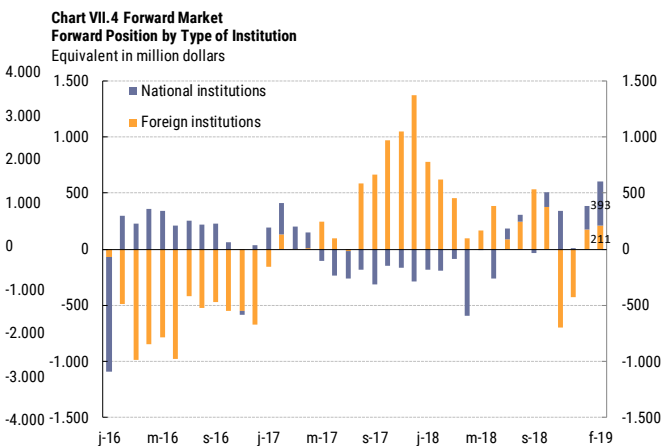
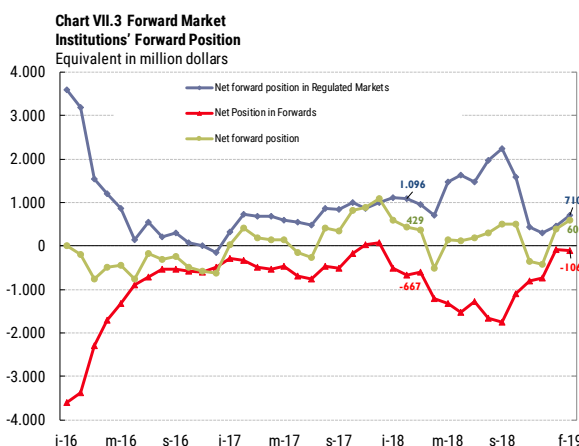
Financial institutions ended February evidencing a General Exchange Position for USD4,918 million, increasing January's position by around USD100 million (see Chart VII.2).⁶



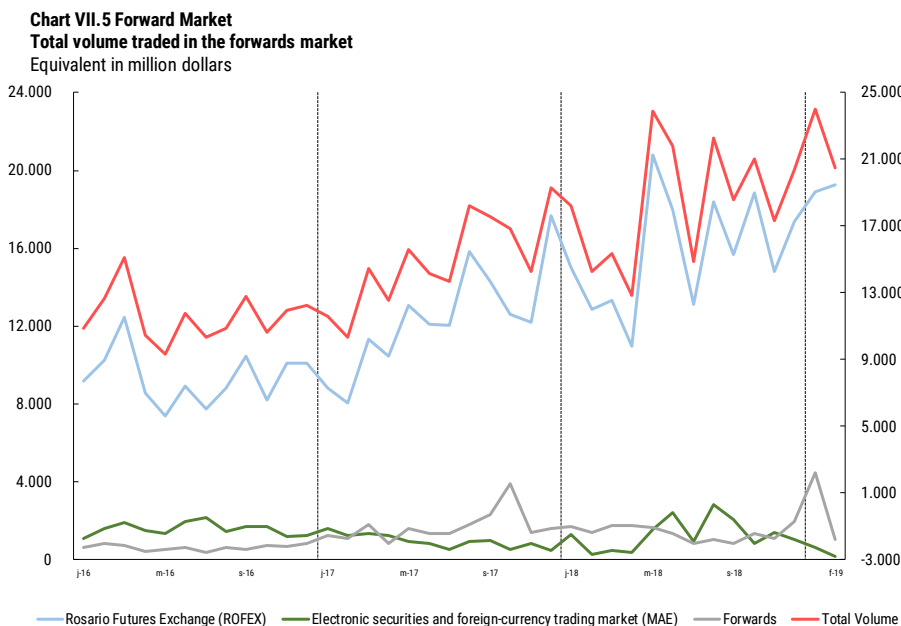
Regarding forward markets in foreign currency, financial institutions raised their long position by USD221 million against January, ending February with a net long position of USD603 million. They purchased USD251 million in regulated markets and sold USD31 million in direct contracts with clients (Forwards) over the month (see Charts VII.3 and VII.4).

Foreign institutions made net purchases for USD34 million. In turn, national institutions' purchases amounted to USD187 million.

⁶The 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.



