

Evolution of the Foreign Exchange Market and Exchange Balance

July 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 July 2019

- ✓ *In July, financial institutions' clients purchased USD2,269 million in the forex market; these transactions were funded through net sales by the National Treasury—in daily auctions of USD60 million—, and by the ensemble of financial institutions licensed to trade in the foreign exchange market. Net sales amounted to USD1,260 million and USD1,009 million, respectively.*
- ✓ *Companies in the real sector were net sellers of foreign currency for USD1,913 million.*
- ✓ *Within this group, the main sector to make net sales in historical terms ("Oilseeds and Grains") recorded net sales for USD2,395 million, up 26% y.o.y.*
- ✓ *Companies in the "Real Sector Non-Oilseeds and Grains" recorded net purchases totaling USD482 million. The difference in net purchases on a year-on-year basis (USD1,952 million) is mainly explained by lower flows of goods.*
- ✓ *"Natural Persons", who mainly demand foreign currency for saving and travelling abroad, made net purchases for USD2,177 million (USD1,700 million for banknotes and USD477 million for the remaining transactions), down 20% against purchases for USD2,727 million recorded in July 2018.*
- ✓ *"Institutional Investors and Others"—both residents and non-residents—recorded net purchases for USD1,456 million in July, up USD800 million y.o.y.*
- ✓ *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 USD332 million.*
- ✓ *The foreign exchange rate remained within the "Foreign Exchange Benchmark Zone". The BCRA did not intervene in the spot forex market with institutions. In addition, it made direct net purchases from the National Treasury for USD1,000 million.*
- ✓ *The National Treasury recorded inflow from debt totaling USD7,589 million; particularly, as a result of the disbursement made by the International Monetary Fund for USD5,396 million and bills issues for USD2,045. On another note, it made payments on account of two major reasons. On the one hand, reimbursement of principal and interest of debt for USD3,443 million—principally LETES bills for USD2,300 million, International Bonds for USD584 million, and Discounts for USD117 million—, and on the other hand, payments to international organizations for USD329 million.*
- ✓ *As a result of the transactions described above, gross international reserves increased by USD3,621 million along July, totaling USD67,899 million by the end of the month.*

I. Introduction

This report analyses information on foreign exchange transactions made in July 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 July; 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 [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 July, financial institutions' clients purchased USD2,269 million in the foreign exchange market; these transactions were funded through net sales by the National Treasury—in daily auctions of USD60 million—, and by the ensemble of financial institutions licensed to trade in the foreign exchange market. Net sales amounted to USD1,260 million and USD1,009 million, respectively (see Table II.1).

The foreign exchange rate remained within the “Foreign Exchange Benchmark Zone”. The BCRA did not intervene in the spot forex market with institutions. In addition, it made direct net purchases from the National Treasury for USD1,000 million.

TABLE II.1 Foreign Exchange Market

Result of the sector

Equivalent in million dollars

| Sector | July 2019 |
|----------------------------------------------------------|---------------|
| BCRA | -1.000 |
| To the National Treasury (directly) | -1.000 |
| To Financial Institutions in the Foreign Exchange Market | 0 |
| National Treasury | 2.260 |
| To the BCRA (directly) | 1.000 |
| Auctions through the BCRA | 1.260 |
| Institutions | 1.009 |
| Institutions' clients | -2.269 |

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

BCRA's international reserves increased USD3,621 million over July. This change was mainly explained by the following transactions: inflows from debt by the National Treasury for USD7,589 million—particularly, the disbursement of the fifth tranche of the stand-by agreement signed with the IMF for USD5,396 million—; daily sales for USD60 million by the National Treasury through the BCRA—which amounted to USD1,260 million over July—; and debt payments in foreign currency by the National Treasury for USD3,443 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 USD2,269 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.

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

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 July. This sector reported net inflows for USD2,395 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" recorded net purchases totaling USD482 million, particularly as a result of transfers to their own accounts held abroad and payments reported for "Goods" and "Services", which were partially offset by net inflows from Direct Investment and Financial Debt.

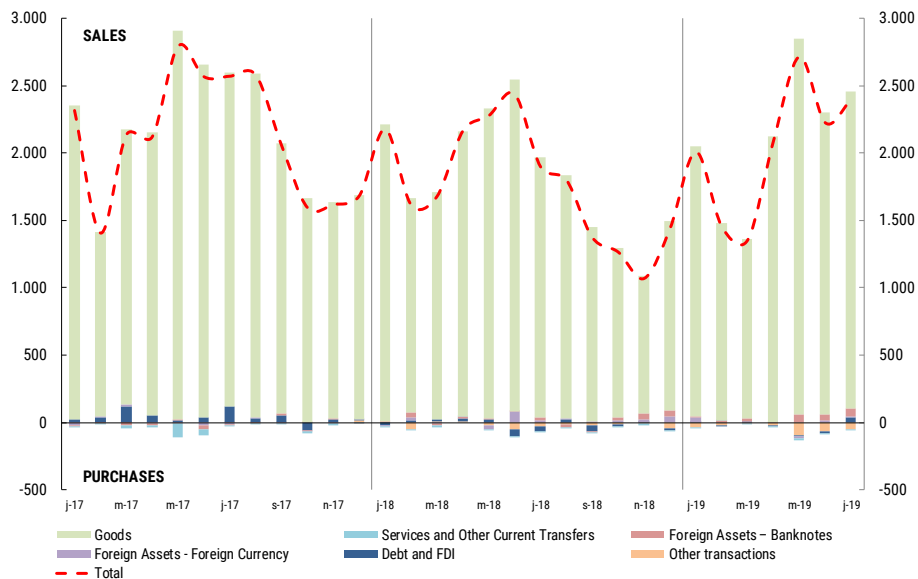
"Natural Persons" (residents) basically demanded foreign currency for saving purposes (USD1,700 million in July) and for expenses paid with cards for consumption abroad (USD489 million).

