

# Evolution of the Foreign Exchange Market and Exchange Balance

May 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 May 2019

- ✓ *In May, financial institutions' clients purchased USD2,382 million in the forex market; in turn, the National Treasury and the ensemble of financial institutions licensed to trade in the foreign exchange market sold USD1,320 million and USD1,062 million, respectively. On another note, 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 USD2,134 million.*
- ✓ *Within this group, the main sector with net sales in historical terms ("Oilseeds and Grains") recorded net sales for USD2,715 million, up 19% y.o.y. Net inflow from Oilseeds and Grains in the forex market was in line with the estimate of customs flows.*
- ✓ *Companies in the "Real Sector Non-Oilseeds and Grains" recorded net purchases totaling USD581 million. The USD2,600 million difference against net purchases in May 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 USD1,425 million (USD938 million for banknotes and USD487 for the remaining transactions), down 58% against purchases for USD3,365 million recorded in May 2018.*
- ✓ *"Institutional Investors and Others"—both residents and non-residents—made net purchases of USD1,732 million exhibiting a decline vis-à-vis net purchases for USD430 million in May 2018.*
- ✓ *In addition to sales on the spot market, financial institutions made forward net sales of foreign currency for USD640 million.*
- ✓ *The General Government's inflow amounted to USD2,001 million derived from issuing bills, and USD795 million from international organizations. On another note, it made payments on account of two major reasons: on the one hand, for principal and interest of debt securities for around USD5,359 million—principally BONAR 2024 bond for USD2,990 million, and LETES bills for USD2,000 million—, and on the other, reimbursements to international organizations and the Paris Club for USD2,386 million.*
- ✓ *As a result of the transactions described above, gross international reserves decreased by USD6,883 million along May, totaling USD64,779 million by the end of the month.*

## I. Introduction

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

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

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

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

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

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

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

<sup>3</sup>The Central Bank's website ([www.bkra.gov.ar](http://www.bkra.gov.ar)) contains different statistical series of the Foreign Exchange Market (to access statistical series, [click here](#)), together with an annex broken down by sector and main headings (to access 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.

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

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

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

In May, financial institutions' clients purchased USD2,382 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 USD1,320 million and USD1,062 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.<sup>4</sup>

**TABLE II.1 Foreign Exchange Market**

**Result of the sector**

Equivalent in million dollars

Sector	May 19
<b>BCRA</b>	<b>0</b>
<b>National Treasury</b>	<b>1.320</b>
<b>Institutions</b>	<b>1.062</b>
<b>Institutions' clients</b>	<b>-2.382</b>

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

BCRA's international reserves fell USD6,883 million over the month mainly as a result of payments of debt in foreign currency of the National Treasury of sovereign bonds for around USD5,359 million. Furthermore, disbursements for the BONAR 2024 bond for USD2,990 million, and for LETES bills for USD2,000 million and payments to international organizations and the Paris Club for USD2,386 million should also be highlighted. Moreover, the General Government recorded an inflow of USD2,001 million derived, partly, from the issue of bills of funds already deposited with the financial system, and of USD795 million from international organizations (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 USD2,382 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.

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<sup>4</sup> 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 April, 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.1 Foreign Exchange Market**  
**Result of Institutions' Transactions with Clients May 2019**  
 Equivalent in billion dollars

Sector/Main Headings	Goods	Travel and Passenger Transport, and Others with Cards	Remaining Services and Other Current Transfers	Foreign Assets – Banknotes	Foreign Assets - Foreign Currency	Debt, FDI, and other transactions	Total
<b>Non-Financial Private Sector</b>	<b>2,7</b>	<b>-0,5</b>	<b>0,3</b>	<b>-1,1</b>	<b>-1,4</b>	<b>-1,0</b>	<b>-1,0</b>
Oilseeds and Grains	2,8	0,0	0,0	0,1	0,0	-0,1	2,7
Real Sector Non-Oilseeds and Grains	0,0	-0,2	-0,2	-0,2	-0,3	0,4	-0,6
Natural Persons	0,0	-0,4	0,0	-0,9	-0,3	0,2	-1,4
Institutional Investors and Other	-0,1	0,1	0,5	0,0	-0,7	-1,5	-1,7
<b>General Government</b>	<b>-0,1</b>	<b>0,0</b>	<b>-0,1</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>-0,2</b>
<b>Institutions (Own Transactions)</b>	<b>0,0</b>	<b>0,0</b>	<b>-0,4</b>	<b>0,0</b>	<b>0,0</b>	<b>-0,8</b>	<b>-1,2</b>
<b>Institutions' Result with Clients</b>	<b>2,6</b>	<b>-0,5</b>	<b>-0,2</b>	<b>-1,1</b>	<b>-1,4</b>	<b>-1,8</b>	<b>-2,4</b>

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

This type of presentation allows underscoring different behaviors.

As shown in Chart III.1 of the following section, "Oilseeds and Grains" was the main net supplier of foreign currency in the forex market over May. This sector reported net inflows for USD2,714 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 USD340 million in May); 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).