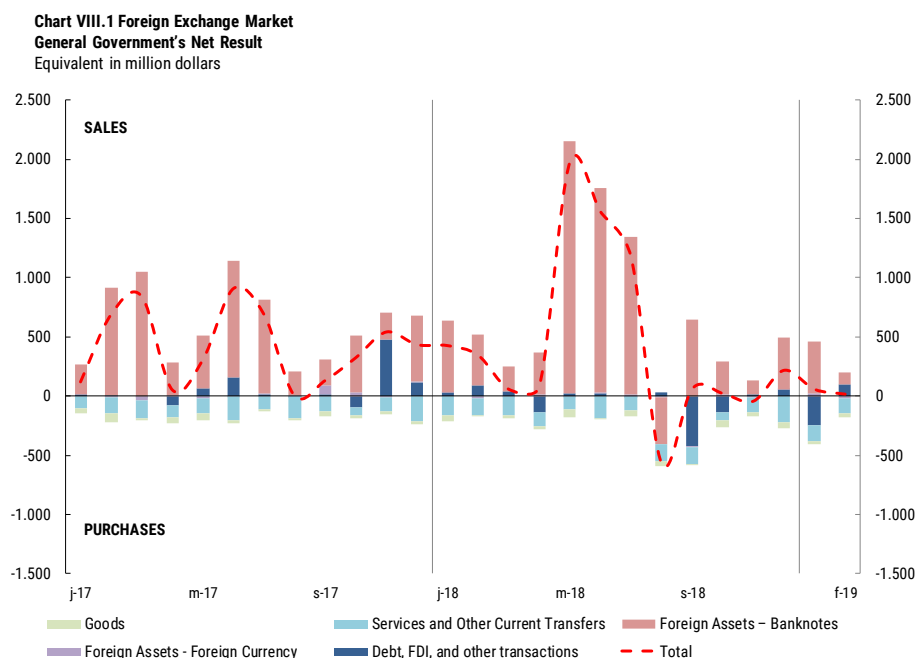
The volume traded in forward markets⁷ totaled USD20,495 million in February, i.e.: USD930 million on a daily basis. The total amount fell 15% against January explained by a drop in the volume traded directly with clients or Forwards and transactions in the Electronic Securities and Foreign Currency Trading Market (MAE) 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).



⁷The 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.

VIII. General Government and Central Bank

In February, the General Government recorded net sales in the forex market for USD20 million, mainly due to domestic deposits in foreign currency (see Chart VIII.1).



As regards transactions involving BCRA's international reserves, the General Government recorded net inflows of USD4,323 million from the issue of securities, particularly bills in foreign and domestic currency. Likewise, it paid back principal and interest of debt securities (particularly, LETES in foreign currency) for USD3,000 million and to international organizations for USD340 million (see Chart VIII.2).

Furthermore, the BCRA purchased USD418 million in the forex market given the fact that the exchange rate remained during the first half of the month below the non-intervention range⁸. 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 USD21 million.⁹

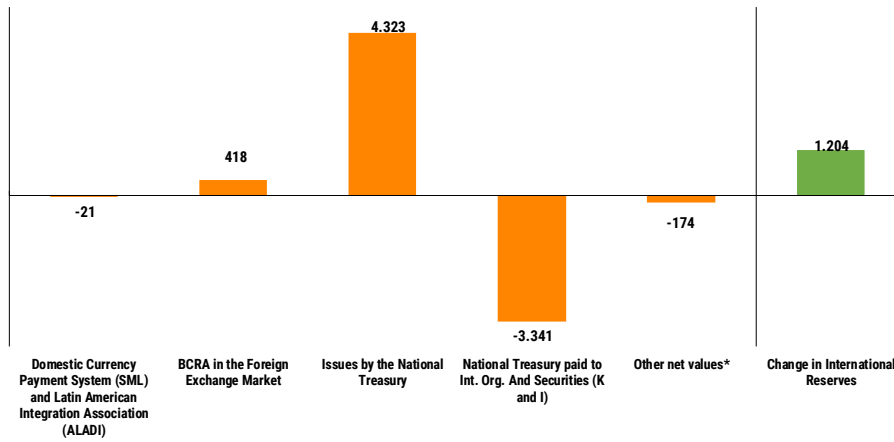
Finally, withdrawals from institutions' accounts with the BCRA totaled USD300 million, included in the column "Other Net Values" in Chart VIII.2.