"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 USD1,456 million in July). These records exclude inflows 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.

III. Oilseeds and Grains

The "Oilseeds and Grains" sector recorded a USD2,395 million surplus in July (see Chart III.1), up 26% y.o.y.

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

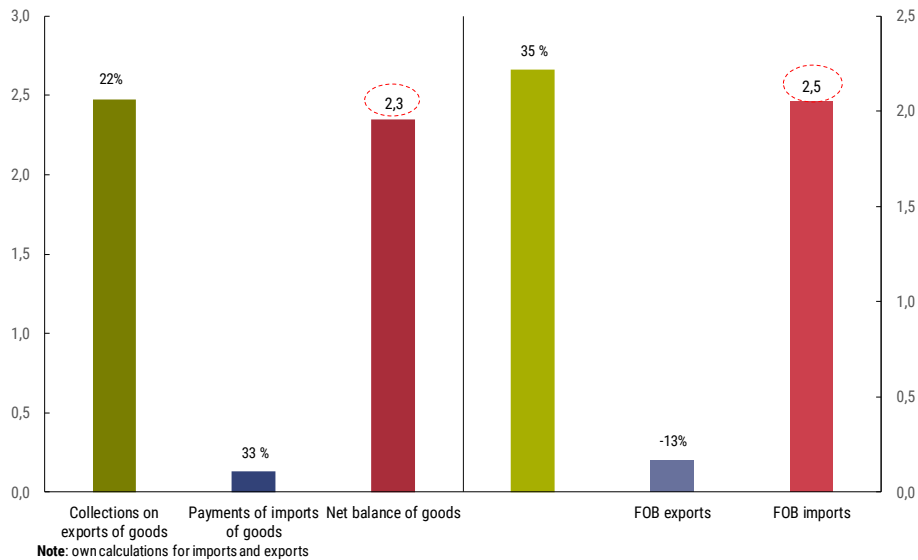


With respect to the “Goods” heading, in July, the sector reported collections on exports of goods for USD2,477 million (up 22% y.o.y.) and payments for imports of goods for USD131 million, up 33% y.o.y.

Regarding the domestic trade of products, total purchases of soybean were similar to the average of the last five harvest seasons; furthermore, it should be underscored that the pricing of purchase contracts was delayed in the current harvest season (4 million tons less without a price set compared to previous harvest seasons). In contrast, corn trade increased by 12 million tons against the average of the five prior harvest seasons, in line with a rise in production. Furthermore, it should be noted that domestic purchases of corn pertaining to the 2019/20 harvest season recorded by the end of July more than doubled the figure recorded over the same period in the prior harvest season.

The sector's net foreign exchange result for "Goods" stood at USD2,346 million. It was around USD 100 million below the expected trade balance of the sector—USD2,460 million—(exports estimated for USD2,660 million, and imports for USD200 million).

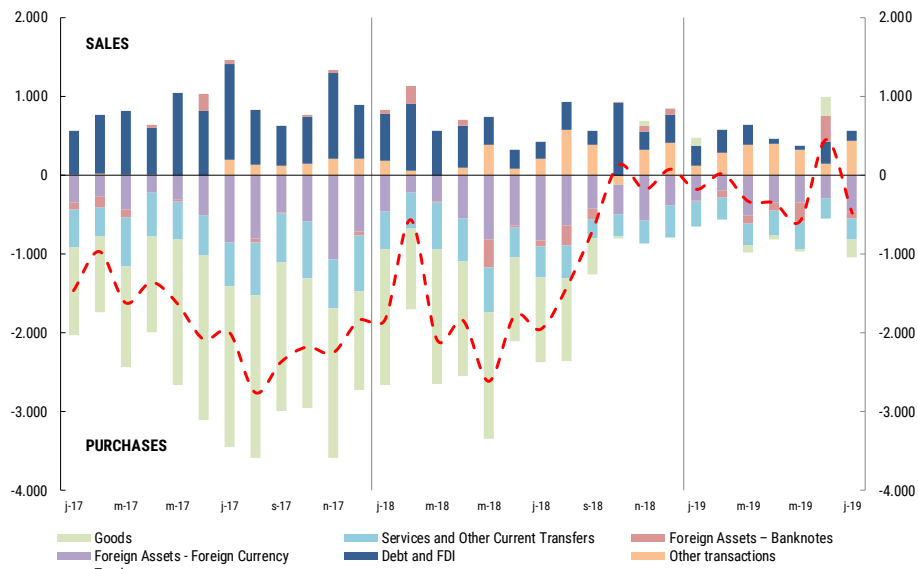
**Chart III.2 Foreign Exchange Market and international trade
Oilseeds and Grains in July 2019**
Billion USD



IV. Real Sector Non-Oilseeds and Grains

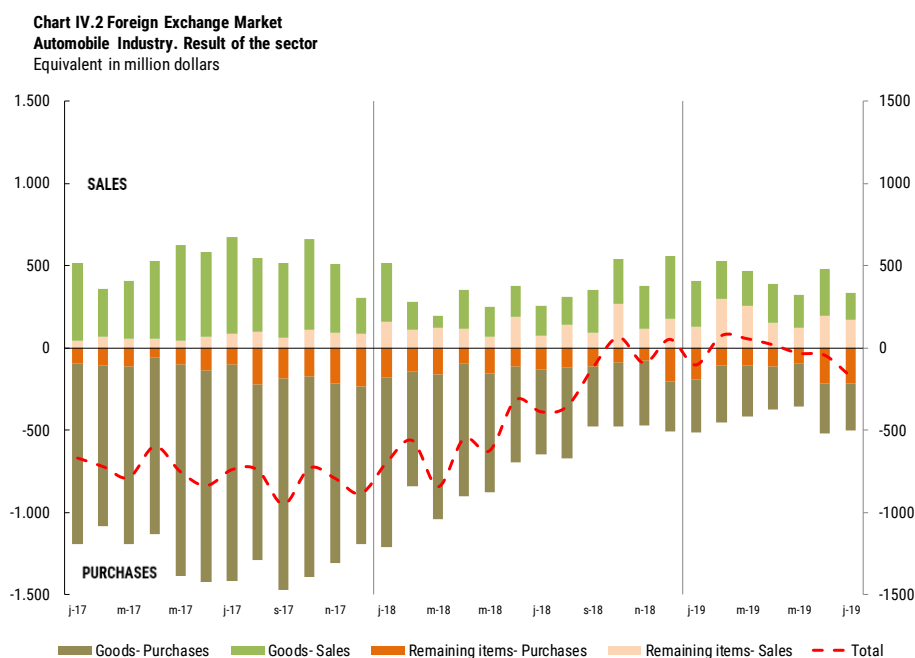
Companies in the “Real Sector Non-Oilseeds and Grains” recorded net purchases totaling USD482 million. The difference in net purchases on a year-on-year basis (USD1,952 million) is mainly explained by lower net flows of goods (see Chart IV.1).