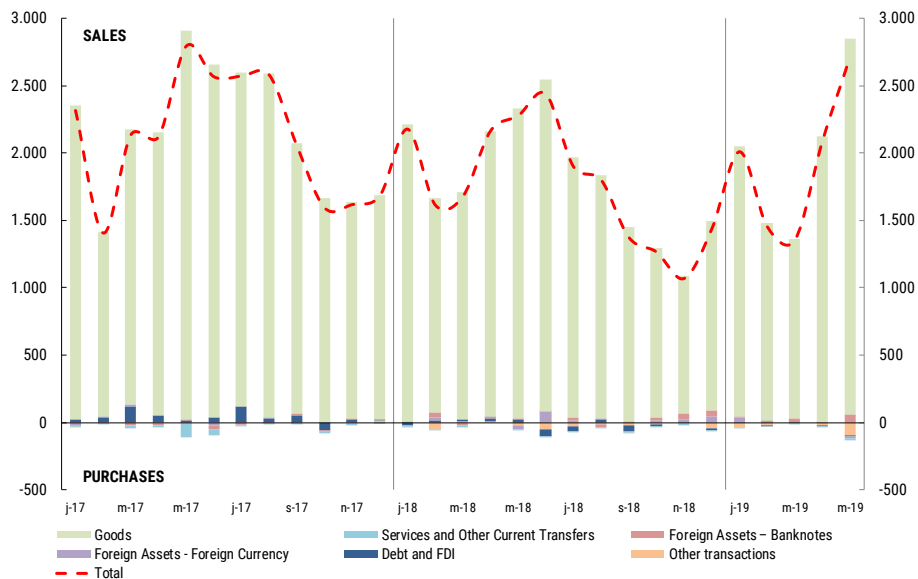
"Natural Persons" (residents) basically demand foreign currency for saving purposes (USD938 million in May) and for making trips abroad (around USD429 million).

"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 USD1,732 million in May).

### III. Oilseeds and Grains

The "Oilseeds and Grains" sector recorded a USD2,715 million surplus in May (see Chart III.1) up 19% y.o.y.

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

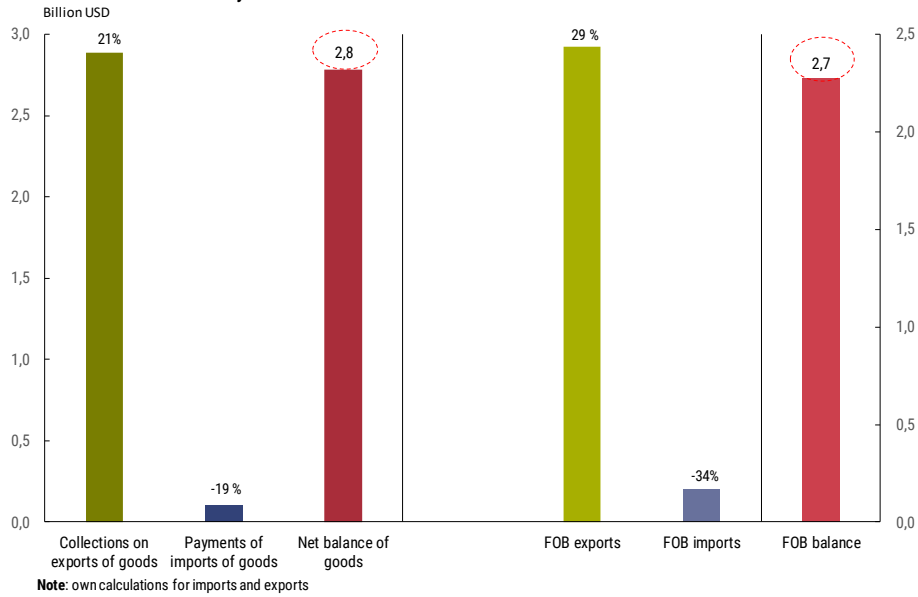


With respect to the “Goods” heading, in May, the sector reported collections on exports of goods for USD2,888 million (up 21% y.o.y.) and payments for imports of goods for USD103 million through the forex market (down 19% y.o.y.).

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 (1.7 million tons less without a price set compared to previous harvest seasons). In contrast, corn trade increased by 8.5 million tons against the average of the five prior harvest season, in line with a rise in production.

The sector’s net result for “Goods” stood at USD2,785 million and was in line with the expected trade balance of the sector of USD2,700 million (exports estimated for USD2,900 million, and imports for about USD200 million).

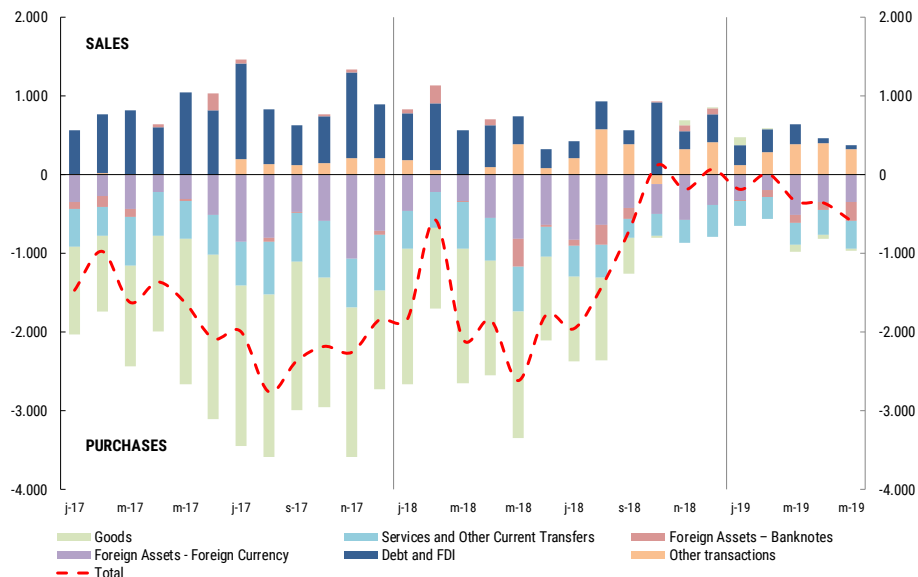
**Chart III.2 Foreign Exchange Market and international trade  
Oilseeds and Grains in may 2019**