As a result of the transactions described above, gross international reserves increased by USD1,204 million along February, totaling USD68,015 million by the end of the month.

⁸ 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](#)).

⁹ Click the following link to see the definition of [non-intervention range](#).

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

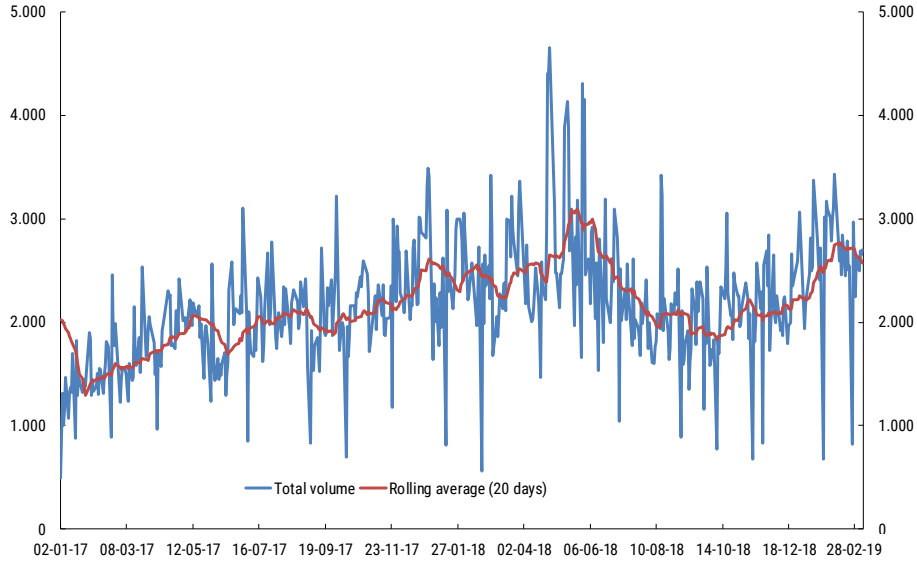


*Note: It includes – among other transactions – changes in institutions' accounts in foreign currency excluded from other headings, income on reserves, adjustments by type of swap and valuation, purchase-sale of securities, transactions in accounts of the National Treasury, and BCRA's transactions.

IX. Volumes Traded in the Foreign Exchange Market

In February, the volume traded in the forex market totaled USD51,600 million, up 21% y.o.y. This total stands for a daily volume of about USD2,580 million, up 9% y.o.y. (see Chart IX.1).¹⁰

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



¹⁰In 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 72% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System (SIOPEL)—represented 27%; in turn, the volume traded between institutions and the BCRA accounted for the remaining 1% (see Chart IX.2).¹¹

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 85% 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. February 2019

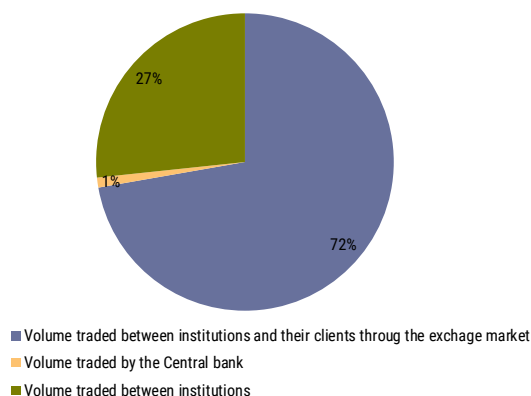
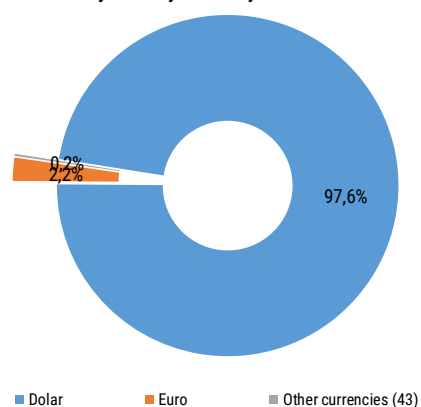


Chart IX.3 Foreign Exchange Market
Volume with clients by currency. February 2019



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% (4,6% and 0.4%, respectively).

¹¹ The volume traded between licensed institutions and their clients excludes the following items: clients' underwriting of LEBAC Bills, swap transactions with foreign parties (around USD4,000 million in February 2019), and purchases of foreign exchange to pay card bills for expenses incurred abroad (around USD260 million for the month under study).