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



Companies within the “Automobile Industry” made net payments for USD171 million, down around USD220 million y.o.y. (see chart IV.2), mainly explained by a decrease in the payment for goods. Particularly, this sector reported collections on exports of goods for USD161 million and payments for imports of goods for USD287 million. These

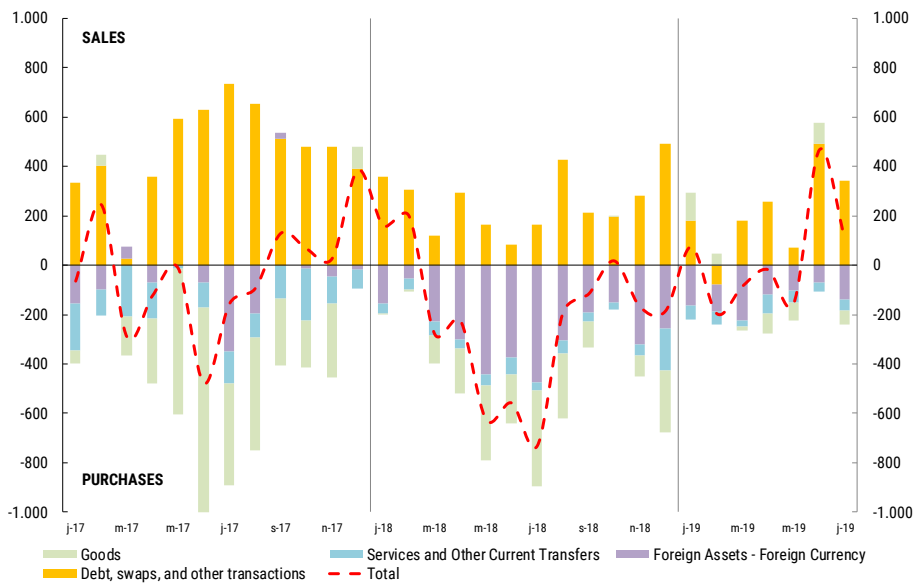
foreign exchange levels are not in line with estimates of exports/imports of goods (exports for around USD400 million and imports for around USD700 million). This may be explained by the fact that since regulations were eased the companies belonging to the sector have started to (i) regionally offset 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.⁴



In turn, companies belonging to the “Energy” sector recorded net inflows for USD103 million, evidencing a USD836 million reversal against the deficit observed on a year-on-year basis. Net sales in July resulted from net inflows derived from financial loans and direct investments, which were partially offset by net payments of “Goods” and transfers of funds to own accounts held abroad against which holders could pay part of their foreign debts.

⁴ 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

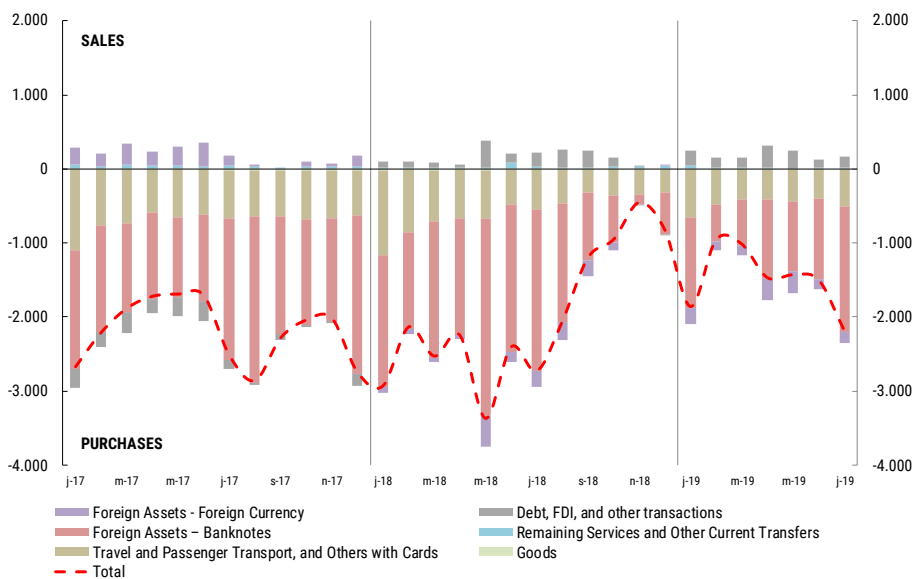


Finally, the remaining companies within the “Real Sector Non-Oilseeds and Grains” recorded net purchases for USD415 million, down 50% y.o.y. (net payments for USD831 million) due to a decrease in flows reported within the items included under “Goods”.