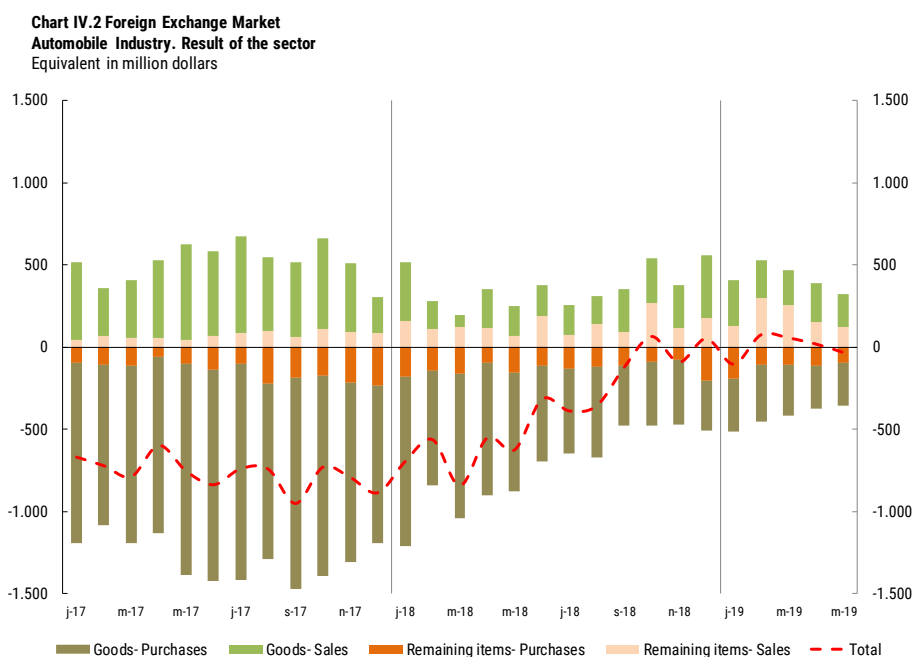
#### IV. Real Sector Non-Oilseeds and Grains

Companies in the “Real Sector Non-Oilseeds and Grains” recorded net purchases totaling USD581 million. The USD2,612 million difference against net purchases in May 2018 can still be explained by fewer imports in the last few 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**



Following three months of net inflows in the forex market, companies within the “Automobile Industry” made net payments for around USD32 million, down almost USD600 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 USD204 million and payments for imports of goods for USD261 million. Despite similarities in net results, foreign exchange gross levels are not in line with estimates of exports/imports of goods (exports for around USD600 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.<sup>5</sup>

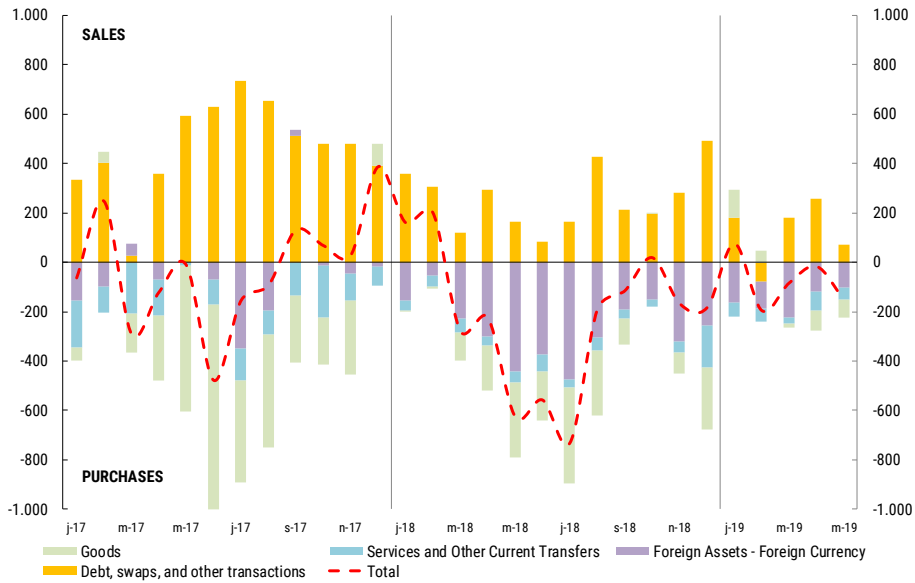


In turn, companies belonging to the “Energy” sector recorded net outflows for around USD153 million in consideration of net purchases of “Goods” and “Services” and transfers to own accounts abroad (from which they could settle part of their foreign liabilities) which were partly funded with domestic deposits in foreign currency, commonly referred to as “swaps” (see Chart IV.3).

<sup>5</sup> 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

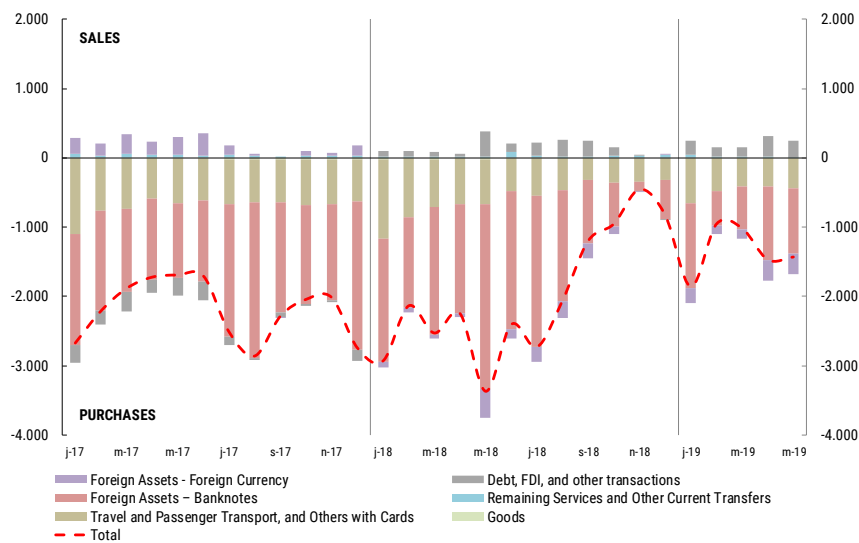


Finally, the remaining companies within the “Real Sector Non-Oilseeds and Grains” recorded net purchases for USD395 million, down USD960 million y.o.y. This drop largely resulted from a reversal in the flows reported in the items included in “Goods” for USD866 million, which went from net payers to net sellers.