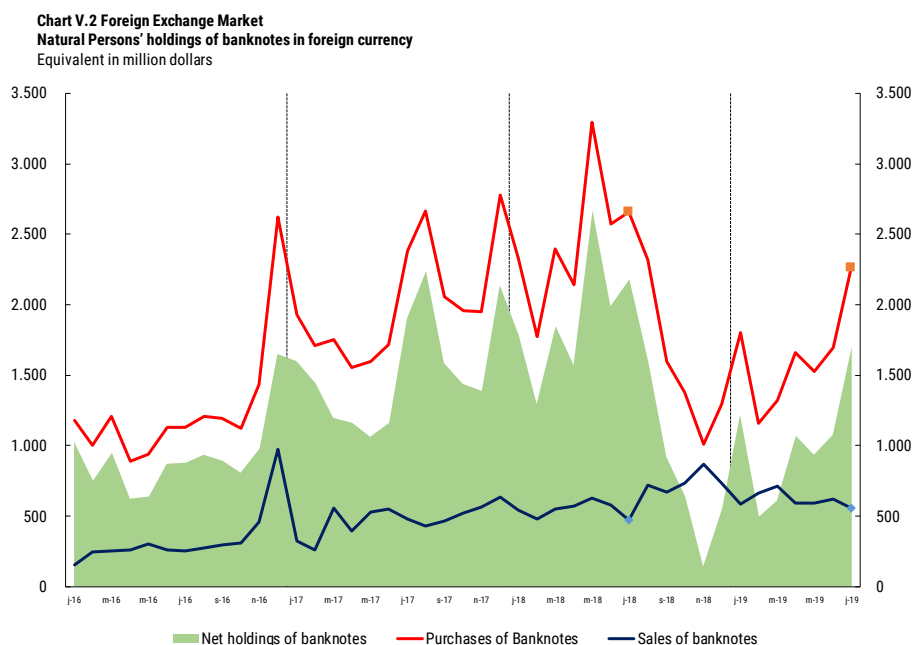
V. Natural Persons

In July, the net demand for foreign currency by “Natural Persons” totaled USD2,177 million, down 20% y.o.y. The 46% hike against June could be accounted for by seasonal purchases of banknotes as a result of the collection of the semi-annual complementary wage (see Chart V.1).

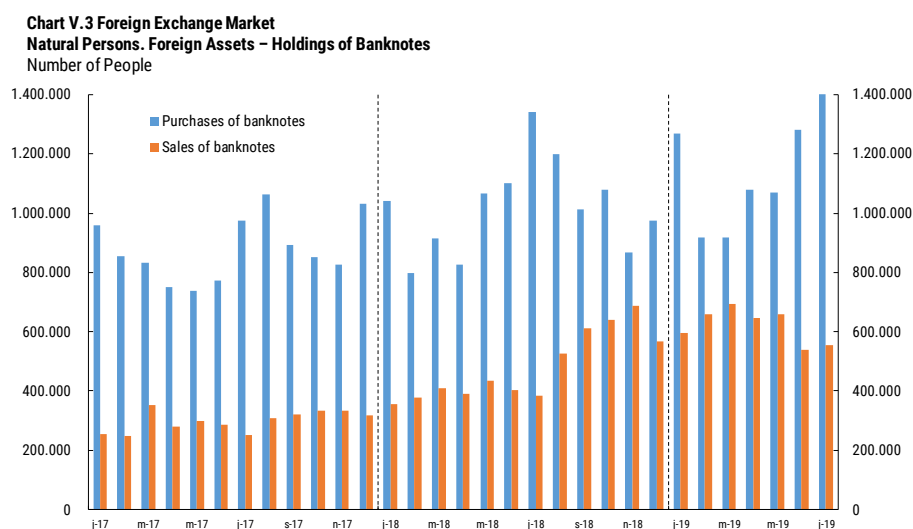
Chart V.1 Foreign Exchange Market
Natural Persons. Net result of the sector
 Equivalent in million dollars



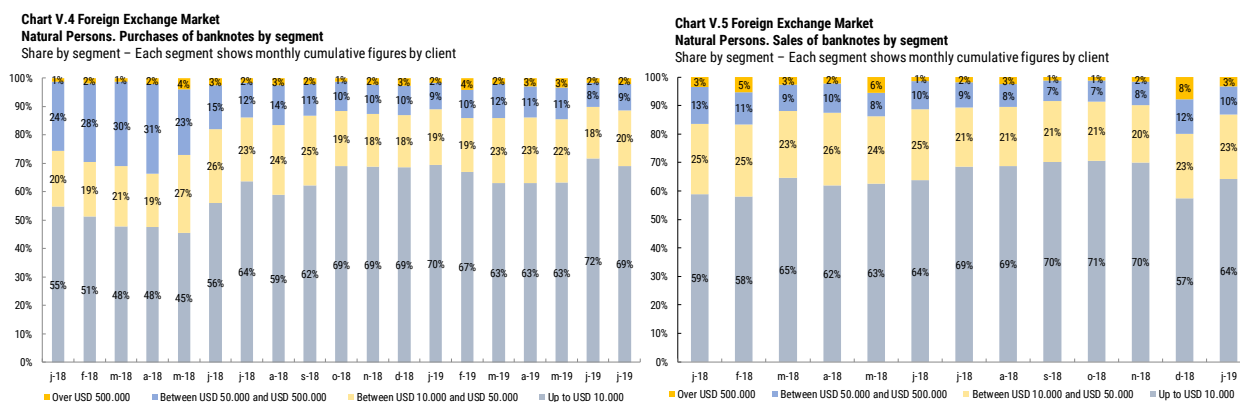
Net purchases of banknotes by natural persons totaled USD1,701 million in July, evidencing a drop in y.o.y. terms. This change may be explained by fewer gross purchases for almost USD400 million (total of USD2,262 million) and more gross sales for nearly USD100 million (total of USD561 million). It should be noted that part of these net purchases are aimed at increasing deposits in the domestic financial system, which rose around USD1,200 million in July, and using such banknotes for travelling abroad.