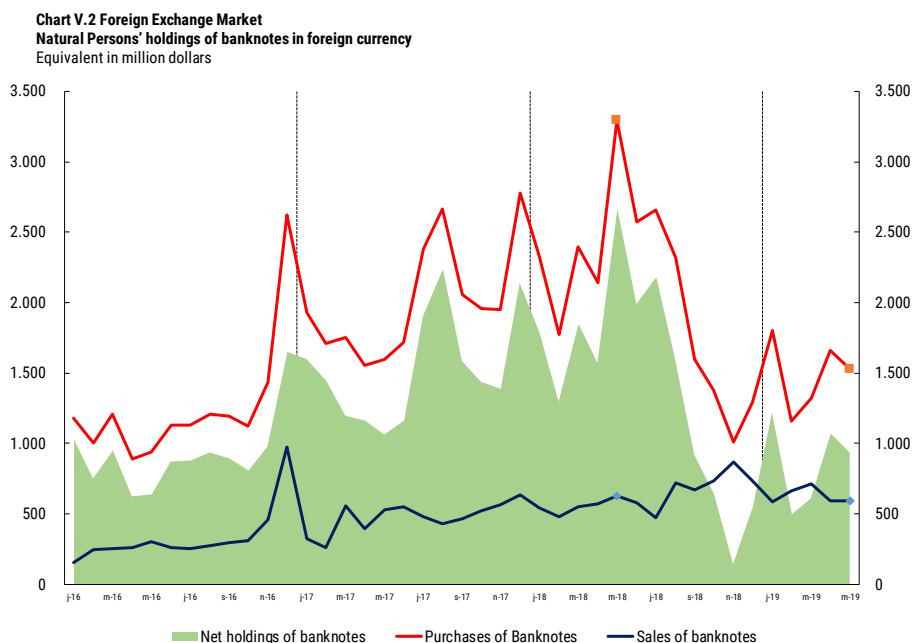
## V. Natural Persons

In May, the net demand for foreign currency by “Natural Persons” totaled USD1,425 million, an amount similar to that of April. Nevertheless, net purchases slid by 58% y.o.y. (see Chart V.1).

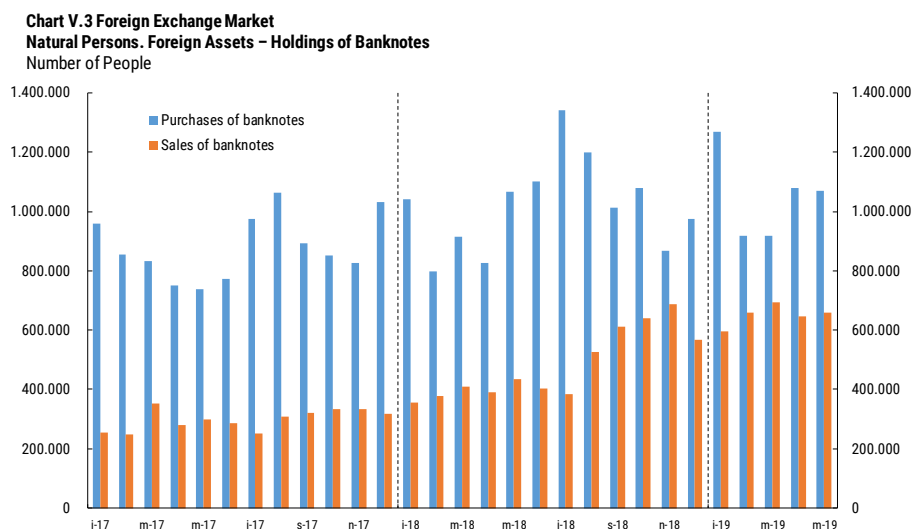
**Chart V.1 Foreign Exchange Market**  
**Natural Persons. Net result of the sector**  
 Equivalent in million dollars



Net purchases of banknotes made by natural persons fell y.o.y. due to both fewer gross purchases (total of USD1,529 million), while gross sales did not evidence significant changes (USD591 million).

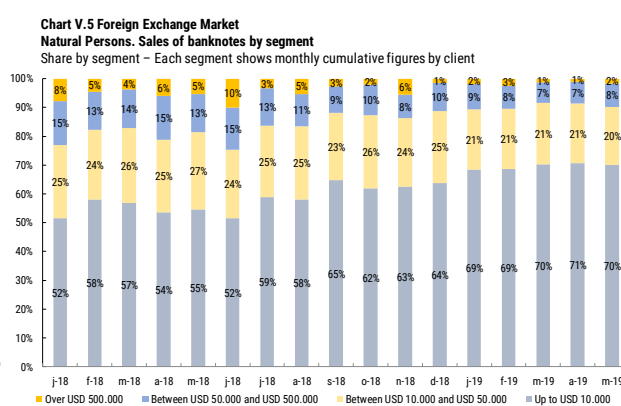
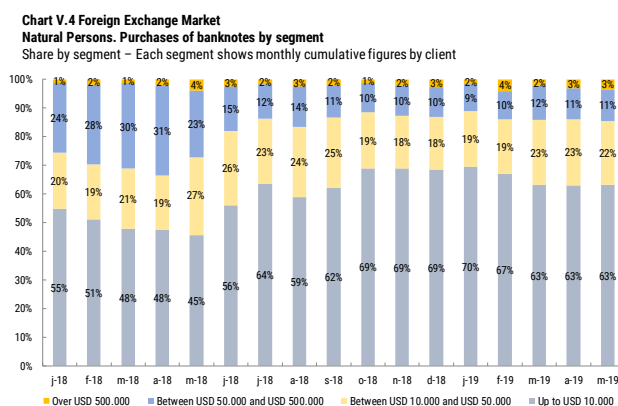


The number of persons selling banknotes in the forex market totaled 659,000 in May—increasing against April; there was a 52% hike against the number of persons that sold banknotes over the same month in 2018 (433,000 persons). In turn, 1,070,000 persons purchased banknotes in the forex market in May; an amount that remained practically unchanged against April and in y.o.y. terms (see Chart V.3).



As is usually the case, natural persons' foreign exchange transactions accounted for the lowest amounts: 63% of gross purchases, and 70% of gross sales in May were below USD10,000 (see Chart V.4 and Chart V.5).

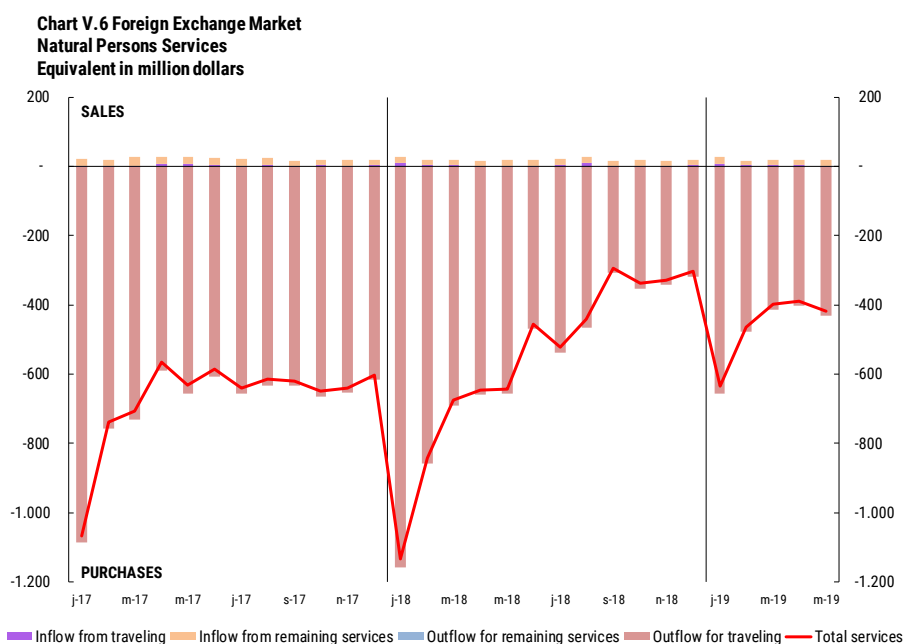
Consequently, gross sales per capita amounted to USD919, while gross purchases per capita stood at USD1,467. Such amounts had totaled USD1,475, and USD3,135, respectively the previous year.



In turn, natural persons’ net outflows for payments of services totaled USD420 million, particularly of “Travel and Other Expenses Paid with Cards”, which evidenced a net outflow of USD429 million and a 34% y.o.y. drop, in line with a decrease in outbound tourism, as shown in international tourism statistics (See Chart V.6).<sup>6 7</sup>

<sup>6</sup>It is worth pointing out that the transfers made to international credit card issuers include purchases made by Argentine residents either during their stay abroad or on a remote basis. 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).

<sup>7</sup> To access the latest technical report on International Tourism Statistics, [click here](#).



Finally, net outflows for primary and secondary income totaled USD3 million, basically related to personal transfers.

## VI. Institutional Investors and Others

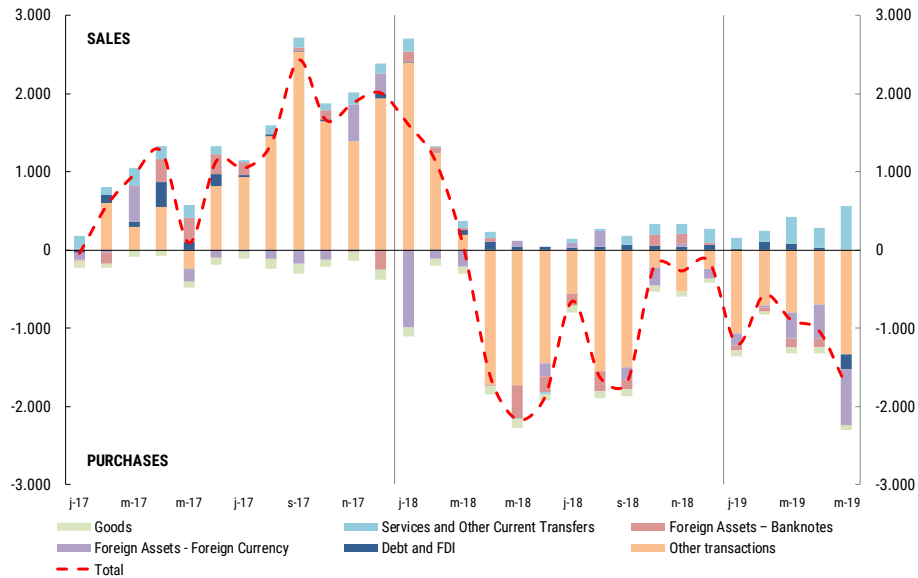
“Institutional Investors and Others”—both residents and non-residents—recorded net purchases for USD1,732 million in May. Even though this result evidenced a rise for the third month in a row, it fell around USD430 million y.o.y.

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 May, these transactions totaled a net outflow of USD941 million, up about USD300 million monthly and y.o.y.

Finally, “Institutional Investors and Others” purchased foreign assets for USD723 million, out of which USD714 million were transferred to own accounts held abroad, and USD9 million were used for saving purposes. The latter continued exhibiting high levels of gross purchases and sales, exceeding USD1,700 million in each case.