As a result of the seasonal effect derived from the collection of the semi-annual complementary wage, the number of natural persons purchasing banknotes through the forex market increased 21% against June, exceeding one and a half million purchasers. In turn, the number of persons selling banknotes in the forex market totaled 550,000—increasing against June—, and going up 44% y.o.y (see Chart V.3).



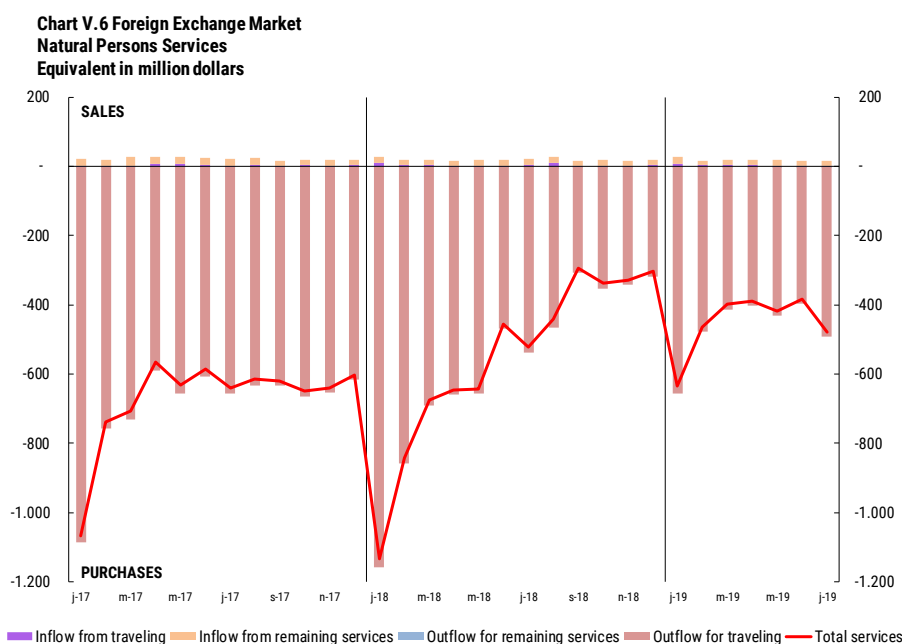
In July, natural persons' foreign exchange transactions principally remained within the lowest amounts by trader: banknote purchases up to USD10,000 accounted for 69% of all transactions while sales below USD10,000 represented 64% of the total (see Chart V.4 and Chart V.5). Gross purchases per capita totaled USD1,486, and per capita gross sales stood at USD1,040. They had reached USD2,010 and USD1,264 in 2018, respectively.



In turn, natural persons' net outflows for payments of services totaled USD478 million, particularly of "Travel and Other Expenses Paid with Cards", which evidenced a net outflow of USD489 million and an 8% y.o.y. drop, in line with a survey on international tourism (see Chart V.6).^{5 6}

⁵ 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. 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 Argentinians spend when travelling abroad? How much do foreigners spend when visiting our country?*. The analysis of the result of "Travel and Passenger Transport" involves collections and payments made outside the forex market, especially because, as estimates suggest, non-residents—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).

⁶ To access the latest technical report on International Tourism Statistics, [click here](#).



Finally, net inflows for primary and secondary income totaled USD8 million, basically related to personal transfers.

VI. Institutional Investors and Others

“Institutional Investors and Others”—both residents and non-residents—made net purchases for USD1,456 million in July, up USD800 million y.o.y.⁷

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.

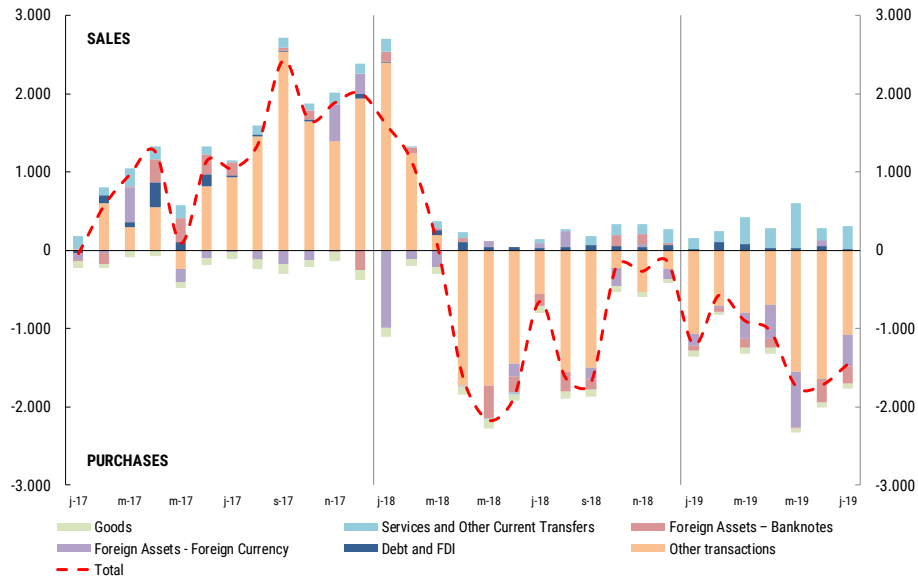
The “Other Transactions” heading in Chart VI.1 includes portfolio investments, which evidenced outflows for USD820 million, as well as purchase-and sale transactions of securities in the secondary market.⁸ In July, these transactions resulted in a net outflow of USD335 million, up USD200 million against the net outflow of USD135 million recorded in July 2018.

Finally, “Institutional Investors and Others” purchased foreign assets for USD624 million. Within this net amount, net purchases for saving purposes continued exhibiting high levels of gross purchases and sales—particularly, for intraday transactions from a single trader— exceeding USD1,800 million in each case.

⁷ As mentioned before, these records exclude inflows 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.

⁸ These transactions are entered in the Exchange Transaction Reporting System (*Régimen Informativo de Operaciones de Cambio*) under the name of the financial institution involved. Given that the counterparties to these transactions are residents or non-residents of the non-financial private sector, these transactions are included in “Institutional Investors and Others”.

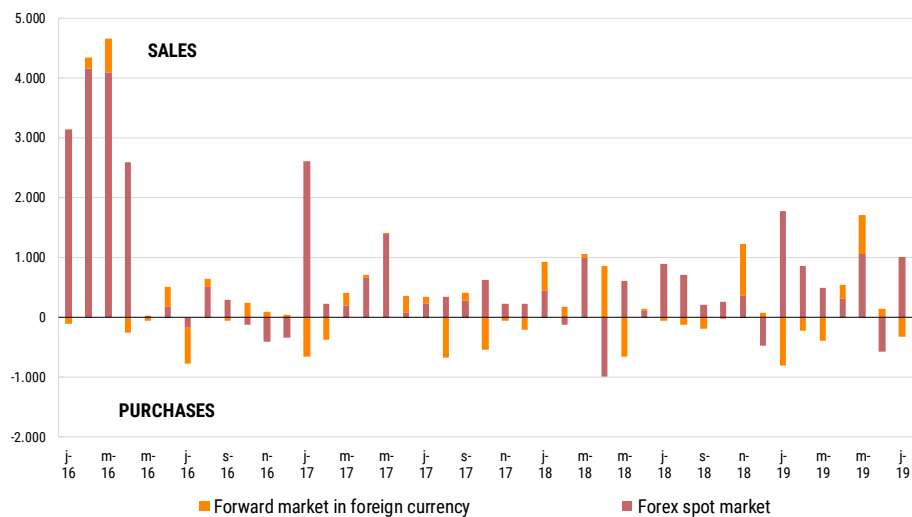
**Chart VI.1 Foreign Exchange Market
Institutional Investors and Others' Net Result**
Equivalent in million dollar



VII. Financial and Foreign Exchange Institutions

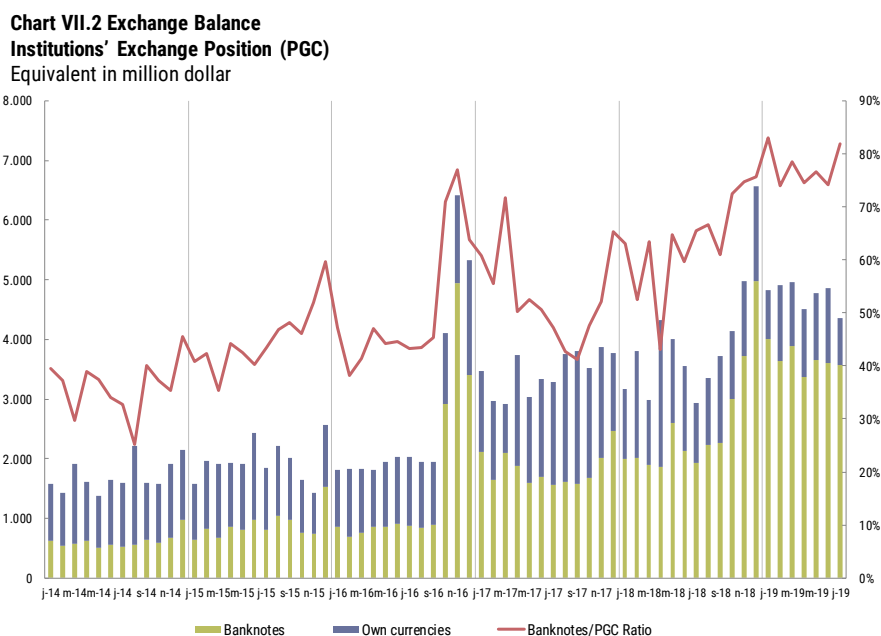
In July, licensed financial institutions sold USD1,009 million in the spot forex market and purchased USD332 million in the forward market (see Chart VII.1.).

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



Financial institutions used funds for USD551 for their own transactions, which were basically used for underwriting securities in the primary market (around USD520 million). They also transferred profits and dividends for USD20 million and collected foreign exchange currency for USD35 million taking debt in return, among other transactions.

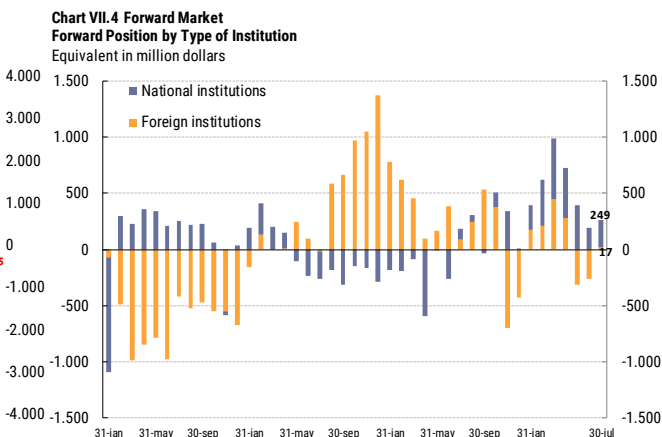
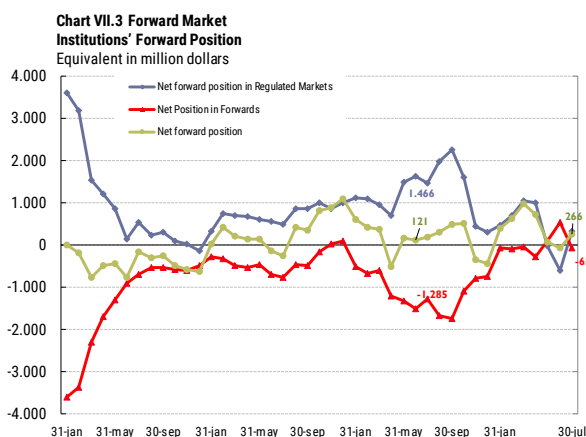
On the other hand, institutions ended July evidencing a General Exchange Position for USD4,360 million, out of which USD3,470 million corresponded to holdings of foreign currency banknotes. Although the General Exchange Position decreased USD500 million, the stock of banknotes remained aligned with the figures of June (see Chart VII.2).⁹