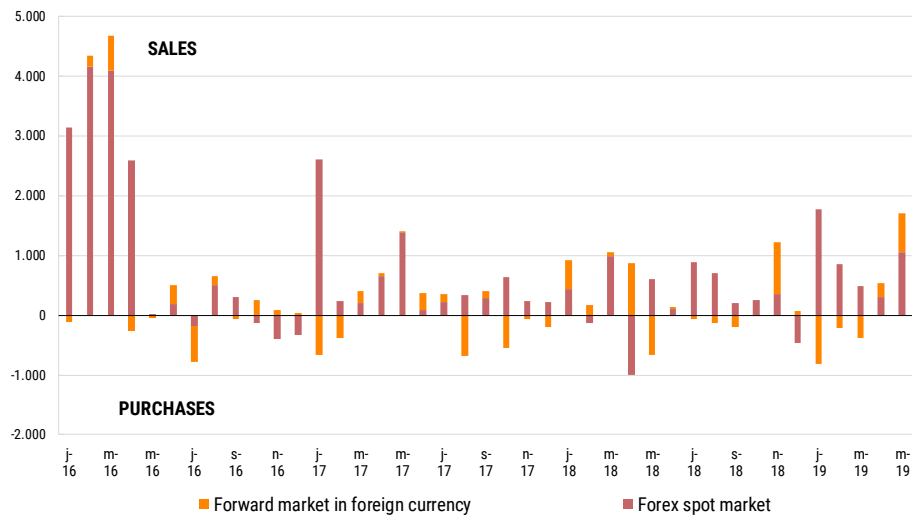
**Chart VI.1 Foreign Exchange Market  
Institutional Investors and Others' Net Result**  
Equivalent in million dollar



## VII. Financial and Foreign Exchange Institutions

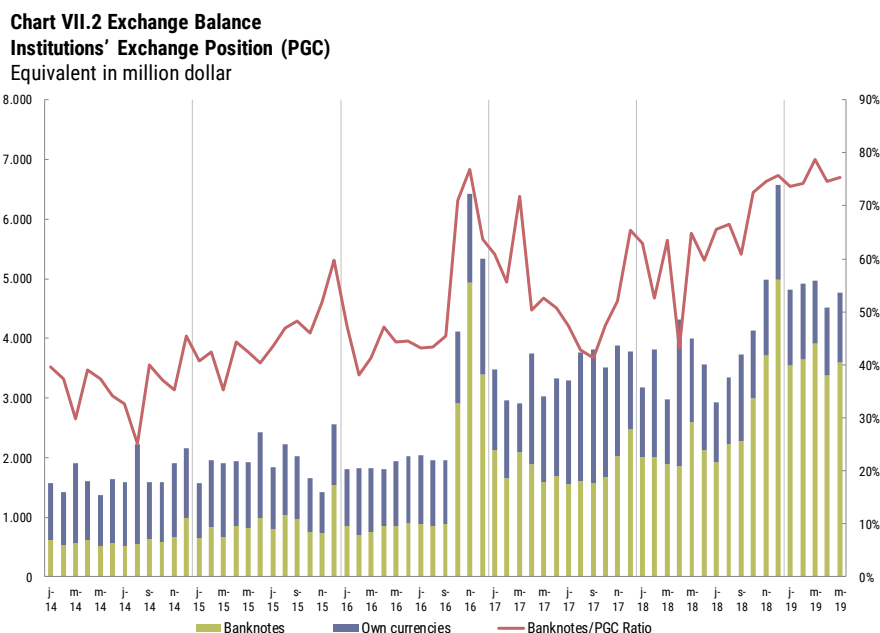
In May, licensed financial institutions sold USD1,062 million in the spot forex market and purchased around USD642 million in the forward market (see Chart VII.1.).

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



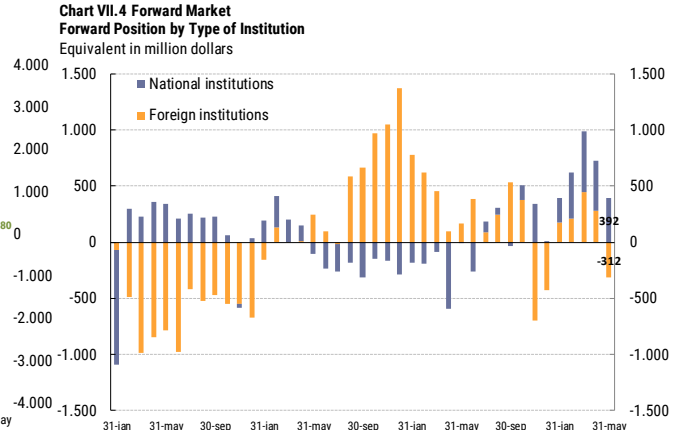
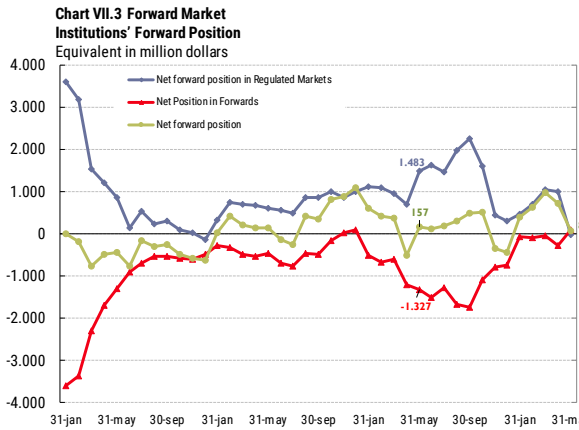
Regarding financial institutions, they used their own funds for USD1,199 million in the course of their transactions. The main uses were for the primary subscription of securities for USD727 million, to pay profits and dividends for USD251 million, to pay debt interest for USD115 million, and to settle debt for USD70 million.