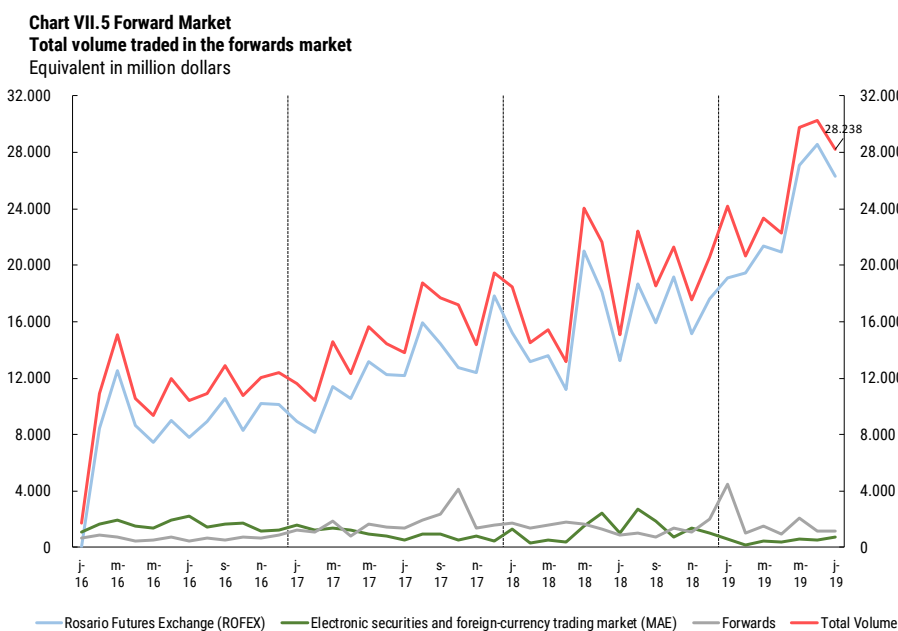
On another note, financial institutions ended July exhibiting a net forward long position in foreign currency of USD266 million. Institutions purchased USD930 million in regulated markets and sold USD600 million to their clients directly (Forwards) over July, thus reversing the of positions of June (see Charts VII.3).

In July, foreign institutions and national institutions made net purchases for USD279 million and USD53 million, respectively (see Chart VII.4).

⁹The 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 reached USD28,238 million in July, i.e.: USD1,345 million on a daily basis.¹⁰ The total traded fell 7% against June and increased 87% y.o.y. Transactions carried out in the Mercado a Término de Rosario (ROFEX) accounted for 93% of the total volume (see Chart VII.5).

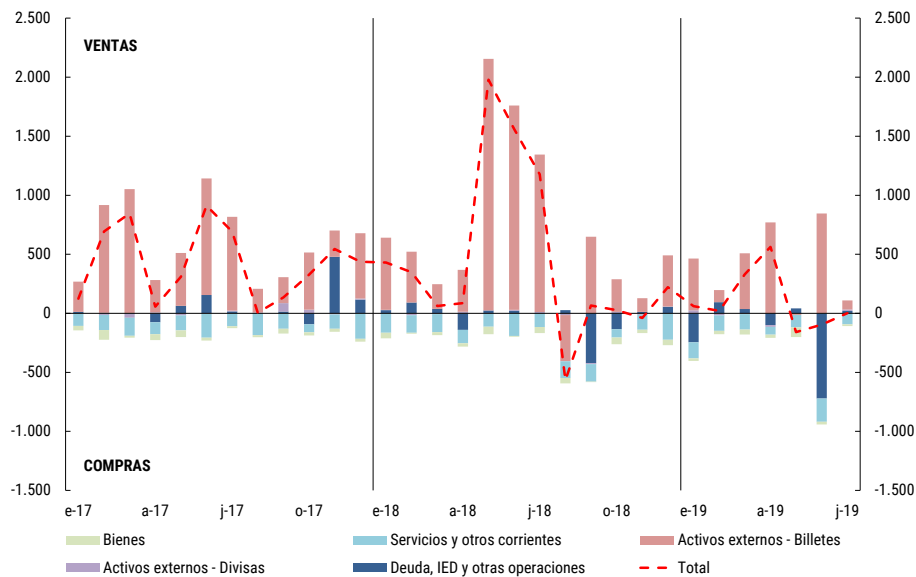


VIII. General Government and Central Bank

In July, the General Government recorded net sales in the forex market through licensed financial institutions for USD2 million (see Chart VIII.1).

¹⁰The 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.

Gráfico VIII.1 Mercado de Cambios
Gobierno General. Resultado neto del sector
 Equivalente en millones de dólares



The National Treasury sold USD1,260 million through the daily auction system using foreign currency deposited in its account held with the BCRA (see Chart VIII.2).

The foreign exchange rate remained within the “Foreign Exchange Benchmark Zone”. The BCRA did not intervene in the spot forex market with institutions. In addition, it made direct net purchases from the National Treasury for USD1,000 million.

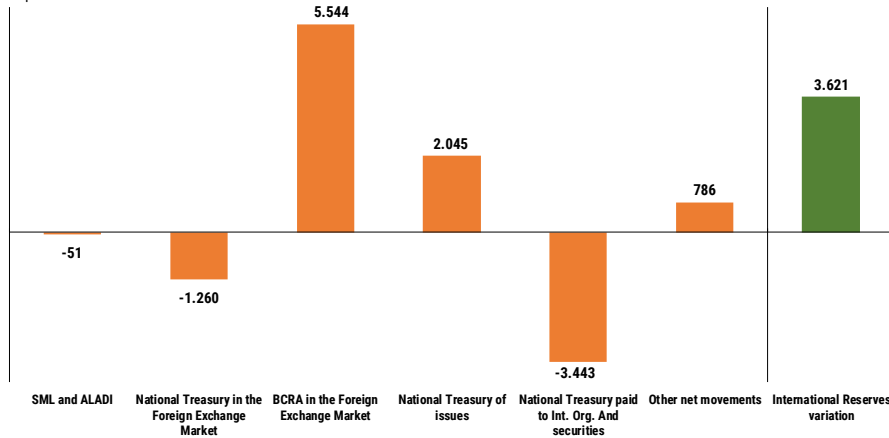
The National Treasury recorded inflows from debt totaling USD7,589 million, out of which USD5,544 million corresponded to international organizations (particularly, the disbursement by the IMF) and USD2,045 million to bills issues. On another note, it made payments on account of two major reasons. On the one hand, the reimbursement of principal and interest of debt for USD3,443 million—principally LETES bills for USD2,300 million, International Bonds for USD584 million, and Discounts for USD117 million—, and on the other hand, payments to international organizations for USD329 million.

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 USD51 million.

Finally, the result of “Other Net Values” in Chart VIII.2 was mainly accounted for by a rise in private sector deposits (around USD1,200 million) in July, and—to a lesser extent—for the yield of USD80 million on international reserves.

As a result of the transactions described above, gross international reserves increased by USD3,621 million along July, totaling USD67,899 million by the end of the month.

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

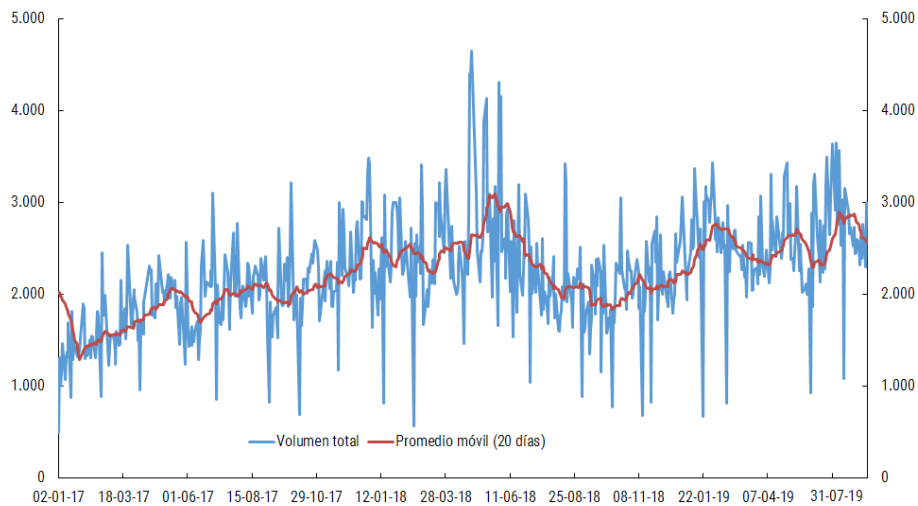


*Note: It includes – among other transactions – changes in institutions' accounts in foreign currency excluded from other headings, income on reserves, adjustments by type of swap and valuation, purchase-sale of securities, transactions in accounts of the National Treasury, and BCRA's transactions.

IX. Volumes Traded in the Foreign Exchange Market

In July, the volume traded in the forex spot market rose 22% y.o.y., totaling USD54,504 million. This total involved a daily volume of USD2,595 million (see Chart IX.1).¹¹ The y.o.y. increase in the volume was accounted for by transactions carried out between licensed financial institutions, and the transactions between the latter and their clients (increases of 56% and 15%, respectively).

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



¹¹ 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 68% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System (SIOPEL)—represented 30%; in turn, transactions between institutions and the BCRA (including transactions carried out on behalf of the National Treasury) accounted for the remaining 2% (see Chart IX.2).¹²

As usual, the volume traded between licensed institutions and their clients was concentrated in a few number of institutions (out of 227 institutions, the first ten accounted for 83% of such volume) and in the foreign currency used; USD-denominated transactions had a 97.7% share in the total traded with clients (see Chart IX.3).

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

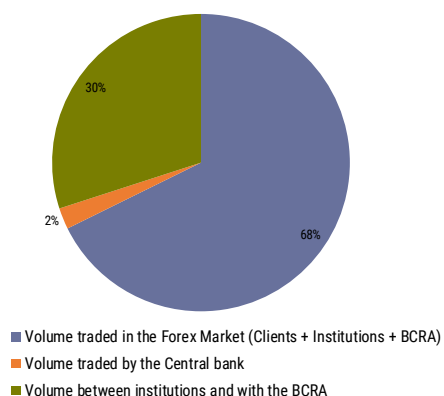
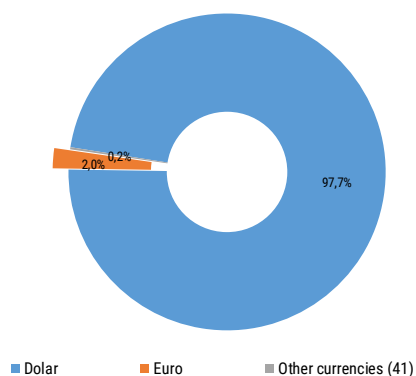


Chart IX.3 Foreign Exchange Market
Volume with clients by currency. July 2019



Finally, 95.3% 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 4.7% (3.9% and 0.8%, respectively).

¹² The volume traded between licensed institutions and their clients excludes the following items: clients' subscription of LEBAC Bills, swap transactions with foreign parties (around USD3,400 million in July 2019), and purchases of foreign exchange to pay card bills for expenses incurred abroad (around USD210 million for the month under study).