On the other hand, institutions ended May evidencing a General Exchange Position for USD4,774 million; from such amount, around USD3,599 million corresponded to holdings of foreign currency banknotes. The General Exchange Position stock increased nearly USD260 million against April mainly due to a rise amounting to USD228 million in banknote holdings (see Chart VII.2).<sup>8</sup>

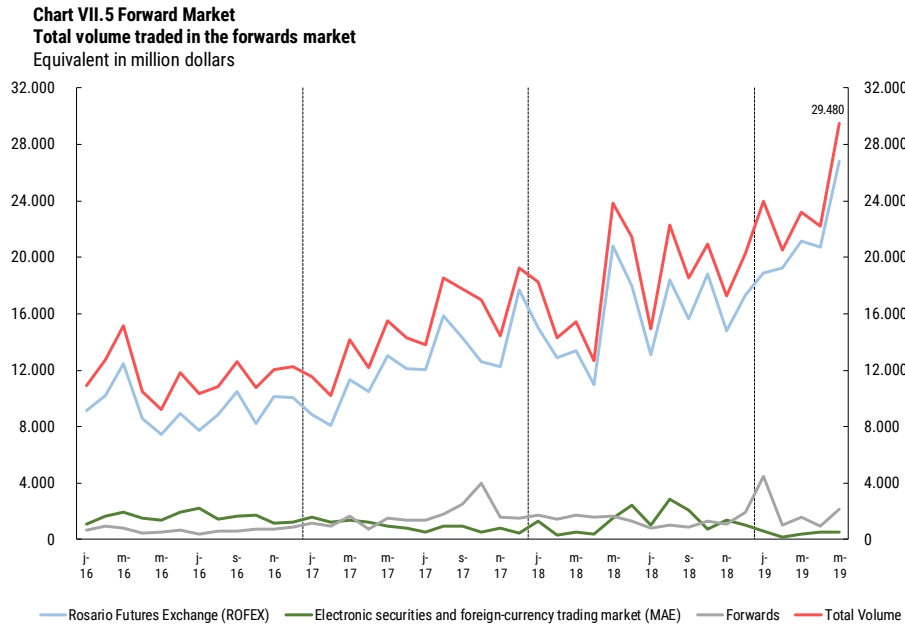


On another note, financial institutions ended May exhibiting a net forward long position in foreign currency of USD80 million. Institutions sold USD1,020 million in regulated markets and purchased USD377 million from their clients directly (Forwards) over the month (see Charts VII.3 and VII.4). These transactions led to a reversal of positions both in regulated markets and in Forwards transactions. Foreign institutions made net sales for USD588 million. In turn, national institutions' sales amounted to USD54 million.

<sup>8</sup>The General Exchange Position is defined in the Annex to Communication "A" 6244, subparagraph 4.7. Communication "A" 6237—effective since May 4, 2017—provides that institutions with forex trading license may freely determine the amount and use of their liquid external assets in foreign currency (General Exchange Position). However, institutions are still subject to the limits established for the Net Global Position in Foreign Currency.



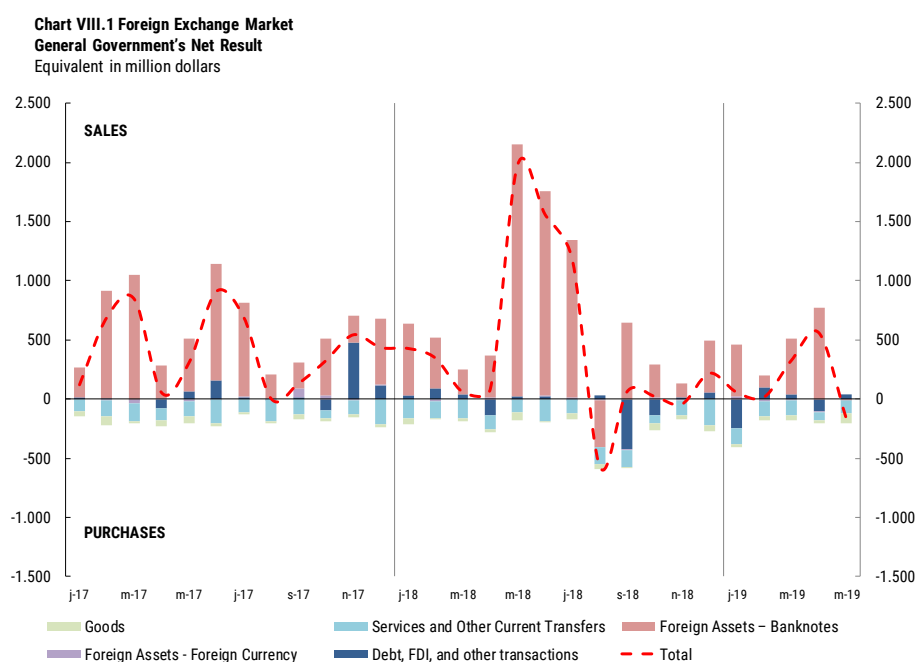
The volume traded in forward markets totaled USD29,480 million in May; in other words, around USD1,340 million on a daily basis.<sup>9</sup> The total amount increased 33% against April due to rises in all areas of negotiation but, particularly, as a result of transactions carried out in the Mercado a Término de Rosario (ROFEX), which hit a monthly historical peak and accounted for 91% of the total volume (see Chart VII.5).



<sup>9</sup>The 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 May, the General Government recorded net purchases in the forex market through licensed financial institutions for USD160 million, mainly to pay interest abroad (see Chart VIII.1). Furthermore, the National Treasury sold USD1,320 million through the daily auction system using foreign currency deposited in its account held with the BCRA (see Chart VIII.2).



The General Government's inflow amounted to USD2,001 million derived from issuing bills, and USD795 million from international organizations. On another note, it made payments of principal and interest of debt securities for around USD5,359 million. Furthermore, disbursements for the BONAR 2024 bond for USD2,990 million, and for LETES bills for USD2,000 million and payments to international organizations and the Paris Club for USD2,386 million should also be highlighted.

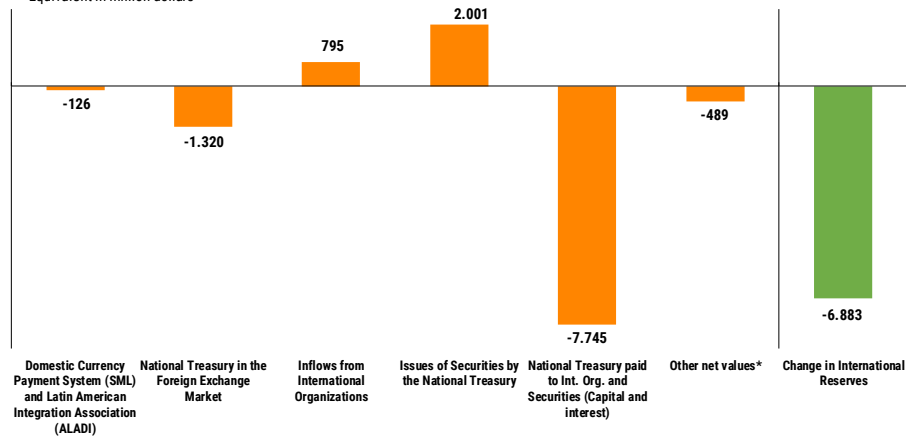
On another note, the exchange rate remained within the "Foreign Exchange Benchmark Zone" and the BCRA did not intervene in the forex spot market.

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 USD126 million.

As a result of the transactions described above, gross international reserves dropped by USD6,883 million along May, totaling USD64,779 million by the end of the month.



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

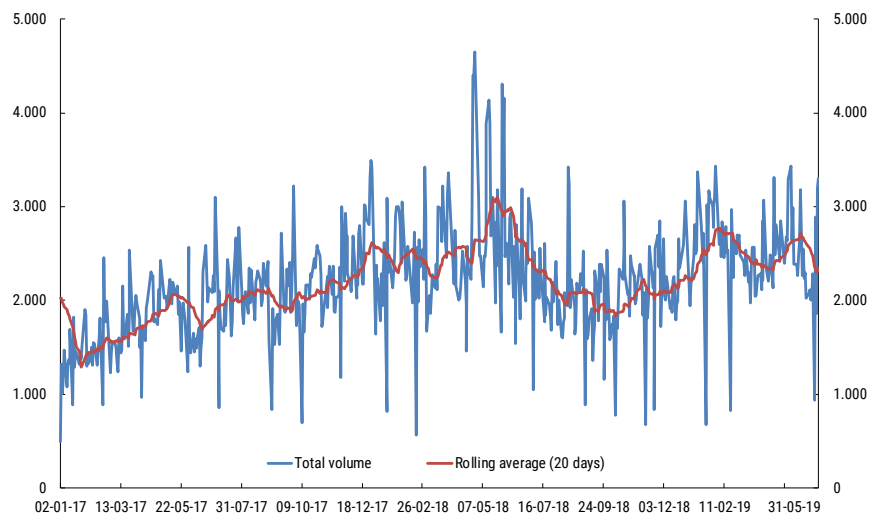


\*Note: It includes – among other transactions – changes in institutions' accounts in foreign currency excluded from other headings, income on reserves, adjustments by type of swap and valuation, purchase-sale of securities, transactions in accounts of the National Treasury, and BCRA's transactions.

## IX. Volumes Traded in the Foreign Exchange Market

In May, the volume traded in the forex market fell 18% y.o.y., totaling USD50,678 million. This total involved a daily volume of USD2,304 million (see Chart IX.1).<sup>10</sup>

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

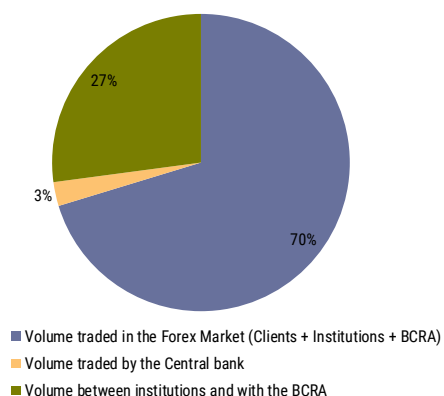


<sup>10</sup>In the BCRA's website there is a quarterly ranking of volumes traded with clients in the forex market broken down by institution (to access the Ranking, [click here](#)).

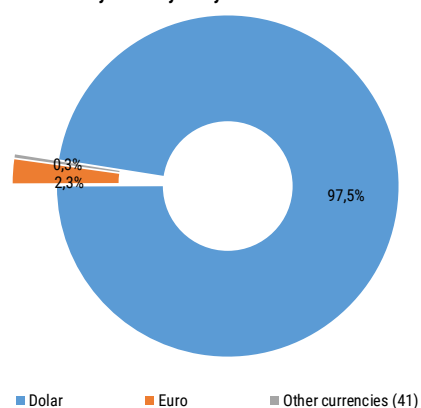
Transactions between institutions and their clients accounted for 70% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System (SIOPEL)—represented 27%; in turn, transactions between institutions and the BCRA (including transactions carried out on behalf of the National Treasury) accounted for the remaining 3% (see Chart IX.2).<sup>11</sup>

As usual, most of the volume traded between licensed institutions and their clients was concentrated in a few number of institutions (out of 212 institutions, the first ten accounted for 82% of such volume) and in the foreign currency used; USD-denominated transactions had a 97.5% share in the total traded with clients (see Chart IX.3).

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



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



Finally, 94,5% 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 5,5% (5,1% and 0.4%, respectively).

<sup>11</sup> The volume traded between licensed institutions and their clients excludes the following items: clients' underwriting of LEBAC Bills, swap transactions with foreign parties (around USD3,950 million in May 2019), and purchases of foreign exchange to pay card bills for expenses incurred abroad (around USD230 million for the month under study).